

September 1989

FINANCIAL AUDIT

Trans-Alaska Pipeline
Liability Fund's 1988
Financial Statements



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**Comptroller General
of the United States**

B-208638

September 29, 1989**To the President of the Senate and the
Speaker of the House of Representatives**

This report presents the results of our review of the independent certified public accountants' audit of the Trans-Alaska Pipeline Liability Fund's financial statements as of December 31, 1988. In the auditors' opinion, the Fund's statements are fairly presented in all material respects in accordance with generally accepted accounting principles. The independent auditors' reports on the Fund's internal accounting controls and on its compliance with laws and regulations are also provided.

The Trans-Alaska Pipeline Liability Fund is a nonprofit corporate entity created by the Trans-Alaska Pipeline Authorization Act. The purpose of the Fund is to pay legitimate claims for damages, including cleanup costs, resulting from an oil discharge from a vessel transporting—between the Trans-Alaska Pipeline terminal of the Trans-Alaska Pipeline system and ports under the jurisdiction of the United States—oil that has been transported through the system. The Fund is liable without regard to fault for that increment of damages in excess of \$14 million but not in excess of \$100 million per oil spill incident. The Fund is governed by the U.S. Department of the Interior and administered by a Board of Trustees. Additional information on the organization and the purpose of the Fund is provided in the notes to the financial statements, which are included in this report.

The Trans-Alaska Pipeline Liability Fund contracted with an independent certified public accounting firm, Touche Ross & Co., to perform a financial audit of its 1988 financial statements. Our review of the 1988 audit was made under provisions of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. 1653(c)(4)) and its implementing regulations, which authorizes us to audit the Fund's financial transactions. To fulfill our audit responsibilities, avoid duplication and unnecessary expense, and make the most efficient use of our available resources, we reviewed the independent auditors' work and reports.

We conducted our review of the auditors' work in accordance with generally accepted government auditing standards. To determine the reasonableness of the auditors' work and the extent to which we could rely on it, we

- reviewed the auditors' approach and planning of the audit,
- evaluated the qualifications and independence of the audit staff,
- reviewed the financial statements and auditors' reports to evaluate compliance with generally accepted accounting principles and generally accepted government auditing standards, and
- reviewed the auditors' working papers to determine (1) the nature, timing, and extent of audit work performed, (2) the extent of audit quality control methods the auditors used, (3) whether a study and evaluation was conducted of the Fund's internal controls, (4) whether the auditors tested transactions for compliance with applicable laws and regulations, and (5) whether the evidence in the working papers supported the auditors' opinion on the financial statements and internal accounting control and compliance reports.

In the opinion of Touche Ross & Co., the Trans-Alaska Pipeline Liability Fund's financial statements present fairly the net assets available for claims as of December 31, 1988, and the changes in net assets available for claims for the year then ended, in conformity with generally accepted accounting principles. The 1987 financial statements, which are presented for comparative purposes, were audited by Touche Ross & Co.; however, our review was limited to only fiscal year 1988. Also, Touche Ross & Co.'s reports to the Fund on internal accounting controls and on compliance with laws and regulations did not disclose any material weaknesses or noncompliance with laws and regulations.

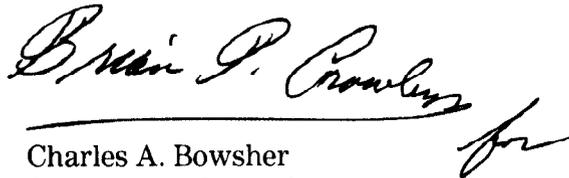
During our review, we found nothing to indicate that Touche Ross & Co.'s opinion on the Fund's 1988 financial statements is inappropriate or cannot be relied on. Nor did we find anything to indicate that the auditors' reports on internal accounting controls and on compliance with laws and regulations were inappropriate or cannot be relied on.

As of August 31, 1989, the Fund has never had to pay a claim since its establishment in 1973. On March 24, 1989, an oil tanker, the Exxon Valdez, owned and operated by the Exxon Shipping Company and loaded with oil from the Valdez terminal, ran aground off the coast of Alaska causing a 240,000 barrel oil spill. The damages related to the spill are estimated to be well in excess of the \$100 million per incident maximum liability, less the \$14 million deductible, as established in the Trans-Alaska Pipeline Authorization Act. The Company and the Fund have agreed, in order to promptly resolve the numerous anticipated claims, that the Company will administer all claims it receives and may subsequently submit claims to the Fund. All claims must be submitted

within 2 years of the event as provided in the act's implementing regulations. As of August 31, 1989, the Company has not filed any claims with the Fund. Fund officials told us that since the act exempts the Fund from liability arising from a claimant's negligence, the Fund intends to contest any claims filed by the Company. Note 4 to the 1988 financial statements discloses this incident as a subsequent event with a potential liability of \$0 to \$86 million.

We believe that the financial statements, together with Touche Ross & Co.'s opinion and our review of that work, provide the Congress with a dependable basis for evaluating the Fund's financial position. This report presents the Fund's financial statements and the auditors' opinion thereon.

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 Chairman of the Board of Trustees of the Trans-Alaska Pipeline Liability Fund.



Charles A. Bowsher
Comptroller General
of the United States

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Auditors' Opinion

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Board of Trustees
Trans-Alaska Pipeline Liability Fund
Los Angeles, California

We have audited the accompanying statements of net assets available for claims of the Trans-Alaska Pipeline Liability Fund (the Fund) as of December 31, 1988 and 1987, and the related statements of changes in net assets available for claims for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for claims of the Trans-Alaska Pipeline Liability Fund as of December 31, 1988 and 1987, and the changes in net assets available for claims for the years then ended, in conformity with generally accepted accounting principles.

Touche Ross & Co.

Certified Public Accountants
April 12, 1989

For the Board of Trustees

Auditors' Report on Internal Accounting Controls

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April 12, 1989

Board of Directors
Trans-Alaska Pipeline Liability Fund
Los Angeles, California

We have completed our audit of the financial statements of the Trans-Alaska Pipeline Liability Fund (the Fund) for the year ended December 31, 1988. As part of our work, we made a study and evaluation of the Fund's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our 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. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Fund 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. 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.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless 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.

Our study and evaluation made for the limited purpose described in the first paragraph 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. Our study and evaluation disclosed no condition that we believed to be a material weakness.

Touche Ross International

**Auditors' Report on Internal
Accounting Controls**



Board of Directors
Trans-Alaska Pipeline Liability Fund
April 12, 1989
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This report is intended solely for the use of management to satisfy the standards of reporting in 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.

Touche Ross & Co.
Certified Public Accountants

Auditors' Report on Compliance With Laws and Regulations

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April 12, 1988

Board of Trustees
Trans-Alaska Pipeline Liability Fund
Los Angeles, California

Dear Sirs:

We have audited the financial statements of the Trans-Alaska Pipeline Liability Fund ("Fund") for the year ended December 31, 1988, and have issued our report thereon dated April 12, 1989. Our audit 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 29.3, .6, .11 and .12 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 audit of the financial statements.

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

Touche Ross & Co.

Certified Public Accountants

Financial Statements

Statements of Net Assets Available for Claims

 Touche Ross

	December 31	
	1988	1987
ASSETS:		
Investments (Note 2):		
United States Government securities	\$103,932,456	\$111,928,309
Commercial paper, variable notes	72,295,093	20,576,941
Mortgage-backed securities	54,925,733	77,928,504
Long-term debentures	7,545,842	5,239,285
Invested cash	4,366,514	8,861,562
Interest receivable	4,077,051	3,063,001
Prepaid expenses	27,192	
Total assets	247,169,881	227,597,602
LIABILITIES - accrued administrative expenses	210,220	173,193
NET ASSETS AVAILABLE FOR CLAIMS	<u>\$246,959,661</u>	<u>\$227,424,409</u>

See notes to financial statements.

Statements of Changes in Net Assets Available for Claims

 Touche Ross

	<u>Year ended December 31</u>	
	<u>1988</u>	<u>1987</u>
NET ASSETS AVAILABLE FOR CLAIMS, beginning of year	\$227,424,409	\$214,566,717
INVESTMENT INCOME:		
Interest income:		
United States Government securities	9,977,486	10,369,273
Mortgage-backed securities	6,016,896	4,625,509
Other short-term investments	3,287,742	2,836,061
Long-term debentures	769,489	1,654,176
Security lending fees	58,200	
Total interest income	20,109,813	19,485,019
Gain (loss) on sale of securities	639,763	(5,537,575)
Total investment income	20,749,576	13,947,444
EXPENSES:		
Investment services	827,220	748,203
Insurance	136,026	129,097
Meeting expenses	68,527	91,836
Accounting and consulting services	33,862	49,363
Legal services	79,299	42,236
Administrative	60,890	22,017
Auditing services	8,500	7,000
Total expenses	1,214,324	1,089,752
INVESTMENT INCOME IN EXCESS OF EXPENSES	19,535,252	12,857,692
NET ASSETS AVAILABLE FOR CLAIMS, end of year	<u>\$246,959,661</u>	<u>\$227,424,409</u>

See notes to financial statements.

Notes to Financial Statements



YEARS ENDED DECEMBER 31, 1988 AND 1987

Note 1 - General Description of the Fund:

The Trans-Alaska Pipeline Liability Fund (the Fund) is a non-profit corporation created by Section 204(c) of the Trans-Alaska Pipeline Authorization Act 43 U.S.C. Section 1653(c)(4), (the TAP Act). The purpose of the Fund is to pay legitimate claims resulting from oil spills from vessels transporting oil through the Trans-Alaska Pipeline System (the TAP System) between Alaskan terminals to ports under United States jurisdiction. The Fund is administered by the Board of Trustees and governed by the United States Department of the Interior.

The Fund is liable for oil spill damages in excess of \$14 million up to \$100 million per incident. The owner and operator of the vessel are jointly and severally liable for the first \$14 million of such claims.

Note 2 - Summary of Significant Accounting Policies:

Valuation of Investments

Investments are stated at cost. At December 31, 1988 and 1987, market value exceeded cost by approximately \$0.5 million and \$1.0 million, respectively. Interest income is accrued as earned. The cost of investment securities sold is determined on the specific identification method.

The Fund is prohibited from investing in securities or obligations of those companies (or their affiliates) who hold the right-of-way to use the Trans-Alaska Pipeline System. The Fund is also prohibited from investing in securities or obligations of any investment advisor or custodian of the Fund or their affiliates.

Fee Income

The Fund is entitled to receive a fee of five cents per barrel of oil loaded on board ships at the Trans-Alaska Pipeline terminal at Valdez, Alaska if and when the market value of the Fund is below \$100 million. The market value of the Fund's net assets has exceeded \$100 million since August 1981.

Expenses of the Fund

All expenses incurred in the administration of the Fund are authorized by the Board of Trustees and paid by the Fund.



YEARS ENDED DECEMBER 31, 1988 AND 1987

(Continued)

Note 3 - Tax Status of the Fund:

The Fund has received favorable determination letters from the Internal Revenue Service and the Franchise Tax Board of the State of California with respect to the tax-exempt status of the Fund.

Note 4 - Subsequent Event:

In March of 1989, an oil tanker loaded with TAP system oil from the Valdez, Alaska terminal facilities ran aground on a reef off the coast of Alaska in the Prince William Sound, causing a 240,000 barrel oil spill. The oil tanker was owned and operated by a Permittee of the TAP system.

The damages resulting from the incident are estimated to be well in excess of the \$100 million per incident maximum liability as established in the TAP Act. The Fund has already been specifically named in several lawsuits associated with the incident. Due to the magnitude of the incident and the complexity as to how the owner/operator's responsibility will be discharged, it is not currently possible to determine if and when funds would be disbursed as a result of any claims. If the Fund is required to pay any amounts, the Fund would have subrogation rights in accordance with the provisions of the TAP Act.

In any event, the Fund's potential liability resulting from the incident ranges from \$0 to \$86 million (\$100 million maximum liability less the initial \$14 million for which the owner/operator is strictly liable) dependent upon the ultimate resolution.

During 1988, the fund was notified of 26 other separate oil spill incidents. No claims have been presented to the Fund due to the insufficient magnitude of each incident. The Fund has not been required to pay any claims since its inception.

Note 5 - Termination of the Fund:

The regulations require that, upon termination of operations of the pipeline, the full disposition of all claims and the expiration of the time for the filing of claims against the Fund, all assets remaining in the Fund shall be placed in a temporary trust fund within the State of Alaska. Should the termination occur, Congress will provide for final disposition of the Fund.

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



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