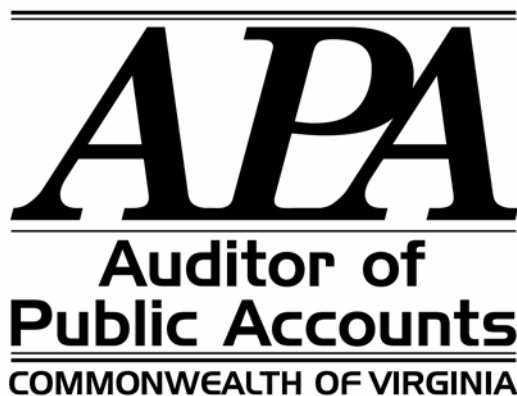


**DEPARTMENT OF MINES, MINERALS, AND ENERGY**

**REPORT ON AUDIT  
FOR THE THREE-YEAR PERIOD ENDED  
JUNE 30, 2004**



## **AUDIT SUMMARY**

Our audit of the Department of Mines, Minerals, and Energy for the three-year period ended June 30, 2004, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting system of the Department;
- no matters involving internal control and its operation for the cycles tested; and
- no instances of noncompliance that are required to be reported.

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## AGENCY HIGHLIGHTS

The Department of Mines, Minerals, and Energy enforces federal and state laws and regulations governing the extraction of coal, oil, gas, and other minerals. The Department's mission is to enhance the development and conservation of energy and mineral resources in a safe and environmentally sound manner in order to support a more productive economy in Virginia. The Department accomplishes this mission through six operational divisions as discussed below, which are supported by the Division of Administration.

### Division of Energy

The Division of Energy focuses on increasing energy efficiency in state government operations, promoting cost effective renewable energy resources for state applications, improving the energy efficiency of primary and secondary schools, and promoting the economic development of Virginia's indigenous energy resources.

### Division of Gas and Oil

The Division of Gas and Oil is responsible for regulating the effects of gas and oil operations both on and below the surface. The Division issues permits, provides client assistance programs, inspects well sites and pipelines, reclaims abandoned well sites, protects correlative rights, and promotes resource conservation practices.

### Division of Mined Land Reclamation

The Division of Mined Land Reclamation is responsible for ensuring the reclamation of land affected by surface and underground coal mining activity. The Division regulates the surface effects of coal mining, reclaims abandoned mine sites, issues permits, inspects mine sites, assists small operators, and responds to citizen issues.

### Division of Mineral Mining

The Division of Mineral Mining provides for the safe and environmentally sound production of Virginia non-fuel minerals. The Division regulates the surface effects of mineral mining operations, reclaims abandoned mine sites, enforces health and safety standards in the mines, issues mining permits and licenses, provides industry training, and performs regular inspections of mine operations.

### Division of Mines

The Division of Mines protects the lives and health of all people employed at surface and underground coal mining operations and insures mine operator compliance with mine safety requirements. The Division performs regular mine inspections, investigates accidents and fatalities, conducts training and certification of miners, and provides technical assistance to mine operators.

### Division of Mineral Resources

The Division of Mineral Resources serves as the primary resource for accurate, timely, and objective information on Virginia's geology, mineral resources, and geological hazards. The Division conducts geological studies in support of economic development and to preserve the health and safety of the citizens of Virginia.

## FINANCIAL INFORMATION

The Commonwealth Accounting and Reporting System includes all financial data except for the performance bonds held by the Department, which are recorded in the Department's performance bond tracking system. The Department's primary funding sources are General Fund appropriations and Federal grants revenue. The Department receives federal revenue primarily to assist in the reclamation of abandoned mine sites and in the regulation of coal mining. The Department also receives revenues from the issuance of licenses and permits, which it records in its special revenue funds. In fiscal year 2004, payroll costs of \$15,076,458 and financial grants of \$5,948,612 accounted for 56 percent and 22 percent, respectively, of total expenses.

The following schedules summarize the Department's budgeted expenses compared with actual results for fiscal year 2004, as well as funding received from its various funding sources:

### Analysis of Budgeted and Actual Appropriations and Funding Fiscal Year Ended June 30, 2004

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Funding Received</u>
General	\$ 9,110,447	\$11,228,231	\$11,228,231
Special revenue	5,114,850	6,653,953	2,932,210
Trust and agency	525,000	1,389,510	608,986
Federal	<u>10,519,732</u>	<u>11,419,732</u>	<u>11,816,600</u>
Total resources	<u>\$25,270,029</u>	<u>\$30,691,426</u>	<u>\$26,586,027</u>

### Analysis of Budgeted and Actual Expenses Fiscal Year Ended June 30, 2004

<u>Program</u>	<u>Program Expenses</u>			<u>Expenses by Funding Source</u>			
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual</u>	<u>General</u>	<u>Special Revenue</u>	<u>Trust and Agency</u>	<u>Federal</u>
Land Management	\$13,974,024	\$15,020,621	\$12,895,501	\$ 1,616,569	\$1,390,137	\$257,102	\$ 9,631,693
Minerals							
Management	4,151,228	4,818,734	4,302,778	2,768,039	1,237,741	-	296,998
Resource							
Management							
Research,							
Planning, and							
Coordination	626,768	3,991,278	3,033,281	1,938,362	177,150	34,925	882,844
Regulation of			3,756,296				
Individual Safety	3,924,131	3,924,131		3,410,590	175,238	-	170,468
Administrative and							
Support Services	<u>2,593,878</u>	<u>2,924,131</u>	<u>2,753,605</u>	<u>1,494,671</u>	<u>1,258,934</u>	<u>-</u>	<u>-</u>
Total	<u>\$25,270,029</u>	<u>\$30,691,426</u>	<u>\$26,741,461</u>	<u>\$11,228,231</u>	<u>\$4,239,200</u>	<u>\$292,027</u>	<u>\$10,982,003</u>

The Department's General Fund appropriations were increased during the year to carry forward \$1.9 million in unspent appropriations from fiscal year 2003 related to the Solar Photovoltaic Manufacturing Incentive Grant Program. The Department increased its Federal appropriations as a result of additional funding received for various energy projects within the Division of Energy and for a digital mapping project within the Division of Mineral Resources. The remaining increases in appropriations were to carry forward unspent cash balances from fiscal year 2003.

#### Performance Bonds

Mine and well operators must post performance bonds as guarantee to return lands to their original condition and state of use. Performance bonds were comprised of the following as summarized from the Commonwealth's Accounting and Reporting System for cash bonds held by the Treasurer of Virginia and from the Department's performance bond tracking system for bonds held by the Department.

	<u>Fiscal Year Ended June 30</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Cash bonds deposited with the Treasurer of Virginia	\$ 2,352,489	\$ 2,498,849	\$ 2,983,034
Held by the Department:			
Surety bonds	266,888,080	259,636,450	252,159,315
Letters of credit	1,683,300	1,880,700	3,293,100
Self bonds	-	-	2,371,400
Certificates of deposit	<u>1,558,234</u>	<u>1,775,780</u>	<u>2,446,278</u>
Total performance bonds	<u>\$272,482,103</u>	<u>\$265,791,779</u>	<u>\$263,253,127</u>



# Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218

July 29, 2005

The Honorable Mark R. Warner  
Governor of Virginia  
State Capitol  
Richmond, Virginia

The Honorable Lacey E. Putney  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

## INDEPENDENT AUDITOR'S REPORT

We have audited selected financial records and operations of the **Department of Mines, Minerals, and Energy** for the three-year period ended June 30, 2004. We conducted our audit in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

### Audit Objectives, Scope, and Methodology

Our audit's primary objective was to review the significant cycles for the Department's activities as reported in the Commonwealth Accounting and Reporting System (CARS) and in the Department's internal accounting system. In support of this objective, we evaluated the accuracy of recording financial transactions in CARS and the Department's internal accounting system, reviewed the adequacy of the Department's internal control, and tested for compliance with applicable laws, regulations, contracts, and grant agreements.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls including controls for administering compliance with applicable laws, regulations, contracts, and grant agreements. Our review encompassed controls over the following significant cycles:

Revenues  
Payroll Expenditures  
Grant Expenditures

Performance Bond Activity  
Small Purchase Charge Card

We gained an understanding of the overall internal controls surrounding these cycles, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed.

Management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws, regulations, contracts, and grant agreements. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

#### Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and in its internal accounting systems for the cycles listed in the scope section of this report.

We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SAH:sks



DEPARTMENT OF MINES, MINERALS, AND ENERGY

AGENCY OFFICIALS

O. Gene Dishner, Director

George P. Willis, Chief Deputy Director

Benny R. Wampler, Deputy Director

Stephen A. Walz, Director  
Division of Administration

M. Frank Hampton, Jr., Fiscal Manager  
Division of Administration

John W. Warren, Director  
Division of Energy

Bob R. Wilson, Gas and Oil Inspector and Director  
Division of Gas and Oil

Roger L. Williams, Acting Manager  
Division of Mined Land Reclamation

Conrad T. Spangler, Director  
Division of Mineral Mining

Frank A. Linkous, Chief Mine Inspector and Director  
Division of Mines

Edward E. Erb, State Geologist and Director  
Division of Mineral Resources

