



OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

# **AUDIT OF THE ABANDONED MINE LAND RECLAMATION PROGRAM, STATE OF INDIANA**



OFFICE OF  
**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR

SEP 30 2016

Memorandum

To: Joseph Pizarchik  
Director, Office of Surface Mining Reclamation and Enforcement

From: Kimberly Elmore *Kimberly Elmore*  
Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Final Audit Report – Audit of the Abandoned Mine Land Reclamation Program,  
State of Indiana  
Report No. 2015-ER-025

This memorandum transmits the results of our audit of the State of Indiana's use of Abandoned Mine Land Reclamation Program (AML program) funds. We conducted this audit to determine whether the Office of Surface Mining Reclamation and Enforcement (OSMRE) adequately oversaw use of these grant funds, whether the State of Indiana used the funds in compliance with grant purposes, and whether claimed costs were allowable, allocable, and reasonable.

As a result of our audit, we questioned \$723,361 across five AML program grants, representing unallowable grant charges and expenses not supported by proper documentation. We also found misreported expenditures in the final financial report for one grant, that contractor practices for weighing materials had insufficient oversight, and that OSMRE's risk assessment of DNR may have assigned a lower than warranted risk level.

We offered eight recommendations to resolve these costs and improve program oversight. Based on OSMRE's response to the draft report, we consider six recommendations resolved but not implemented, and two recommendations resolved and implemented (see Appendix 4). We will send the six recommendations that are resolved but not implemented to the Assistant Secretary for Policy, Management and Budget to track their implementation.

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

If you have any questions regarding this report, please call me at 202-208-5745.

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## Results in Brief

We audited the State of Indiana's use of Abandoned Mine Land Reclamation Program (AML program) grant funds to determine whether the State complied with Federal regulations and whether the Office of Surface Mining Reclamation and Enforcement (OSMRE) provided adequate oversight.

As a result of our audit, we question \$723,361 across five AML program grants, representing unallowable grant charges and expenses not supported by proper documentation.

These questioned costs include—

- unsupported payroll charges;
- unsupported other direct costs; and
- unauthorized preaward costs.

In addition, we found that the State's Department of Natural Resources (DNR) misreported expenditures in the final financial report for Grant No. S11AF20014, that contractor practices for weighing materials had insufficient oversight, and that OSMRE's risk assessment of DNR may have assigned a lower than warranted risk level due to how the risk assessment form scores the risk factors for financial audits.

We offer eight recommendations focused on recovery of unsupported charges incurred over 5 years. We believe that these recommendations will improve the management of the AML program as a whole.

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# Introduction

## Objective

We conducted this audit to determine whether—

1. the Office of Surface Mining Reclamation and Enforcement (OSMRE) adequately oversaw use of grant funds by the State of Indiana under the Abandoned Mine Land Reclamation Program (AML program);
2. the State of Indiana used AML program grant funds in compliance with grant purposes; and
3. claimed costs were allowable, allocable, and reasonable.

We performed this audit after determining that this program in the State of Indiana had not qualified as a major program in its single audit in at least 15 years. See Appendix 1 for scope and methodology.

## Background

The Surface Mining Control and Reclamation Act, or the SMCRA (30 U.S.C. 25 §§ 1201 – 1328), established a regulatory program for all coal surface mining on Federal and State lands and required the reclamation of land and water resources on coal-mined lands.

OSMRE was created when Congress enacted the SMCRA in 1977. OSMRE works with States and tribes to ensure that citizens and the environment are protected during coal mining and that the land is restored to beneficial use when mining is finished. OSMRE and its partners are also responsible for reclaiming and restoring lands and water degraded by mining operations abandoned before 1977.

The AML program is OSMRE's largest program and one of its primary responsibilities under the SMCRA. Since the SMCRA's enactment, the AML program has collected more than \$10.5 billion in fees from coal production and has distributed more than \$8 billion of these fees, including grants to States and tribes.

AML program grants support the operation of approved State and tribal abandoned mine land reclamation programs. These programs use grant funds for reclamation projects on eligible lands and waters (those mined or affected by coal-mining processes prior to August 3, 1977, as well as certain post-1977 and noncoal mining activities). AML program grants also support project administration and related activities, including abating emergency mining-related dangers to public health and safety, restoring water supply facilities affected by coal mining, building a trust account to fund future treatment of acid mine

drainage, and developing a self-sustaining State mine subsidence insurance program.

The AML program is restricted to States with (1) an approved coal-mining regulatory program, (2) lands or waters eligible for reclamation, and (3) active coal mining operations. Grant funds are mandatory (prescribed by the SMCRA), are not subject to fiscal year appropriation limitations, and are calculated using a distribution formula.

Indiana's Department of Natural Resources (DNR), Division of Reclamation (DOR), oversees active coal mining and restoration of land disturbed for coal extraction. The goal of DOR's reclamation program for abandoned mine lands is to restore mined land to productive premining land uses.

# Findings

OSMRE awarded the State of Indiana five AML program grants totaling \$77,879,429 between February 2010 and December 2014. During our audit, we reviewed all five grants and found several issues with the State’s grant management and OSMRE’s oversight. See Figure 1 for a table summarizing the award amount and claimed and questioned costs for each grant (also see Appendix 2 for a summary of monetary impact).

Grant Number	Grant Amount	Costs Claimed	Questioned Costs	
			Unallowable	Unsupported
SI0AF16264	\$16,407,541	\$16,407,541	\$12,332	\$128,376
SI1AF20014	13,362,867	13,362,867	1,416	150,923
SI2AF20038	18,396,476*	16,721,517*	–	167,264
SI3AF20006	15,116,220*	7,532,416*	40	135,225
SI4AF20003	14,596,325*	3,591,357*	481	127,304
<b>Totals</b>	<b>\$77,879,429</b>	<b>\$57,615,698</b>	<b>\$14,269</b>	<b>\$709,092</b>
<b>Total Questioned Costs</b>				<b>\$723,361</b>

\* Grant funds awarded and drawn down, as of December 31, 2014.

Figure 1. Grant number, award amount, claimed costs, and questioned costs for the five AML program grants we reviewed.

Our audit identified problems in key areas, including—

- unsupported payroll charges;
- unallowable and unsupported costs associated with various charges;
- misreported expenditures in a final financial report;
- missing internal controls over certain contractor practices; and
- a mandatory risk assessment form that may improperly indicate low risk.

## Unsupported Payroll Charges

Federal regulations outline specific requirements for charging salaries and wages to Federal grants. According to 2 C.F.R. § 225, Appendix B, 8(h)(4) and (5), direct labor costs must be supported by personnel activity reports that reflect an after-the-fact distribution of actual activity for each employee, and each report must account for the employee’s total compensated activities. Further, 2 C.F.R. § 225, Appendix B, 8(h)(6), allows for substitute systems for allocating salaries and wages to Federal awards in place of activity reports, such as random moment sampling, case counts, or other quantifiable measures of employee effort.

We found that several DNR employees split time between grant programs and charged their hours based on predetermined percentages. These percentages,

although approved by OSMRE, were not determined by a quantifiable measure, in violation of 2 C.F.R. § 225. Many of the percentages used were static over the 5-year scope of this audit, and DNR could not provide us with a quantifiable methodology used to set any of them. As such, we question \$539,489 in salaries and fringe benefits, based on our sample of timesheets. Because our sample only covered one pay period for each of the five grants, the total amount of unsupported payroll charges is likely substantially larger.

## Recommendations

We recommend that OSMRE:

1. Work with DNR to resolve the questioned costs of \$539,489 related to unsupported payroll costs. This amount includes \$87,759 charged to Grant No. S10AF16264, \$109,483 charged to Grant No. S11AF20014, \$130,132 charged to Grant No. S12AF20038, \$97,579 charged to Grant No. S13AF20006, and \$114,536 charged to Grant No. S14AF20003.
2. Require DNR to follow Federal regulations that require employees not charging 100 percent of their time to a grant to adequately document after-the-fact hours and include descriptions for all activities completed on their timecards.

## Unallowable and Unsupported Costs

Federal grant regulations require specific and accurate accounting of all grant transactions to ensure that funds are being fairly spent and accurately recorded. To receive Federal reimbursement, such expenses must be allowable, allocable (within the scope of the grant), reasonable, and adequately supported by price quotations, invoices, receipts, and similar documentation. We found, however, that DNR (1) charged \$23,137 in unsupported expenses, (2) charged \$146,467 in expenses using an unsupported calculation, and (3) drew down \$14,269 in unallowable preaward costs.

### Unsupported Other Direct Costs

We found \$23,137 in unsupported costs associated with various charges.

We found that DNR charged various communications costs to all AML program grants. Although claiming communication costs is allowable, we consider the methodology behind the allocation of these costs to the AML program unsupported. According to 2 C.F.R. § 225, costs must be allocable, meaning: “a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.” We do not believe charging full costs to the AML program

when employees split time between multiple Federal grant programs meets this definition.

We therefore question the use of a preset percentage to calculate costs for communication, and we consider unsupported the \$23,137 in costs that DNR charged, as listed on Form OSM-51 for each grant (see Figure 2 for a breakdown of these costs by grant). Neither DNR nor OSMRE could provide us with the detail to justify the calculation.

Service	Grant Number				
	S10AF1 6264	S11AF2 0014	S12AF2 0038	S13AF2 0006	S14AF2 0003
Telephone Centrex (exchange service)	\$0	\$0	\$0	\$187	\$166
Telephone (remote location)	455	427	476	1,374	533
Telephone tariff/systems charge	683	623	505	16	0
Long distance service	187	218	174	167	76
T1 digital network	2,406	3,994	3,781	4,607	1,793
800 service	61	64	60	52	16
Refresh upgrade	36	0	0	0	0
<b>Totals</b>	<b>\$3,828</b>	<b>\$5,326</b>	<b>\$4,996</b>	<b>\$6,403</b>	<b>\$2,584*</b>

\* Grant funds awarded and drawn down, as of December 31, 2014.

Figure 2. Costs charged to AML grants using a preset percentage.

Further, we question the calculation of \$146,467 in communication costs DNR charged based on employees' role or rank within the organization, regardless of whether employees charged time to more than one Federal grant program (see Figure 3 for a breakdown of these costs by grant).

Service	Grant Number				
	S10AF1 6264	S11AF2 0014	S12AF2 0038	S13AF2 0006	S14AF2 0003
Cellular phone service	\$12,845	\$11,650	\$11,249	\$9,583	\$3,874
Seat charge	23,251	24,130	20,828	21,656	6,310
Blackberry license fee	193	100	0	0	0
Excess email storage	74	-8	2	1	0
Archive email storage	203	81	31	2	0
Citrix	222	161	26	0	0
<b>Totals</b>	<b>\$36,789</b>	<b>\$36,114</b>	<b>\$32,136</b>	<b>\$31,243</b>	<b>\$10,184*</b>

\* Grant funds awarded and drawn down, as of December 31, 2014.

Figure 3. Costs charged to AML grants using employees' placement on the organizational chart.

Recommendations
<p>We recommend that OSMRE:</p> <ol style="list-style-type: none"> <li>3. Require DNR to provide quantitative accounting support for the calculations included on Form OSM-51 for each grant, and revise the forms as necessary. If the charges cannot be supported, work with DNR to resolve \$3,828 on Grant No. S10AF16264, \$5,326 on Grant No. S11AF20014, \$4,996 on Grant No. S12AF20038, \$6,403 on Grant No. S13AF20006, and \$2,584 on Grant No. S14AF20003; and</li> <li>4. Require DNR to accurately account for costs charged for employees who split time between Federal grant programs, and determine the appropriate charges for the questioned costs. If the charges cannot be supported, work with DNR to resolve \$36,789 on Grant No. S10AF16264, \$36,114 on Grant No. S11AF20014, \$32,136 on Grant No. S12AF20038, \$31,243 on Grant No. S13AF20006, and \$10,184 on Grant No. S14AF20003.</li> </ol>

### Unauthorized Preadward Costs

Federal regulations allow grant recipients to seek reimbursement for preaward costs incurred prior to the effective date of the award. These costs are allowable only if they would also be allowable after the date of the award and only with written approval from OSMRE.

On four AML program grants, DNR incurred costs for various supplies and expenses prior to the award date. These costs included automobile parts, a cell phone reimbursement, and water testing kits, totaling \$14,269 in unallowable

preaward costs (see Figure 4). While these costs would have been allowable if incurred after the effective date of the awards, DNR did not have prior approval from OSMRE to charge preaward costs.

<b>Grant Number</b>	<b>Authorized Preaward Costs</b>	<b>Unallowable Preaward Costs</b>
SI0AF16264	\$0	\$12,332
SI1AF20014	0	1,416
SI3AF20006	0	40
SI4AF20003	0	481
<b>Totals</b>	<b>\$0</b>	<b>\$14,269</b>

Figure 4. Preaward costs charged to AML grants.

<b>Recommendation</b>
<p>We recommend that OSMRE:</p> <ol style="list-style-type: none"> <li>5. Work with DNR to resolve the unallowable preaward costs of \$12,332 charged to Grant No. SI0AF16264, the \$1,416 charged to Grant No. SI1AF20014, the \$40 charged to Grant No. SI3AF20006, and the \$481 charged to Grant No. SI4AF20003.</li> </ol>

## Misreported Expenditures in a Federal Financial Report

OSMRE grant specialists did not thoroughly review the final Federal financial report, or SF-425, submitted by DNR in June 2014. These reports are an important monitoring tool and key internal control used to ensure grants are not overspent. We found that DNR overstated its expenses on Grant No. SI1AF20014 by \$858,320.96. This amount was deobligated from the 2011 grant and ultimately reobligated on the 2014 grant.

<b>Recommendation</b>
<p>We recommend that OSMRE:</p> <ol style="list-style-type: none"> <li>6. Require DNR to revise the final SF-425 for Grant No. SI1AF20014 to reflect the correct expenditure amount.</li> </ol>

## Missing Internal Controls

Closing voids left by mining often involves using various types of fill material, procured via contracts issued by DNR with AML program funds. According to DOR, these fill materials are sold by weight and weighed on scales owned by the contractors providing them. DOR does not verify the weight of materials and does not have a plan to, even on a random or ad hoc basis. This situation creates a risk that contractors could deliver less fill material than the contract states, as there is no means of checking the weight of the material on site. We did not observe any improprieties; however, because DOR frequently contracts with a small number of local firms, periodic checks of deliveries at the reclamation sites would help mitigate the risk of fraud.

### Recommendation

We recommend that OSMRE:

7. Perform random tests to confirm that the amount of fill material delivered to reclamation sites matches the amount specified in the corresponding contract.

## Risk Assessment Concerns

To create consistency among bureaus in conducting risk assessments for grantees, the U.S. Department of the Interior's (DOI) Office of Acquisition and Property Management (PAM) issued the Department of the Interior Guidance Release (DIG) 2011-03 on September 13, 2011, providing a DOI-wide policy for proactively monitoring recipients of financial assistance awards to protect against fraud, waste, and mismanagement. DIG 2011-03 includes a Financial Assistance Risk Assessment Checklist containing questions intended to produce a risk value at the end. OSMRE and other bureaus use this risk value to determine the monitoring level needed based on the risk level for a particular grantee.

### AML Program Risk Assessments

OSMRE provided us with a risk assessment checklist for Indiana's AML program for each of the grant years in our scope. We noted that in each of the risk assessments, OSMRE indicated that the AML program had been "audited in one of the two most recent periods" and thus gave it a "low risk" designation. While the State of Indiana had filed a single audit for each of these years, the AML program did not reach the threshold to be considered a "major program," and as such had never actually been audited as part of the single audit process. This practice potentially results in any federally funded program being considered low risk as long as the State filed its single audit appropriately—even if that program has never actually been audited as part of the process.

### **Error in Newest Risk Assessment Checklist**

The most recent iteration of the checklist, released in September 2013, contains a question regarding the financial audit history of the entity being assessed that is nearly identical to a question on the previous checklist, with one notable difference. Prior versions of the checklist all considered an audit in at least one of the two most recent periods to be an indicator of low risk—but in this version, a “yes” answer to the question, indicating that the recipient has been audited, requires a score of “high risk.” While we agree that the existence of an audit with major findings would indicate high risk, the existence of an audit does not in and of itself guarantee higher risk—particularly when certain programs are audited as major programs annually.

#### **Recommendation**

We recommend that PAM:

8. Revise the Financial Assistance Risk Assessment Checklist to ensure that the risk factor question on past financial audits produces the proper risk outcome.

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# Conclusion and Recommendations

## Conclusion

Our findings show that some aspects of the AML program in Indiana are operating outside of Federal regulations, and that these errors should have been recognized by OSMRE with proper monitoring. Several of our findings relate to costs that would typically be charged via indirect cost agreements, but DNR instead decided to charge them directly, and incorrectly. We believe the eight recommendations in this report will help both OSMRE and DNR run the AML program more efficiently and in compliance with Federal regulations.

## Recommendations Summary

We issued a draft version of this report to OSMRE and received responses to our recommendations. Summaries of OSMRE's responses, as well as our analysis, are below. See Appendix 3 for the full text of the response; Appendix 4 lists the status of each of our recommendations.

We recommend that OSMRE:

1. Work with DNR to resolve the questioned costs of \$539,489 related to unsupported payroll costs. This amount includes \$87,759 charged to Grant No. S10AF16264, \$109,483 charged to Grant No. S11AF20014, \$130,132 charged to Grant No. S12AF20038, \$97,579 charged to Grant No. S13AF20006, and \$114,536 charged to Grant No. S14AF20003.

**OSMRE response:** OSMRE concurred with this recommendation. The bureau will coordinate with the grantee to identify payroll records to support the questioned costs, and will ensure that future grant applications include documentation of how time charges were recorded.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

2. Require DNR to follow Federal regulations that require employees not charging 100 percent of their time to a grant to adequately document after-the-fact hours and include descriptions for all activities completed on their timecards.

**OSMRE response:** OSMRE concurred with this recommendation and will research and identify improvements to the grant monitoring process to ensure that documentation in progress reports and closeout reports

indicates that employees have adequately completed their timecards to reflect actual activities and actual hours worked.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

3. Require DNR to provide quantitative accounting support for the calculations included on Form OSM-51 for each grant, and revise the forms as necessary. If the charges cannot be supported, work with DNR to resolve \$3,828 on Grant No. S10AF16264, \$5,326 on Grant No. S11AF20014, \$4,996 on Grant No. S12AF20038, \$6,403 on Grant No. S13AF20006, and \$2,584 on Grant No. S14AF20003.

**OSMRE response:** OSMRE concurred with this recommendation and will coordinate with DNR to identify support for the questioned costs. OSMRE will also work with DNR to ensure that current and future grant applications and closeouts will indicate how these charges are recorded for employees who split time between Federal programs.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

4. Require DNR to accurately account for costs charged for employees who split time between Federal grant programs, and determine the appropriate charges for the questioned costs. If the charges cannot be supported, work with DNR to resolve \$36,789 on Grant No. S10AF16264, \$36,114 on Grant No. S11AF20014, \$32,136 on Grant No. S12AF20038, \$31,243 on Grant No. S13AF20006, and \$10,184 on Grant No. S14AF20003.

**OSMRE response:** OSMRE concurred with this recommendation, and will coordinate with DNR to identify costs split between Federal programs.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

5. Work with DNR to resolve the unallowable preaward costs of \$12,332 charged to Grant No. S10AF16264, the \$1,416 charged to Grant No. S11AF20014, the \$40 charged to Grant No. S13AF20006, and the \$481 charged to Grant No. S14AF20003.

**OSMRE response:** OSMRE concurred with this recommendation, and will work with DNR to find supporting documentation for the unallowable preaward costs and ensure that prior approval is given before charging preaward costs in the future.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

6. Require DNR to revise the final SF-425 for Grant No. S11AF20014 to reflect the correct expenditure amount.

**OSMRE response:** OSMRE concurred with this recommendation and received the revised SF-425 from DNR on July 19, 2016.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved and implemented.

7. Perform random tests to confirm that the amount of fill material delivered to reclamation sites matches the amount specified in the corresponding contract.

**OSMRE response:** OSMRE agreed that the tests should be conducted, but stated that DNR has the responsibility to conduct them. OSMRE will direct DNR to develop or modify controls to ensure that the proper amount of fill material is delivered.

**OIG analysis:** Based on OSMRE's response, we consider this recommendation resolved but not implemented. We will refer it to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

We recommend that PAM:

8. Revise the Financial Assistance Risk Assessment Checklist to ensure that the risk factor question on past financial audits produces the proper risk outcome.

**PAM response:** PAM concurred with this recommendation and updated its checklist on August 17, 2016, to address the recommendation.

**OIG analysis:** Based on PAM's response, we consider this recommendation resolved and implemented.

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# Appendix I: Scope and Methodology

## Scope

We audited the State of Indiana's use of Abandoned Mine Land Reclamation Program (AML program) grant funds awarded from February 16, 2010, through December 31, 2014, to determine whether—

- the Office of Surface Mining Reclamation and Enforcement (OSMRE) adequately oversaw use of grant funds by the State of Indiana under the AML program;
- the State of Indiana used AML program grant funds in compliance with grant purposes; and
- claimed costs were allowable, allocable, and reasonable.

## Methodology

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To accomplish the audit's objective, we—

- reviewed guidance from OSMRE, the State's Department of Natural Resources (DNR), and DNR's Division of Reclamation (DOR), including standard operating procedures;
- reviewed grant files and data provided by OSMRE, DNR, and DOR;
- reviewed the Code of Federal Regulations for regulations pertaining to claimed costs;
- reviewed relevant Office of Inspector General reports;
- interviewed officials involved with the administration of these grants as well as those involved with the execution of grant objectives; and
- conducted site visits to Indiana in April and May 2015.

We judgmentally selected and reviewed a sample of charges to these grants and verified them against source documents and accounting data. We relied on computer-generated data for these costs. We assessed the internal controls by reviewing the State's accounting manual, interviewing personnel, and observing controls and processes during our site visits.

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## Appendix 2: Monetary Impact

Grant Number	Grant Amount	Costs Claimed	Questioned Costs	
			Unallowable	Unsupported
S10AF16264	\$16,407,541	\$16,407,541	\$12,332	\$128,376
S11AF20014	13,362,867	13,362,867	1,416	150,923
S12AF20038	18,396,476	16,721,517	--	167,264
S13AF20006	15,116,220	7,532,416	40	135,225
S14AF20003	14,596,325	3,591,357	481	127,304
<b>Totals</b>			<b>\$14,269</b>	<b>\$709,092</b>

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## **Appendix 3: Responses to Draft Report**

Responses to our draft report from the Office of Surface Mining Reclamation and Enforcement and the Office of Acquisition and Property Management follow on page 17.



# United States Department of the Interior



## OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT Washington, D.C. 20240

August 8, 2016

### Memorandum

To: Kimberly Elmore  
Assistant Inspector General for Audits, Inspections and Evaluations

From:   
Joseph G. Pizarchik  
Director

Subject: Response to Draft Audit Report – Audit of the Abandoned Mine Land Reclamation Program, State of Indiana, Report No. 2015-ER-025

The Office of Surface Mining Reclamation and Enforcement (OSMRE) has reviewed the Office of Inspector General (OIG) draft report entitled: “Audit of the Abandoned Mine Land Reclamation Program, State of Indiana” (Report No. 2015-ER-025) dated June 24, 2016. We appreciate your staff’s review of Indiana’s Abandoned Mine Land (AML) Program grant use and our oversight of that use. We will use the information identified in the report to improve OSMRE’s oversight of the AML grants program. During the July 14, 2016, teleconference between OSMRE and OIG staff on the draft report, the OIG gave OSMRE permission to share the Draft Report with the State of Indiana, which it has done.

OSMRE accepts the draft report’s Recommendations 1 through 6 (see Attachment 1). The attached response describes in general terms how OSMRE will address each recommendation, proposed and actual completion dates, and the responsible official. Upon receipt of the OIG’s concurrence with OSMRE’s proposed corrective actions, we will prepare a detailed plan to address each corrective action for each recommendation. OSMRE plans to conduct a detailed review of the OIG’s findings with the State of Indiana’s Department of Natural Resources (IN DNR). We are committed to identifying and correcting any weaknesses in OSMRE’s oversight of the AML program, generally, and IN DNR, specifically.

OSMRE disagrees with recommendation 7 (See Attachment 1). Recommendation 7 directs OSMRE to conduct random tests to confirm that the amount of fill material delivered to reclamation sites matches the amount specified in the corresponding contract. While OSMRE agrees that these tests should be conducted, the initial responsibility for this recommendation rests with the IN DNR. OSMRE will work with IN DNR, however, to ensure the State puts the necessary controls in place to adequately address this recommendation. OSMRE will then in its oversight capacity ensure the IN DNR properly implement those controls in order to ensure the potential for fraud, waste, and abuse is minimized.

OSMRE understands that OIG directs Recommendation 8 to the DOI Office of Acquisition and Property Management (PAM), not OSMRE. Further, the OIG also acknowledged that its findings on the AML program risk assessment were directed to PAM.

In closing, thank you once again for the OIG's review of OSMRE's AML Program.

Attachment

## ATTACHMENT 1

**U.S. Department of the Interior**  
**Office of Surface Mining Reclamation and Enforcement Response to:**  
**Office of Inspector General, Draft Audit of the Abandoned Mine Land Reclamation**  
**Program, State of Indiana**  
**(Report No.: 2015-ER-025, June 2016)**  
*Response dated August 2016*

**Recommendation No. 1:** Work with Indiana (IN) Department of Natural Resources (DNR) to resolve the questioned costs related to unsupported payroll costs.

**Response No. 1:**

The report identified that several IN DNR employees split time between grant programs and charged their hours based on predetermined percentages. These percentages, although approved by OSMRE, were not determined by a quantifiable measure in violation of the current cost principles in accordance with Title 2 of the Code of Federal Regulation Part 200.431.

OSMRE will coordinate with IN DNR to research and identify supporting records for the questioned payroll costs and make any feasible adjustments as required. We will also ensure that IN DNR includes documentation in current and future grant applications and closeouts of how time charges were recorded for employees that split time between grant programs.

Target Date for Completion: September 30, 2017

Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 2:** Require IN DNR to follow Federal regulations that require employees not charging 100 percent of their time to a grant to adequately document after-the-fact hours and include descriptions for all activities completed on their timecards.

**Response No. 2:**

OSMRE will research and identify improvements to the grant monitoring process to ensure that documentation in progress reports and closeout reports indicate that IN DNR employees have adequately documented their time cards to reflect actual activities and actual hours worked.

Target Date for Completion: September 30, 2017

Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 3:** Require IN DNR to provide quantitative accounting support for the calculations included on Form OSM-51 for each grant, and revise the forms as necessary.

**Response No. 3:**

The report identified various communication costs charged to all AML program grants for employees that split time between multiple grant programs. While communication costs are allowable, the methodology used by IN DNR for employees in this category is unsupported.

## ATTACHMENT 1

OSMRE will coordinate with IN DNR to research its accounting records in an effort to accurately identify supporting quantitative accounting calculations including a detail breakdown of these costs by grants regardless of employees' role or rank within the organization. We will also ensure that IN DNR documents current and future grant applications and closeouts indicating how these charges are recorded for employees that split time between Federal grant programs to justify the calculation.

Target Date for Completion: September 30, 2017  
Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 4:** Require IN DNR to accurately account for costs charged for employees who split time between Federal grant programs, and determine the appropriate charges for the questioned costs.

**Response No. 4:**

The report questioned the calculation of additional communication costs that were charged based on the employees role or rank within the organization regardless of whether employees charged time to more than one Federal grant program.

OSMRE will coordinate with IN DNR to research its accounting records in an effort to accurately identify supporting costs between Federal grant programs. We will also ensure that IN DNR documents current and future grant applications and closeouts indicating how these types of cost items are calculated and charged for employees that split time between multiple grant programs.

Target Date for Completion: September 30, 2017  
Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 5:** Work with IN DNR to resolve the unallowable preaward costs charged to Grant No. S10AF16264, Grant No. S11AF20014, Grant No.S13AF20006, and Grant No. S14AF20003.

**Response No. 5:**

The report identified costs for various supplies and expenses that IN DNR incurred prior to the grant award date. As noted in the report, these costs would have been allowable if incurred after the effective date of the awards or with prior written approval from OSMRE. We acknowledge IN DNR did not request nor receive prior written approval from us to charge these preaward costs.

OSMRE will coordinate with IN DNR to research and identify supporting documentation for the unallowable pre-award costs charged to the aforementioned grants. We will also ensure that IN DNR requests and receives written approval in their current and future grants before charging pre-award costs.

## ATTACHMENT 1

Target Date for Completion: September 30, 2017  
Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 6:** Require IN DNR to revise the final SF-425 for Grant No. S11AF20014 to reflect the correct expenditure amount.

**Response No. 6:**

OSMRE received the revised report on July 19, 2016, with corrected data reflected on the SF-425 and SF-425a. No further actions are required.

Target Date for Completion: Completed, July 2016  
Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 7:** Perform random tests to confirm that the amount of fill material delivered to reclamation sites matches the amount specified in the corresponding contract.

**Response No. 7:**

This recommendation directs OSMRE to conduct random test to confirm that the amount of fill material delivered to reclamation sites matches the amount specified in the corresponding contract. However, the responsibility to perform random test rests with IN DNR.

OSMRE will work with IN DNR to review internal control practices currently in place for delivery of fill material included in abandoned mine lands (AML) construction contracts, to either develop additional controls or modify those that IN DNR currently has, as needed, to ensure the amount of fill material delivered to AML reclamation sites matches the amount specified in the corresponding contracts.

Target Date for Completion: September 30, 2017  
Responsible Official: Len Meier, Chief, Alton Field Division

**Recommendation No. 8:** Revise the Financial Assistance Checklist to ensure that the risk factor on past financial audits produces the proper risk outcome.

**Response No. 8:**

No action required by OSMRE. The OIG designated the responding entity as the Department of Interior Office of Acquisition and Property Management (PAM).

**Conclusion**

OSMRE appreciates the Office of Inspector General's review and evaluation of the Indiana Abandoned Mine Lands Program. We will work with IN DNR to resolve the identified questioned costs, and we will also implement improvements to OSMRE's review and oversight processes to ensure compliance with 2 CFR 200 and other Federal regulations.

## ATTACHMENT 1

We anticipate that the review, research, and implementation of appropriate corrective actions will be completed by September 30, 2017. This time frame provides OSMRE with sufficient time to research the multitude of issues related to financial records, payroll charges, and expenditures across five AML program grants, address internal control measures, and address the recommendations contained in this Audit Report.

The Alton Field Division Chief, OSMRE's Mid-continent Regional Office, is responsible for ensuring all required actions are completed.



# United States Department of the Interior

OFFICE OF THE SECRETARY  
Washington, DC 20240

**AUG 22 2016**

## Memorandum

To: Kimberly Elmore  
Assistant Inspector General for Audits, Inspections and Evaluations

From: Debra E. Sonderman, Director   
Office of Acquisition and Property Management

Subject: Response to Draft Audit Report – Audit of the Abandoned Mine Land Reclamation Program, State of Indiana, Report No. 2015-ER-025

Thank you for the opportunity to review the Office of Inspector General (OIG) draft audit report entitled *Audit of the Abandoned Mine Land Reclamation Program, State of Indiana*, Report No. 2015-ER-025, dated June 24, 2016. The report contains the following recommendation for the Office of Acquisition and Property Management (PAM):

**We recommend that PAM revise the Financial Assistance Risk Assessment Checklist to ensure that the risk factor question on past financial audits produces the proper risk outcome.**

PAM concurs with the OIG recommendation, and has issued updated pre-award checklists to improve the recipient risk assessment process. On August 17, 2016, PAM issued the attached Department of the Interior Acquisition, Assistance and Asset Policy (DOI-AAAP) - 0068, *Financial Assistance Pre-Award Risk Assessment and Post Award Monitoring*. This policy updates the pre-award screening process for recipients by requiring bureaus to use one of two checklists to conduct pre-award recipient risk assessments based on the recipient's audit status. The DOI Financial Assistance Risk Assessment Checklist is required for recipients that are subject to Single Audit requirements or conduct independent audits. The Financial Capability questionnaire must be used to evaluate financial management systems for recipients that are not subject to Single Audit requirements or do not conduct independent audits. Copies of these tools are attached for your information.

As outlined in DOI-AAAP-0068, bureaus and offices are required to complete at least one recipient risk assessment prior to award of the first discretionary or mandatory grant or cooperative agreement to the recipient in the fiscal year, and to complete a new risk assessment for each recipient for every fiscal year in which the recipient will receive a new award. The results of the risk assessment must be considered when developing grant and cooperative agreement award conditions. For recipients that are low risk, bureaus and offices must require, at a minimum, the submission of annual performance and financial reports. For recipients that are medium- to high-risk, in addition to the required annual performance and financial reporting requirements, bureaus should consider incorporating additional specific conditions into the

award that are relevant to the level of risk. Bureaus are required to provide plans for implementing DOI-AAAP-0068 to PAM no later than November 1, 2016.

Thank you for the opportunity to comment. If you have questions or require additional information, please contact me on (202) 513-07554 or by e-mail at [Debra\\_Sonderman@ios.doi.gov](mailto:Debra_Sonderman@ios.doi.gov).

Attachments

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## Appendix 4: Status of Recommendations

Recommendation	Status	Action Required
1, 2, 3, 4, 5, 7	Resolved but not implemented	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget to track their implementation.
6, 8	Resolved and implemented	No further action is required.

