

GAO

Report to the Chairman, Subcommittee
on Environment, Energy, and Natural
Resources, Committee on Government
Operations, House of Representatives

July 1989

FINANCIAL MANAGEMENT

Improvements Needed in OSMRE's Method of Allocating Obligations



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**Accounting and Financial
Management Division**

B-225149

July 28, 1989

The Honorable Mike Synar
Chairman, Subcommittee on
Environment, Energy, and
Natural Resources
Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

Your June 14, 1988, letter asked us to determine whether obligations charged to the Office of Surface Mining Reclamation and Enforcement's (OSMRE) Abandoned Mine Reclamation (AML) Fund were proper. This report discusses our assessment of obligations charged to the AML fund.

We found that OSMRE does not use a supportable methodology to adequately allocate obligations for administrative activities between its Regulation and Technology and AML programs. However, based on our results using an alternative methodology to allocate obligations associated with administrative activities and on our review of sample transactions, we found no evidence to indicate that obligations charged to the AML fund were excessive during fiscal years 1987 and 1988. Our review also disclosed that in fiscal year 1987, OSMRE charged about \$6 million to direct activities in the AML and Regulation and Technology programs based on management's judgment of how certain obligations should be allocated between the programs. Although it appeared that some portion of these obligations could be considered valid AML expenditures, OSMRE officials were unable to provide adequate support for the amounts allocated.

Background

The Surface Mining Control and Reclamation Act of 1977 (30 U.S.C. 1201) was enacted to protect the public and the environment from the impact of irresponsible surface mining practices of some coal mine operators. At a time of rapid growth in the coal industry, the Congress sought to establish workable standards nationwide to prevent unnecessary degradation of land and water resources, including severe land erosion, mud slides, and the pollution of surface and underground water supplies.

The act created OSMRE within the Department of the Interior. It also created a trust fund called the Abandoned Mine Reclamation Fund, commonly referred to as the AML fund. The AML fund consists of amounts derived from reclamation fees levied against coal mine operators, certain user charges, donations, and recovered moneys from mine owners. Moneys in the fund are appropriated annually and can be used for a variety of purposes, including (1) reclamation and restoration of land and water resources adversely affected by past coal mining, (2) enforcement and collection of the reclamation fees, (3) studies by the Department of the Interior or by contract, for advice, technical assistance, and research and demonstration projects, and (4) grants to states. As provided by the act, only lands damaged through past surface coal mining practices and abandoned prior to August 3, 1977, and related costs are eligible for AML funding.

OSMRE's operations are primarily funded through two appropriations. The AML fund finances reclamation program functions covered under the act, while the "OSMRE Regulation and Technology" appropriation finances regulatory functions, such as monitoring and evaluating state regulatory programs.

Objective, Scope, and Methodology

The objective of this report is to provide an assessment of whether obligations charged to the AML fund were proper. On the basis of your June 14, 1988, letter and subsequent discussions with your office, we agreed to provide information on (1) OSMRE's methodology for allocating obligations for administrative activities between its two appropriations, (2) a comparison of OSMRE's allocation of obligations charged to the AML fund with our results using an alternative methodology that utilizes the number of personnel assigned to each program to allocate administrative costs, and (3) the propriety of obligations charged to the AML fund. It was further agreed that we would exclude grants, which represent 77 percent of AML's fiscal year 1988 obligations, from our analysis since by their nature they are AML-related. The AML grant program provides grants to coal mining states to reclaim abandoned mine sites approved by OSMRE.

OSMRE charges its two appropriation accounts by dividing its obligations into (1) direct Regulation and Technology activities, (2) direct AML activities, and (3) administrative activities. In order to determine if the AML program was only charged with valid obligations, we reviewed the obligations associated with direct AML activities and administrative activities. We then judgmentally sampled items in these categories to

determine if the obligations were properly recorded. The first sample of 99 transactions consisted of all direct AML obligations in fiscal year 1987 which involved invoices of \$25,000 or greater that were not related to grants or payroll.

A second sample of 63 transactions consisted of fiscal year 1987 obligations for administrative activities, as defined by OSMRE, which involved invoices of \$25,000 or greater that were not related to grants or payroll. Reviewing this sample allowed us to assess if obligations related to administrative activities, which were ultimately allocated to both appropriations by year-end, supported AML purposes. We did not sample fiscal year 1988 transactions because the data were not available when our sampling was started in August 1988. However, OSMRE officials stated that the types of transactions sampled in fiscal year 1987 were representative of those that occurred in fiscal year 1988.

Our sample of transactions associated with direct AML activities represented about \$10.4 million or approximately 72 percent of the obligations for direct AML activities excluding grants, which were not included in our review, and payroll, which was reviewed separately. Our sample of administrative activities was about \$8.5 million, which represented approximately 62 percent of those activities, also excluding grants and payroll.

In addition to the two samples, we reviewed fiscal year 1987 and 1988 payroll data. We selected payroll distribution reports for the last pay period in each of the quarters in fiscal years 1987 and 1988. We reviewed the reports to determine whether the obligations charged directly to the AML fund or administrative activities seemed appropriate in relation to our understanding of the responsibilities of the office.

We obtained data on actual obligations incurred for fiscal years 1987 and 1988 from the accounting system maintained by OSMRE. As agreed with your office, we did not evaluate the reliability of the accounting system. However, we did perform limited work to ensure that the data recorded in the accounting system represented obligations of OSMRE.

In performing our review, we interviewed cognizant OSMRE officials located both in its Washington, D.C., headquarters and its accounting operations center in Lakewood, Colorado. We also reviewed those accounting records, contractual agreements, legislative documents, and OSMRE regulations, policies, and procedures which we deemed appropriate. Obligation data used in our analyses were based on accounting

information obtained after the year-end closing processes had been completed and, as such, reflected all year-end adjustments. We performed our review from July 1988 through May 1989 in accordance with generally accepted government auditing standards.

OSMRE's Allocation of Obligations

Our review of sample transactions for administrative and AML direct activities generally showed that the charges were proper. However, regarding the methods by which OSMRE allocated obligations related to its administrative activities and certain direct activities, we generally found that OSMRE did not use supportable methodologies to make these allocations. Obligations related to administrative activities were accumulated throughout the year in various accounts and then allocated at year-end based upon the approved budget. In addition, for certain invoices related to direct activities, such as those for computer services, OSMRE decided at the beginning of the year the portion of each invoice which was to be charged to each program throughout the year. This will be discussed in a later section of this letter.

During fiscal years 1987 and 1988, OSMRE determined the total obligations for administrative activities for its two appropriations by adding together the obligations charged to the administrative activities in each appropriation account and then allocating the total based on the approved budget. This was necessary since one appropriation account may have been initially charged for the obligations for administrative activities which benefitted both accounts. For example, most rent and telephone bills are initially charged to the AML appropriation account, while the Regulation and Technology appropriation account initially pays for a considerable amount of the payroll expenses for administrative activities.

Agencies are prohibited by 31 U.S.C. 1301 from using funds for purposes other than those for which they were appropriated. In addition, agencies are prohibited by the Antideficiency Act, 31 U.S.C. 1341, from incurring obligations in excess of the amount authorized by law. GAO's Policy and Procedures Manual for Guidance of Federal Agencies, Title 7, provides additional guidance on these requirements. Title 2 requires that federal agencies report obligations in such a manner that budgetary resources used in carrying out an activity can be evaluated. Budgetary resources used do not necessarily bear a relationship to amounts requested or approved by the Congress for performing an activity. Therefore, an agency must have a system which can measure actual obligations against its budget. GAO's accounting requirements provide

that financial information, such as that included in agency obligation reports, must be reliable.

At the end of the year, OSMRE determines its total obligations for administrative activities, regardless of which account was initially charged, and allocates them between the AML and Regulation and Technology appropriation accounts based on the approved budget. For example, both programs have an administrative activity referred to as general services. Before the 1988 year-end adjustment, AML's general services activity totaled about \$5.8 million, while Regulation and Technology's general services activity totaled about \$2.1 million for a ratio of almost 3 to 1. Since the resulting ratio of obligations charged to the respective programs during the year was not consistent with the approved budget, OSMRE transferred about \$3 million from the AML to the Regulation and Technology program account. This adjustment resulted in a ratio of administrative obligations for general services of about 1 to 2, which is consistent with the approved budget.

OSMRE officials stated that the current method of distributing obligations for administrative activities results in a year-end allocation in line with the Congress' expectations. They agreed that by allocating obligations based on the approved budget, the budget becomes a "self-fulfilling prophecy." However, OSMRE's approach to allocating obligations, is not consistent with federal requirements for determining program obligations or the intent of measuring actual program performance against original estimates. Therefore, OSMRE's approach may impede the oversight responsibilities of Interior's management, the Congress, and the Office of Management and Budget. Based on our review of the accounting system design and discussions with OSMRE officials, OSMRE's current accounting system has the capability to collect the data necessary to properly allocate obligations between its two programs.

OSMRE's Approach Compared With an Alternative Method

As requested by your office, since OSMRE's methodology for allocating its obligations between its appropriations was not consistent with federal requirements, we developed an alternative approach to determine the reasonableness of the obligations charged to the AML fund for fiscal years 1987 and 1988. To test the reasonableness of OSMRE's method of reporting administrative activities, we used the number of personnel directly assigned to each program. Our analysis yielded results which were less than 1 percent different than those reported by OSMRE. This difference does not indicate that the AML fund was charged an excessive amount of OSMRE's obligations.

We were unable to perform a precise analysis of how obligations for administrative activities incurred by OSMRE should be allocated between the two programs because the necessary information was not readily available. For example, we did not have adequate information to allocate rent expenses based on the amount of square footage associated with each program in a given building or to allocate telecommunications expenses based on the number of telephone lines assigned to each program. These two categories of sample obligations represented about 25 percent, excluding grants and payroll, of the obligations for administrative activities.

Instead, our methodology consisted of allocating obligations for administrative activities based on the number of personnel directly assigned to the AML and Regulation and Technology programs. Using payroll records, we calculated full-time-equivalent (FTE) positions by location for direct activities associated with the two programs. Then we prorated the obligations for administrative activities based on the direct FTE positions for each program. We prorated rent based on the number of direct FTES for each program associated with each location. For example, we prorated rent for OSMRE's area office in Lexington, Kentucky, based on its direct FTES for the two programs. During fiscal year 1987, the Lexington office had about 50 FTES directly assigned to the Regulation and Technology program and about 10 FTES directly assigned to the AML program. Based on the rent charges of about \$39,000, we allocated about one sixth or \$6,600 to the AML program and allocated the remainder to the Regulation and Technology program.

Insupportable Allocations of Obligations Charged to Direct Activities

We also found that OSMRE does not have documentation to support the allocation of some of its obligations associated with direct activities. We identified 38¹ transactions charged directly to the AML and Regulation and Technology programs, totaling about \$6 million, for which documentation did not adequately support the program charged.

For example, invoices from the U.S. Geological Survey for computer services totaling about \$1.7 million were directly allocated to the AML and Regulation and Technology programs by officials in OSMRE's budget and information systems management offices. Thus, these transactions were not subject to the end-of-year allocation process used for administrative

¹This includes 17 transactions that were charged directly to the Regulation and Technology program. We included these transactions in this analysis of sample transactions because they were on invoices charged to the AML program.

activities. Instead the budget office used a predetermined ratio to allocate charges for such obligations between the two programs. Invoices from the U.S. Geological Survey for computer services, for example, were allocated by charging about 30 percent to the AML program and the remaining 70 percent to the Regulation and Technology program. Officials in the budget office said that the amounts directly charged to a given program were based on their best judgment as to the usage of the computer services by the two programs. However, they could not provide documentation, such as computer usage logs, to support the allocation made. We found a similar lack of documentation for other direct activities for which the budget office decided at the beginning of the year what the allocation of obligations between the two programs would be. Although it appears that the AML account should be charged for a portion of these costs, we were unable to determine whether the amount charged was proper.

Conclusions

While OSMRE's accounting system has the capability to properly account for and allocate the obligations incurred by its two programs, OSMRE has instead used a methodology which allocates obligations for administrative activities based on its budget. Although the AML fund does not appear to have received an excessive portion of OSMRE's obligations during fiscal years 1987 and 1988, OSMRE needs to develop a supportable methodology for allocating obligations for administrative activities. Similarly, when OSMRE's management decides that a specific invoice, such as one for computer services, should be directly charged to both the AML and Regulation and Technology programs, the basis for that decision should be supported and clearly documented.

Recommendations

To provide the needed assurances to the Congress and other interested parties that funds are being obligated as authorized, we recommend that the Secretary of the Interior require the Director of the Office of Surface Mining Reclamation and Enforcement to

- develop and use a supportable methodology for the allocation of obligations for administrative activities between its AML and Regulation and Technology programs, and
- issue written procedures requiring that when contracts support multiple offices and appropriations, such as those for computer services, the allocation basis is adequately supported and documented.

As requested, we did not obtain official agency comments on a draft of this report. However, the views of responsible agency officials were sought during the course of our work and are incorporated where appropriate. As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from its date. At that time, we will send copies to the Department of the Interior and other interested parties. Copies will also be made available to others upon request. Please contact me at (202) 275-9454 if you or your staff have any questions concerning the report. Other major contributors to this report are listed in appendix I.

Sincerely yours,

A handwritten signature in black ink, reading "Jeffrey C. Steinhoff". The signature is written in a cursive style with a large, looping initial "J".

Jeffrey C. Steinhoff
Director, Financial Management
Systems Issues

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