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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Reviews Of The Audits Of The Trans-Alaska Pipeline Liability Fund's Financial Statements For The Years Ended December 31, 1983 And 1982

GAO reviewed the independent certified public accountants' audits of the Trans-Alaska Pipeline Liability Fund's financial statements for the years ended December 31, 1983 and 1982. GAO found nothing to indicate the opinion of the certified public accountants is inappropriate or cannot be relied on.

In the opinion of the Fund's certified public accountants, the financial statements present fairly the Fund's net assets available for claims as of December 31, 1983 and 1982, and the changes in net assets available for claims for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



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GAO/AFMD-85-13
JULY 22, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-208638

To the President of the Senate and the
Speaker of the House of Representatives

This report presents the results of our reviews of Deloitte Haskins & Sells' audits of the statement of net assets available for claims of the Trans-Alaska Pipeline Liability Fund as of December 31, 1983 and 1982, and the related statements of changes in net assets available for claims for the years then ended. Our reviews were made under provisions of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. 1653(c)(4)), which directs us to audit the Fund annually.

Our reviews were conducted in accordance with generally accepted government auditing standards. To avoid unnecessary duplication and expense and make the most efficient use of our available resources, we relied on the work and reports of the Fund's independent certified public accountants rather than conduct financial audits ourselves. To review the reasonableness of the auditors' work and determine the extent to which we could rely on it, we

- interviewed the Fund's officials to obtain information about the Fund's operations, including the maintenance of its financial records and the preparation of its financial statements;
- interviewed the auditors to identify the audit approach used and the methods used to control the quality of audit work;
- obtained information about the qualifications and independence of the auditors;
- reviewed the Fund's financial statements and the auditors' reports for compliance with the reporting requirements of generally accepted accounting principles and generally accepted government auditing standards; and
- reviewed the auditors' workpapers to determine:
 - o the nature, timing, and extent of audit work performed;
 - o whether the audit quality control methods identified by the auditor were actually used;
 - o whether there was a proper study and evaluation of the Fund's internal controls; and

- o whether the auditors tested transactions for compliance with applicable laws and regulations.

We found that the audits were conducted in accordance with generally accepted government auditing standards.

Neither Deloitte Haskins & Sells nor GAO has evaluated the adequacy of the Fund to cover losses arising from oil spills. The Trans-Alaska Pipeline Authorization Act requires that the collection of fees from oil owners cease when \$100 million has been accumulated in the Fund. The Fund accumulated \$100 million in August 1981. At that time, fee collections stopped and have not been resumed. Further, there have been no claim payments from the Fund since it began operations in August 1977.

In the opinion of Deloitte Haskins & Sells, the Fund's financial statements present fairly its net assets available for claims as of December 31, 1983 and 1982, and the changes in net assets available for claims for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. During our reviews, we found nothing to indicate Deloitte Haskins & Sells' opinion on the Fund's 1983 and 1982 financial statements is inappropriate or that it cannot be relied on. The auditors' work did not disclose any material internal control weaknesses or noncompliance with laws and regulations. The opinion, statement on internal controls, statement on compliance with laws and regulations, and the financial statements are in appendix I.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of the Interior, and the Administrator of the Trans-Alaska Pipeline Liability Fund.


Comptroller General
of the United States

**Deloitte
Haskins+Sells**

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Los Angeles, California 90071
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AUDITORS' OPINION**Trans-Alaska Pipeline Liability Fund:**

We have examined the statements of net assets available for claims of the Trans-Alaska Pipeline Liability Fund ("Fund") as of December 31, 1983 and 1982 and the related statements of changes in net assets available for claims for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the net assets available for claims of the Fund at December 31, 1983 and 1982, and the changes in net assets available for claims for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.



April 13, 1984

**Deloitte
Haskins+Sells**

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333 South Grand Avenue
Los Angeles, California 90071
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The Board of Trustees
Trans-Alaska Pipeline
Liability Fund
c/o Union Oil Company of California
Union Oil Center
P. O. Box 7600
Los Angeles, California 90051

April 13, 1984

Attention of Mr. Edwin H. Powell, Chairman

Dear Sirs:

We have examined the financial statements of Trans-Alaska Pipeline Liability Fund ("Fund") for the year ended December 31, 1983 and have issued our report thereon dated April 13, 1984. Our examination included a study and evaluation of the Fund's system of internal accounting control to the extent considered necessary to evaluate the system as required by generally accepted auditing standards and by generally accepted government auditing standards. The purpose of such study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Fund's financial statements. Such study and evaluation is more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The observations reported herein should be considered in the context of the responsibility of management for establishing and maintaining a system of internal accounting control, the objectives of and inherent limitations on such a system, and the definition of a material weakness for purposes of this report, which are described in the Appendix to this report.

Our study and evaluation made for the limited purpose described in the attached Appendix would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Fund taken as a whole. However, our study and evaluation disclosed no condition that we believe is a material weakness.

This report is intended solely for the use of management to satisfy the standards of reporting of Chapter V, paragraph 2.d. of the United States Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and should not be used for any other purpose.

Yours truly,

Deloitte Haskins & Sells

APPENDIX

MANAGEMENT'S RESPONSIBILITY FOR AND THE OBJECTIVES AND LIMITATIONS OF INTERNAL ACCOUNTING CONTROL AND THE DEFINITION OF MATERIAL WEAKNESS

The following comments concerning management's responsibility for internal accounting control, the objectives of and the inherent limitations on a system of internal accounting control, and the definition of a material weakness are excerpts from Statements on Auditing Standards of the American Institute of Certified Public Accountants.

Management's Responsibility

Management is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

Objectives

The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Limitations

Because of inherent limitations in any system of internal accounting control, errors or irregularities nevertheless may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Material Weakness

A material weakness (for the auditor's purpose) is a condition in which the specific control procedures, or the degree of compliance with them, do not (in the auditor's judgment) reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. These criteria may be broader than those that may be appropriate for evaluating weaknesses in accounting control for management or other purposes.

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The Board of Trustees
Trans-Alaska Pipeline Liability Fund
c/o Union Oil Company of California
Union Oil Center
P.O. Box 7600
Los Angeles, California 90051

April 13, 1984

Attention of Mr. Edwin H. Powell, Chairman

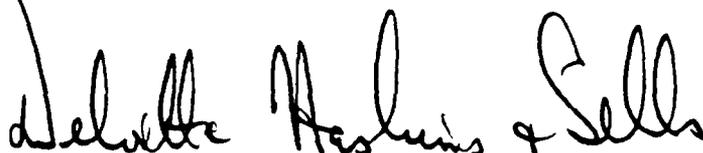
Dear Sirs:

We have examined the financial statements of the Trans-Alaska Pipeline Liability Fund ("Fund") for the year ended December 31, 1983 and have issued our report thereon dated April 13, 1984. Our examination was made in accordance with generally accepted auditing standards and with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with the Trans-Alaska Pipeline Liability Fund Regulations contained in Title 43, CFR Subtitle A, Sections 29.1 through 29.13 established by the United States Department of the Interior ("Regulations"), as we considered necessary in the circumstances.

In our opinion, the Fund complied with the terms and provisions of such Regulations for those transactions tested by us in connection with our examination of the financial statements.

Also, in connection with our examination, nothing came to our attention that caused us to believe that the Fund was not in compliance with the terms and provisions of such Regulations for those transactions not tested. Our examination was not, however, directed primarily toward obtaining knowledge of noncompliance with such Regulations.

Yours truly,



TRANS-ALASKA PIPELINE LIABILITY FUNDSTATEMENTS OF NET ASSETS AVAILABLE FOR CLAIMS
DECEMBER 31, 1983 AND 1982

	<u>NOTES</u>	<u>1983</u>	<u>1982</u>
ASSETS:			
Cash (including savings accounts: 1983, \$30,572; 1982, \$26,617)		\$ 30,572	\$ 60,324
Receivable from sale of investments		<u>14,933,083</u>	
Prepaid insurance		<u>1,905</u>	<u>1,633</u>
Investments	1		
United States obligations		100,094,789	68,037,021
Demand notes, commercial paper, and other short-term notes		27,672,412	50,115,482
Bonds and other long-term notes		<u>17,385,285</u>	<u>13,214,884</u>
Total investments		<u>145,152,486</u>	<u>131,367,387</u>
TOTAL ASSETS		<u>160,118,046</u>	<u>131,429,344</u>
LIABILITIES:			
Payable for purchase of investments		19,344,463	
Accrued administrative expenses		<u>304,740</u>	<u>125,712</u>
TOTAL LIABILITIES		<u>19,649,203</u>	<u>125,712</u>
NET ASSETS AVAILABLE FOR CLAIMS		<u>\$140,468,843</u>	<u>\$131,303,632</u>

See notes to financial statements.

TRANS-ALASKA PIPELINE LIABILITY FUNDSTATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR CLAIMS
FOR THE YEARS ENDED DECEMBER 31, 1983 AND 1982

	<u>1983</u>	<u>1982</u>
INCOME:		
Interest:		
United States obligations	\$ 8,475,738	\$ 7,270,389
Certificates of deposit	521,092	212,548
Other short-term notes	3,064,294	5,490,078
Bonds and other long-term notes	1,756,483	1,851,182
Savings accounts	1,809	3,147
Total interest income	<u>13,819,416</u>	<u>14,827,344</u>
Gain (loss) on sales:		
United States obligations	(3,969,859)	3,571,454
Bonds and other long-term notes	53,588	(2,695,642)
Total income	<u>9,903,145</u>	<u>15,703,156</u>
EXPENSES:		
Investment advisory services	462,788	327,816
Accounting and consulting services	131,069	125,949
Meeting expense	70,565	56,918
Legal services	33,417	22,644
Auditing services	13,500	15,000
Insurance expense	19,232	20,714
Administrative expense	7,363	5,256
Total expenses	<u>737,934</u>	<u>574,297</u>
EXCESS OF INCOME OVER EXPENSES	9,165,211	15,128,859
NET ASSETS AVAILABLE FOR CLAIMS:		
Beginning of the year	<u>131,303,632</u>	<u>116,174,773</u>
End of the year	<u>\$140,468,843</u>	<u>\$131,303,632</u>

See notes to financial statements.

TRANS-ALASKA PIPELINE LIABILITY FUNDNOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The accounts of the Fund are maintained and the financial statements have been prepared on the accrual basis.

Investments - Investments are stated at cost adjusted for amortization of discounts, and after providing an allowance of \$981,305 for loss in market value on United States obligations sold in January 1984. At December 31, 1983, net market value exceeded cost by \$601,707. Accrued interest at December 31, 1983 and 1982 is included in investments.

2. PURPOSE OF THE FUND

The Fund was created by Section 204(c) of the Trans-Alaska Pipeline Authorization Act ("Act") to provide a source of funds to compensate for certain damages resulting from discharges of oil from vessels transporting oil that has been transported through the Trans-Alaska Pipeline to ports under the jurisdiction of the United States. The Fund's operations, which began in August 1977, are governed by regulations issued by the United States Department of the Interior ("Regulations").

Under the Act, the vessel owner and operator are strictly liable (jointly and severally) for the first \$14,000,000 of certain claims arising from any one incident, and the Fund is liable for the excess of such claims over \$14,000,000 and up to \$100,000,000 for each incident.

3. FEE REVENUE

Each oil owner is required to pay to the Fund a five-cent fee for each barrel loaded on vessels at the Trans-Alaska Pipeline terminal at Valdez, Alaska. Payments cease at the end of the month following the month in which net assets of \$100,000,000 (at market) have been accumulated by the Fund from any source and would resume when the market value of net assets falls below \$100,000,000. The market value of the Fund's net assets reached \$100,000,000 in August 1981 and, accordingly, payments ceased subsequent to September 1981.

4. INCOME TAXES

The Fund is a "nonprofit corporate entity" created by Congress and is exempt from Federal, state, and local income taxes.

5. RELATED PARTIES POLICY

In order to avoid conflict of interest or the appearance of conflict of interest, the Regulations provide that any member of the Fund's Board of Trustees must excuse himself or herself from consideration of:

- . any claim presented to the Fund by or on behalf of any person having a close business, personal, or governmental association with such member;
- . any claim presented to the Fund if such claim has previously been presented to a vessel owner or operator having a close business, personal, or governmental association with such member;
- . any action of the Fund which might create a conflict of interest or the appearance of a conflict of interest.

The Fund is prohibited from investing in any securities or obligations of the holders of the pipeline right of way for the Trans-Alaska Pipeline System or their affiliates or of any Fund investment advisor or custodian or their affiliates.

6. TERMINATION OF THE FUND

The Regulations provide that when pipeline operations have terminated, all claims have been disposed of, and the period for filing additional claims has expired, the assets remaining in the Fund will be placed in a temporary trust fund account in the State of Alaska. If this event were to occur, the Regulations further provide that during the next succeeding session of Congress, the Secretary of the Interior will request that Congress provide for final disposition of the Fund.

The United States Congress is considering bills which would create a new oil spill liability fund which would be broader in scope and jurisdiction. Certain of these bills contain provisions which would abolish the Fund.



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