

Why GAO Did This Study

On April 20, 2010, an explosion of the *Deepwater Horizon* oil rig leased by BP America Production Company (BP) resulted in a significant oil spill. GAO was requested to (1) identify the financial risks to the federal government resulting from oil spills, particularly *Deepwater Horizon*, (2) assess the Coast Guard's internal controls for ensuring that processes and payments for spill-related cost reimbursements and claims related to the spill are appropriate, and (3) describe the extent to which the federal government oversees the BP and Gulf Coast Claims Facility cost reimbursement and claims processes. We issued status reports in November 2010 and April 2011. This is the third and final report related to these objectives. We obtained and analyzed data on costs incurred from April 2010 through May 2011 and claims submitted and processed from September 2010 through May 2011. We reviewed relevant policies and procedures, interviewed officials and staff at key federal departments and agencies, and tested a sample of claims processed and cost reimbursements paid for compliance with internal controls.

What GAO Recommends

GAO is (1) reiterating that Congress may want to consider setting a Fund cap per incident based upon net expenditures, (2) presenting a new matter concerning extending the barrel tax used to finance federal oil spill responses to sustain program funding, and (3) making a recommendation to improve procedures for future significant spills. In responding, the Department of Homeland Security concurred with the recommendation.

View [GAO-12-86](#) or key components. For more information, contact Susan Ragland at (202) 512-8486 or raglands@gao.gov.

DEEPWATER HORIZON OIL SPILL

Actions Needed to Reduce Evolving but Uncertain Federal Financial Risks

What GAO Found

Both the individual circumstances of the *Deepwater Horizon* incident, as well as the overall framework for how the federal government responds to oil spills, present a mix of evolving, but as yet uncertain, financial risks to the federal government and its Oil Spill Liability Trust Fund (Fund). The extent of financial risks to the federal government from the *Deepwater Horizon* is closely tied to BP and the other responsible parties. BP established a \$20 billion Trust to pay for individual and business claims and other expenses. As of May 31, 2011, BP has paid over \$700 million of federal and state government costs for oil spill cleanup. Federal agency cleanup and restoration activities are under way and agencies continue to incur costs and submit them for reimbursement. However, the full extent of these costs, particularly those related to environmental cleanup, may not be fully realized for some time. As cleanup costs continue to mount, it is possible that expenditures from the Fund will reach the \$1 billion total expenditure per incident cap. Expenditures were over \$626 million on May 31, 2011. If these amounts reach the total expenditure cap of \$1 billion, the Fund can no longer be used to make payments to reimburse agencies' costs (or to pay valid individual or business claims if not paid by the responsible parties). At that point, government agencies would no longer be able to obtain reimbursement for their costs. In November 2010, GAO suggested that Congress may want to consider setting a Fund per incident cap based on net expenditures (expenditures less reimbursement), rather than total expenditures. Finally, GAO found the federal government's longer-term ability to provide financial support in response to future oil spills is also at risk because the Fund's primary source of revenue, a tax on petroleum products, is scheduled to expire in 2017.

GAO's testing of the Coast Guard's internal controls over *Deepwater Horizon* claims processed and cost reimbursements processed and paid showed that adjudicated claims processed and costs reimbursed were appropriate and properly documented. In November 2010, GAO made four recommendations regarding establishing and maintaining effective cost reimbursement policies and procedures for the Fund. The Coast Guard changed its operating practices to reflect lessons learned from the initial response to the *Deepwater Horizon* incident, and it has updated its cost reimbursement procedures accordingly. However, the Coast Guard has not yet updated its procedures for processing significant claims, so lessons learned from its experiences processing *Deepwater Horizon* claims could be lost. Capturing lessons learned about processing such claims will be essential should a significant spill occur in the future.

The federal government has used a variety of approaches to oversee BP's and GCCF's cost reimbursement and claims processing. Soon after the *Deepwater Horizon* oil spill, the federal government established a Deepwater Integrated Services Team (IST), which was initially responsible for monitoring BP's claims process, among other things. Subsequently, the oversight of cost reimbursement and claims activities transitioned to the Department of Justice, which continues to lead this and other efforts. In addition, the Department of the Interior and the National Oceanic and Atmospheric Administration are serving as the federal government's representatives for the natural resource trustees in evaluating the environmental impact of the *Deepwater Horizon* spill and selecting and implementing restoration projects to be funded by BP.