

GAO

Report to the Congress

December 1986

FINANCIAL AUDIT

Trans-Alaska Pipeline Liability Fund's Financial Statements for 1985



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**Comptroller General
of the United States****B-208638**

December 15, 1986

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 accountant's audit of the calendar year 1985 financial statements of the Trans-Alaska Pipeline Liability Fund. We found the audit was conducted in accordance with generally accepted government auditing standards and we found nothing to indicate that the auditors' opinion is inappropriate or cannot be relied on. We did not review the auditors' work pertaining to the Trans-Alaska Pipeline Liability Fund's calendar year 1984 financial statements.

The Trans-Alaska Pipeline Liability Fund is a nonprofit corporation created by section 204(c) of the Trans-Alaska Pipeline Authorization Act, 43 U.S.C. 1653(c)(4). The purpose of the Fund is to pay legitimate claims resulting from oil spills from vessels loading or unloading oil which is transported through the Trans-Alaska Pipeline between Alaskan terminals to ports under the United States jurisdiction. The Fund is governed by the United States 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 contracts with a public accounting firm for an annual audit of its financial statements. Touche Ross & Co. audited the Fund's 1985 financial statements. Our review of the 1985 audit was made under provisions of the Trans-Alaska Pipeline Authorization Act (43 U.S.C. 1653(c)(4)), which authorizes the General Accounting Office to audit the Fund's financial transactions. In order to fulfill our audit responsibilities, to avoid unnecessary duplication and expense, and to make the most efficient use of our available resources, we reviewed the calendar year 1985 work and report of the independent certified public accountant.

Our review was conducted 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

- interviewed Fund officials to obtain information about the Fund's operations, including its systems of financial records and the preparation of its financial statements;

- interviewed the auditors to identify the audit approach and the methods used to control the quality of audit work;
- evaluated information about the qualifications and independence of the auditors;
- reviewed the Fund's financial statements and the auditors' reports for 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 used by the auditors; (3) whether there was a study and evaluation 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.

Touche Ross Report

The Fund contracted with Touche Ross & Co. for calendar years 1984, 1985, and 1986 to conduct the audits of the Fund in accordance with generally accepted government auditing standards, which include separate reports on the evaluation of internal accounting controls and on compliance with laws and regulations.

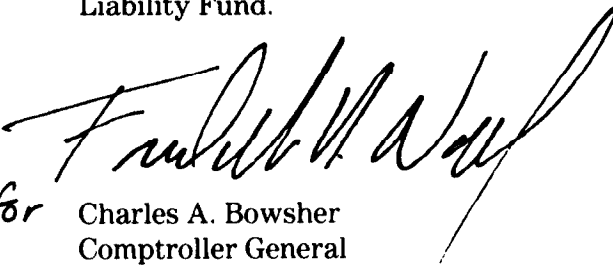
In the opinion of Touche Ross & Co., the Trans-Alaska Pipeline Liability Fund's financial statements present fairly its net assets available for claims as of December 31, 1985, and the changes in net assets available for claims for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Touche Ross & Co.'s work did not disclose any material internal accounting control weaknesses or noncompliance with laws and regulations.

Conclusions

We found nothing to indicate that the independent auditors' opinion on the 1985 financial statements of the liability fund is inappropriate or cannot be relied on. We believe that the financial statements, together with Touche Ross & Co.'s opinion and our review of that work, constitute a dependable basis for the Congress' oversight of the Trans-Alaska Pipeline Liability Fund's financial position.

The comparative financial statements of the Trans-Alaska Pipeline Liability Fund and the auditors' opinion are presented in this report.

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

for 
Charles A. Bowsher
Comptroller General
of the United States

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Financial Statements

Independent Auditors' Opinion

 **Touche Ross**

April 8, 1986

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

We have examined the statements of net assets available for claims of the Trans-Alaska Pipeline Liability Fund (the Fund) as of December 31, 1985 and 1984, 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, the financial statements referred to above present fairly the net assets available for claims of the Fund at December 31, 1985 and 1984, and the related statements of changes in net assets available for claims for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants

Report on Internal Accounting Controls



April 8, 1986

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

We have completed our examination of the financial statements of the Trans-Alaska Pipeline Liability Fund for the year ended December 31, 1985. As a part of our work, we made a study and evaluation of the Company'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 Company'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 Trans-Alaska Pipeline Liability 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 are 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 Trans-Alaska Pipeline Liability Fund taken as a whole. Our study and evaluation disclosed no condition that we believed to be a material weakness.



Board of Trustees
Trans-Alaska Pipeline Liability Fund
April 8, 1986
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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.

Touche Ross & Co.
Certified Public Accountants

Report on Compliance With Laws and Regulations



April 8, 1986

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

Dear Sirs:

We have examined the financial statements of the Trans-Alaska Pipeline Liability Fund ("Fund") for the year ended December 31, 1985, and have issued our report thereon dated April 8, 1986. 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 29.3, .6, .7, .11, .12 and .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.

Touche Ross & Co.
Certified Public Accountants

Statements of Net Assets Available for Claims

△ Touche Ross

TRANS-ALASKA PIPELINE LIABILITY FUND

STATEMENTS OF NET ASSETS AVAILABLE FOR CLAIMS

	<u>December 31</u>	
	<u>1985</u>	<u>1984</u>
ASSETS:		
Investments (Note 2):		
United States Government securities	\$106,380,384	\$ 97,316,221
Commercial paper, variable notes	32,357,648	
Long-term debentures	18,987,665	40,236,560
Mortgage-backed securities	15,842,122	
Invested cash	3,494,592	21,728,636
Interest receivable	3,287,193	3,067,682
Prepaid insurance		<u>1,764</u>
Total assets	<u>180,349,604</u>	<u>162,350,863</u>
LIABILITIES:		
Payable for purchase of investments		7,486,725
Accrued administrative expenses	<u>138,654</u>	<u>142,396</u>
Total liabilities	<u>138,654</u>	<u>7,629,121</u>
NET ASSETS AVAILABLE FOR CLAIMS	<u>\$180,210,950</u>	<u>\$154,721,742</u>

See notes to financial statements.

Statements of Changes in Net Assets Available for Claims


TRANS-ALASKA PIPELINE LIABILITY FUNDSTATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR CLAIMS

	<u>Year ended December 31</u>	
	<u>1985</u>	<u>1984</u>
NET ASSETS AVAILABLE FOR CLAIMS, beginning of year	\$154,721,742	\$140,468,843
INVESTMENT INCOME:		
Interest income:		
United States Government securities	11,772,054	7,985,110
Other short-term investments	2,141,818	2,810,470
Mortgage-backed securities	2,006,320	2,417,098
Long-term debentures	1,435,110	3,464,356
Certificates of deposits	79,625	
Savings account		3,898
Total interest income	17,434,927	16,680,932
Gain (loss) on sales:		
United States Government securities	8,845,928	(1,046,845)
Long-term debentures		(643,870)
Total gain (loss) on sales	8,845,928	(1,690,715)
Total investment income	26,280,855	14,990,217
EXPENSES:		
Investment services	596,332	522,468
Meeting expenses	63,161	62,997
Accounting and consulting services	49,324	80,258
Insurance	37,539	18,757
Legal services	25,923	24,428
Administrative	12,368	14,410
Auditing services	7,000	14,000
Total expenses	791,647	737,318
INVESTMENT INCOME IN EXCESS OF EXPENSES	25,489,208	14,252,899
NET ASSETS AVAILABLE FOR CLAIMS, end of year	<u>\$180,210,950</u>	<u>\$154,721,742</u>

See notes to financial statements.

Notes to Financial Statements



TRANS-ALASKA PIPELINE LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

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 purpose of the Fund is to pay legitimate claims resulting from oil spills from vessels transporting oil through the Trans-Alaska Pipeline System between Alaskan terminals to ports under the 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 is jointly and severally liable for the first \$14 million of such claims.

During 1985, the Fund was notified of three oil spill incidents. No claims had 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 2 - Summary of Significant Accounting Policies:

Valuation of Investments

Investments are stated at cost. At December 31, 1985 market value exceeded cost by approximately \$13 million. Dividend and interest income are 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.



TRANS-ALASKA PIPELINE LIABILITY FUND

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1985 AND 1984

(Continued)

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.

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 - Termination of the Fund:

The regulations state 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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