

United States General Accounting Office Washington, DC 20548

October 3, 2003

The Honorable Lane Evans Ranking Minority Member Committee on Veterans Affairs House of Representatives

The Honorable Bob Filner Ranking Minority Member Subcommittee on Coast Guard and Maritime Transportation Committee on Transportation and Infrastructure House of Representatives

The Honorable Corrine Brown House of Representatives

Subject: U.S. Coast Guard National Pollution Funds Center: Claims Payment Process Was Functioning Effectively, but Additional Controls Are Needed to Reduce the Risk of Improper Payments

The Oil Spill Liability Trust Fund (Fund) is a \$1 billion fund authorized by the Oil Pollution Act of 1990 (OPA) to pay for (1) federal removal actions, (2) certain claims for uncompensated removal costs and damages, and (3) natural resource damage and restoration activities resulting from oil spills or the substantial threat of oil spills to the waters or shorelines of the United States. The Fund is administered by the National Pollution Funds Center (NPFC) of the U.S. Coast Guard. In May 2002, at your request, our Office of General Counsel reported on legal issues and limitations of the Fund and concluded that certain administrative costs were inappropriately being paid out of the Fund. In light of this conclusion, you asked that we review the internal controls over disbursements from the Fund.

This report summarizes the information provided during our briefing on our review of claim payments made from the Fund, which was provided to your staff on September 17, 2003. A second briefing will be provided to your staff on the results of our review of controls over operating expenses and other disbursements from the Emergency Fund.<sup>1</sup> The enclosed briefing slides highlight the results of our work and the information provided. Specifically, we reviewed the Fund to determine whether

<sup>&</sup>lt;sup>1</sup>The Emergency Fund is used to pay for emergency removal activities and the initiation of natural resource damage assessments.

(1) the design of internal controls over the claims process provides reasonable assurance that improper payments will not occur or will be detected in the normal course of business and (2) internal controls over the claims process are operating as designed to help ensure proper payment of claims.

## **<u>Results in Brief</u>**

The U.S. Coast Guard NPFC follows a systematic and effective process for payment of claims. However, there are some weaknesses in the design of internal controls over the claims process that expose the Fund to improper payments. The weaknesses in the design of controls include (1) ineffective access restrictions to the Authorization-to-Pay<sup>2</sup> (ATP) form, (2) lack of segregation of duties between individuals preparing and approving ATPs for payment, (3) lack of procedures to verify the validity of ATPs prior to payment by the U.S. Coast Guard Finance Center, (4) lack of compliance with certain established policies and procedures in the claims process and the claims processing system, and (5) inadequate documentation of the originator of actions in the claims processing system.

We found that existing internal controls related to the documentation and approval of claims were generally operating in accordance with established policies and procedures. Of the 88 statistically sampled paid claims for fiscal year 2002, all but 3 had adequate documentation.<sup>3</sup> We found no exceptions with approvals for the 88 statistically sampled claims. We also found that all 88 claims met NPFC's 10 requirements for validity, as listed in appendix I of the attached slides. Through data mining, <sup>4</sup> we selected a nonstatistical sample of 50 claim payments and 8 denied claims for fiscal years 1998 through 2002 and performed limited tests to determine if the claims payments were valid and if the denied claims were properly processed. While we found some documentation and approval issues, we found that the 50 claim payments were valid and that the 8 denied claims were properly processed.

## **Recommendations for Executive Action**

To improve the design of internal controls over the claims process, we recommend that the Commandant of the U.S. Coast Guard direct the Director of the National Pollution Funds Center to

- require automatic control numbers for each ATP form;
- limit access to the ATP form control numbers to one individual and an alternate in each claims division;
- require two signatures on each ATP form, one for the preparer and one for the approver;

<sup>&</sup>lt;sup>2</sup>An ATP is a form used to approve claim payments and generate the payments to claimants. <sup>3</sup>Based on these results, we estimate that 3.4 percent of the fiscal year 2002 paid claims lacked adequate documentation. We are 95 percent confident that the error rate was between 1 to 9 percent for claims paid in fiscal year 2002.

<sup>&</sup>lt;sup>4</sup>Data mining applies a search process to a data set, analyzing for trends, relationships, and interesting associations. For instance, it can be used to efficiently query transaction data for characteristics that may indicate potentially improper activity.

- establish procedures requiring the National Pollution Funds Center to authenticate ATP forms prior to submitting them to the U.S. Coast Guard Finance Center for payment;
- establish and implement controls so that any required legal reviews of claims are completed before they are approved for payment;
- establish and implement controls to ensure that a release form is received from a claimant before a claim can be approved for payment; and
- modify the claims processing system to consistently identify the originator of all actions on user screens.

We also recommend that the Commandant of the U.S. Coast Guard direct the Chief Financial Officer of the U.S. Coast Guard to require that the Finance Center verify the validity of ATP forms prior to processing claim payments.

## Agency Comments

We obtained oral comments on a draft of our briefing slides from the U.S. Coast Guard. U.S. Coast Guard officials agreed with our findings and recommendations and stated that they have already begun to take corrective actions to implement many of them and will continue to take additional actions as soon as possible to address the remaining recommendations. They provided us with a detailed list of actions taken or to be taken, which if properly implemented, should address our recommendations. U.S. Coast Guard officials also provided technical and clarifying comments that we incorporated as appropriate.

## Scope and Methodology

To determine whether the design of internal controls over the claims process provided reasonable assurance that improper payments would not occur or would be detected in the normal course of business, we (1) reviewed OPA and related sections of the Code of Federal Regulations, (2) reviewed the Comptroller General's *Standards for Internal Control in the Federal Government*,<sup>5</sup> (3) reviewed NPFC's *Standard Operating Procedures* related to the claims process, and (4) performed walkthroughs of the claims process, including the claims processing system, and compared the results to NPFC's *Standard Operating Procedures* and the Comptroller General's *Standards for Internal Control in the Federal Government*.

To determine if internal controls over the claims process were operating as designed to ensure proper payments of claims, we selected a statistical sample of 88 paid claims for fiscal year 2002, and reviewed the related claim files and the claims processing system records to test for adequate documentation, proper approvals, and validity. To test for validity, we also performed limited data mining of claims paid in fiscal years 1998 through 2002 to identify unusual transactions and patterns. Based on the data mining, we selected a nonstatistical sample of 50 claim payments and 8 denied claims, reviewed the related documentation, and performed limited tests.

<sup>&</sup>lt;sup>5</sup>U.S. General Accounting Office, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3 (Washington, D.C.: November 1999).

We requested comments on a draft of the enclosed briefing slides from the Commandant of the U.S. Coast Guard or his designee and have included any comments as appropriate in the letter and enclosed slides. We conducted our work from December 2002 through July 2003, in accordance with generally accepted government standards.

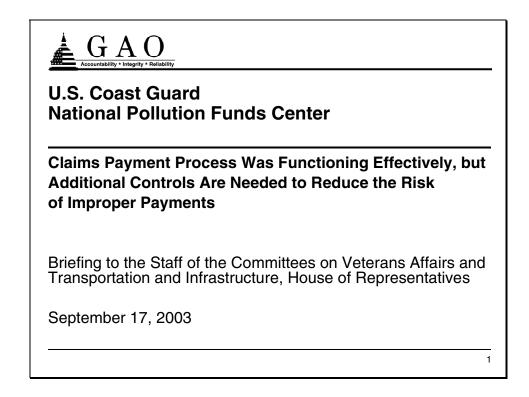
This report is available at no charge on our home page at <u>http://www.gao.gov</u>. If you have any questions about this report, please contact me at (202) 512-9508 or Rosa R. Harris, Assistant Director, Financial Management and Assurance, at (202) 512-9492. You may also reach us by e-mail at <u>calboml@gao.gov</u> or <u>harrisrr@gao.gov</u>. Additional contributors to this assignment were H. Donald Campbell, Lisa J. Crye, and Edward F. Tanaka.

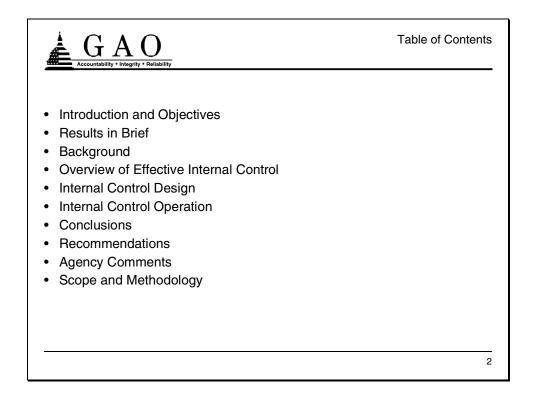
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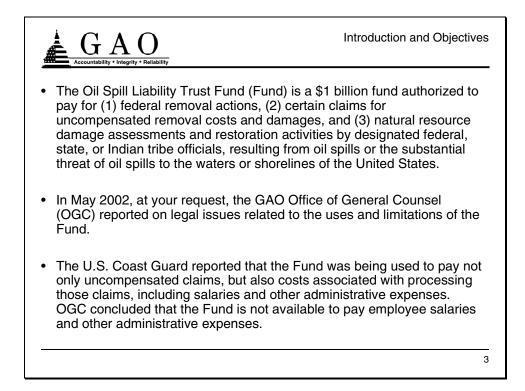
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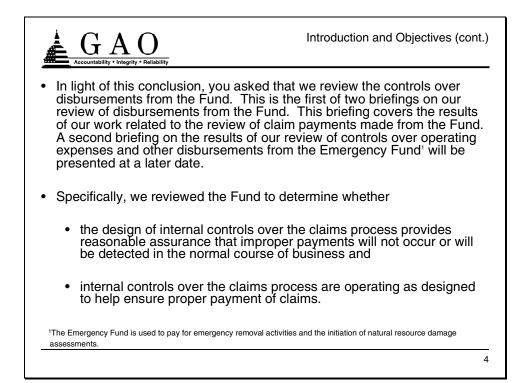
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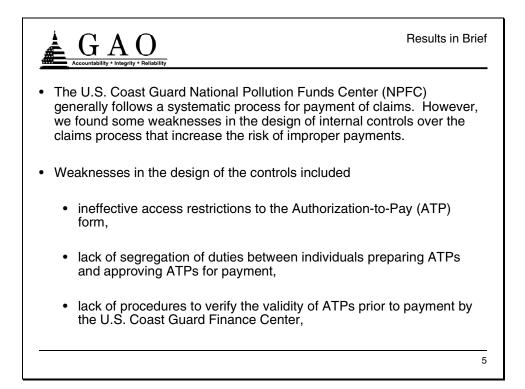
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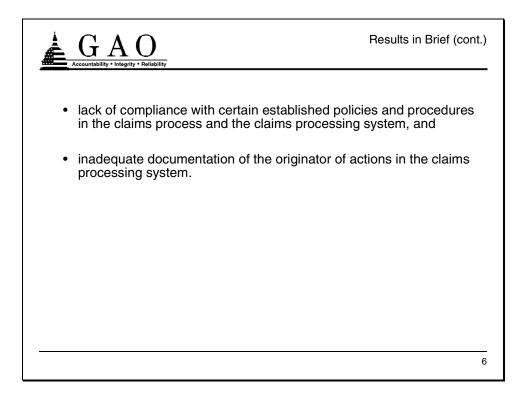


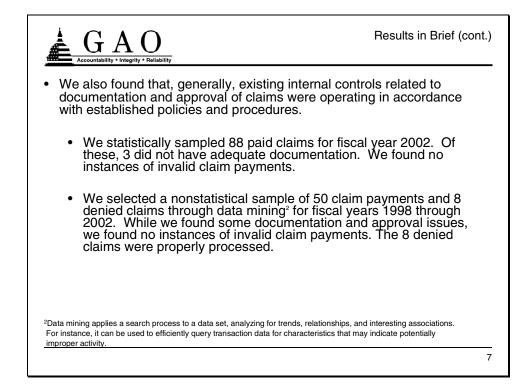


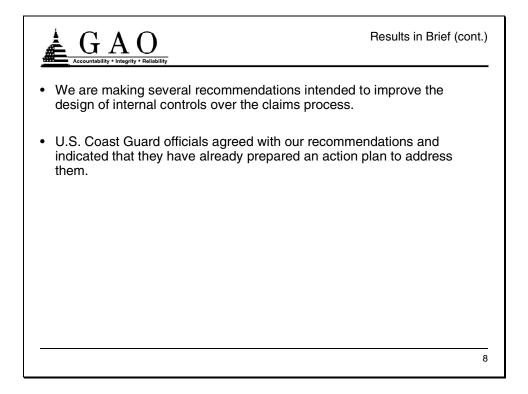


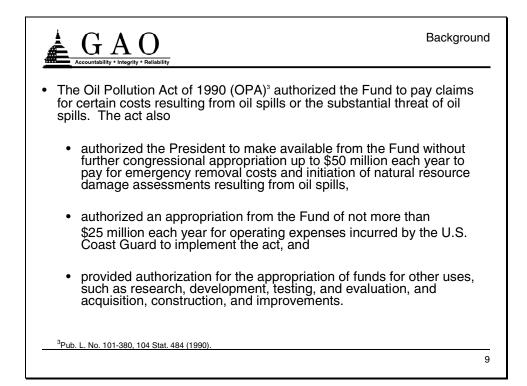


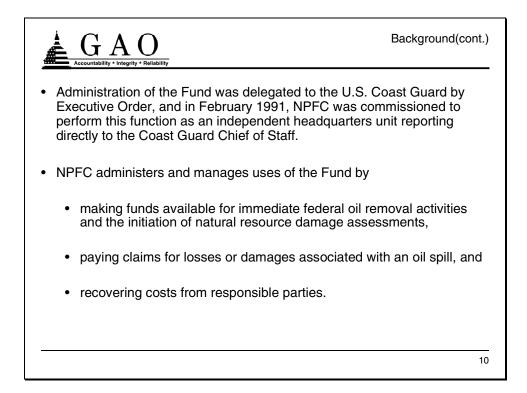


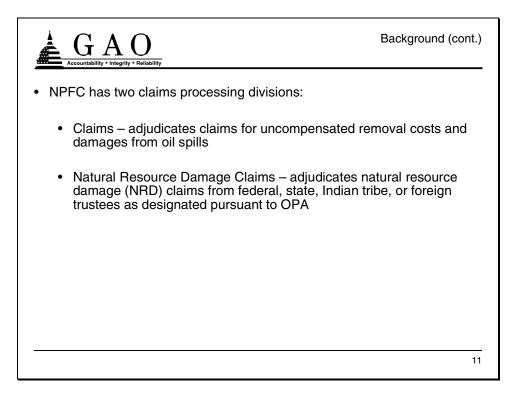














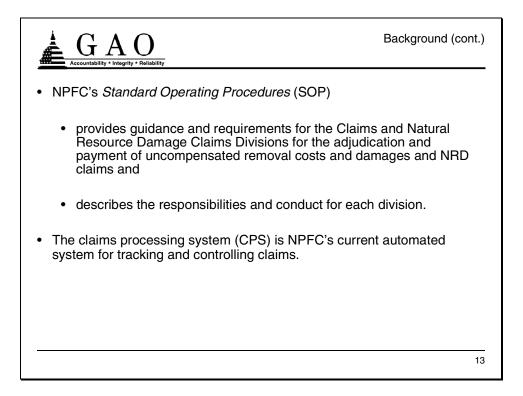
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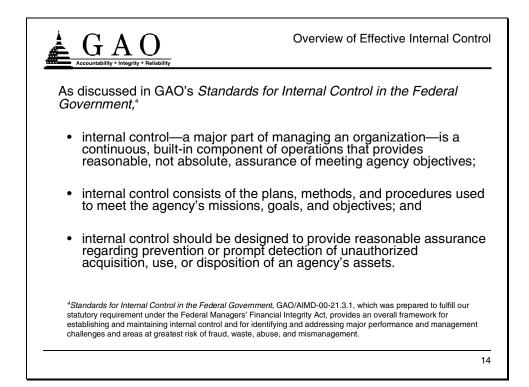
Claims paid in fiscal years 1998 through 2002

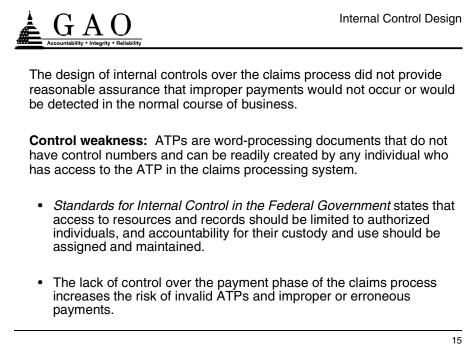
Fiscal year	Number of paid claims	Total dollars (millions)
1998	598	\$ 3.7
1999	507	10.4
2000	601	2.4
2001	311	16.8
2002	300	7.0
Totals	2,317	\$ 40.3

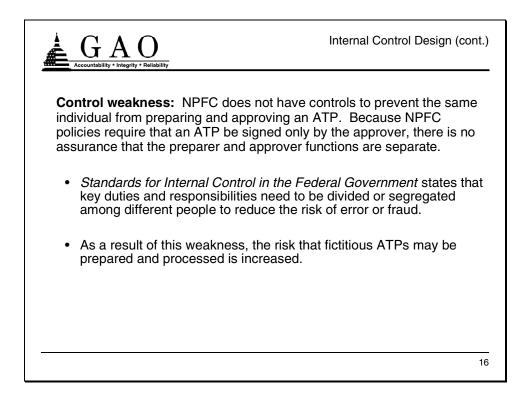
Source: NPFC's data file for fiscal years 1998 through 2002.

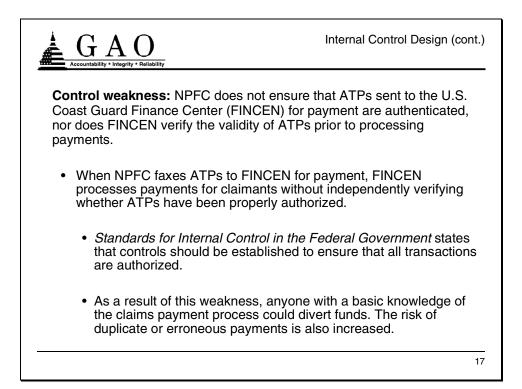
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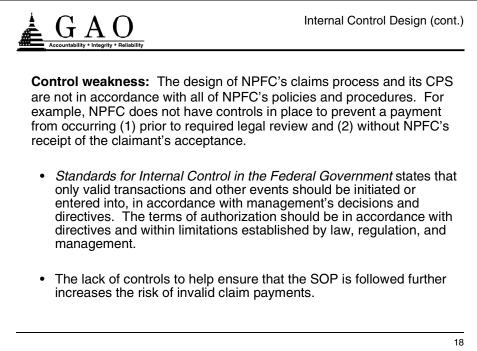


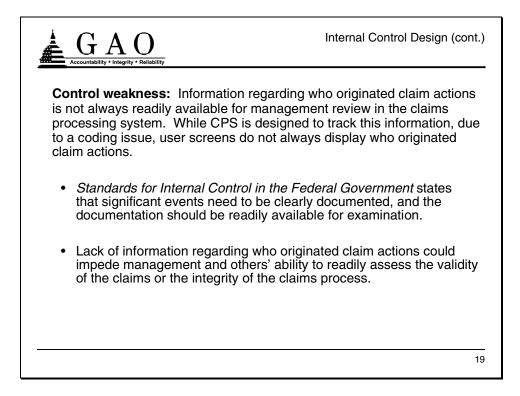


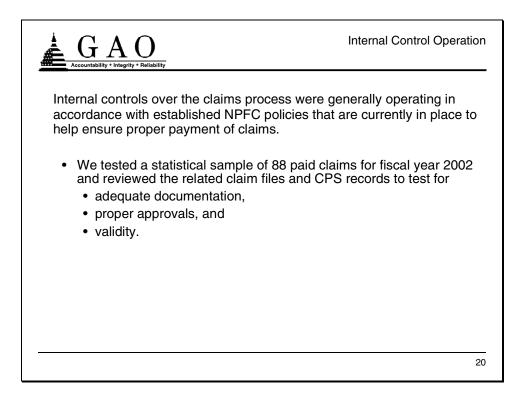


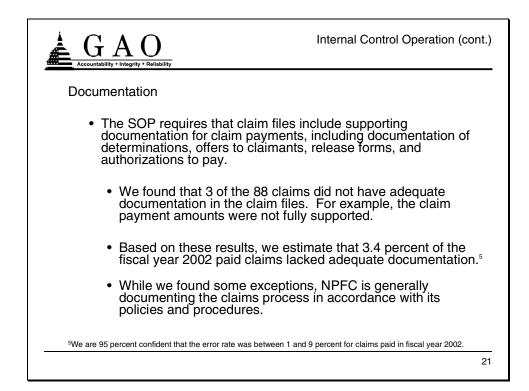


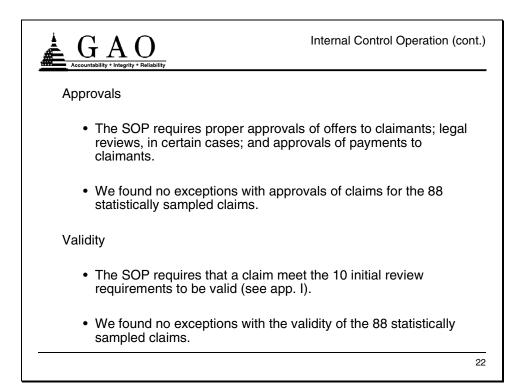


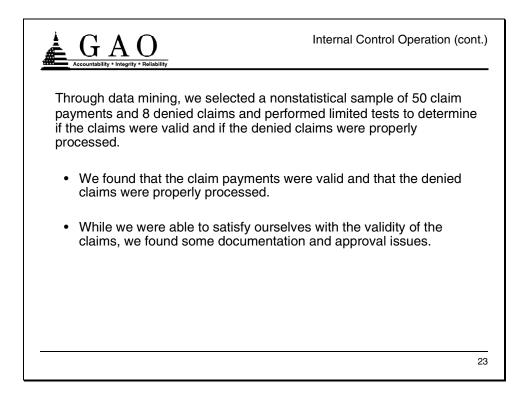


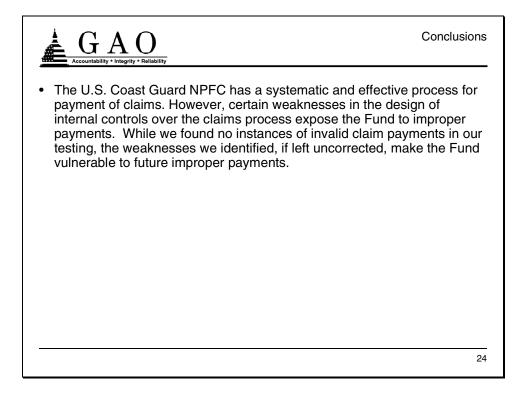


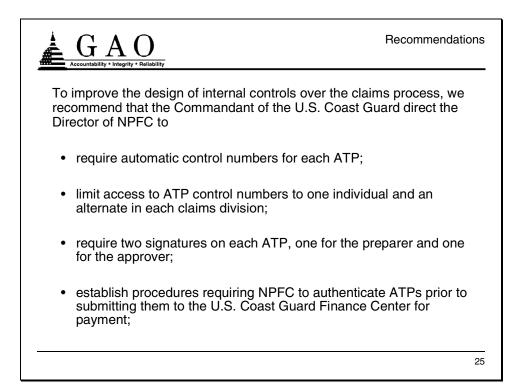


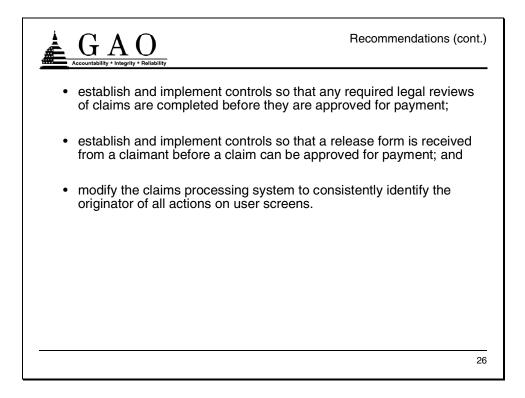


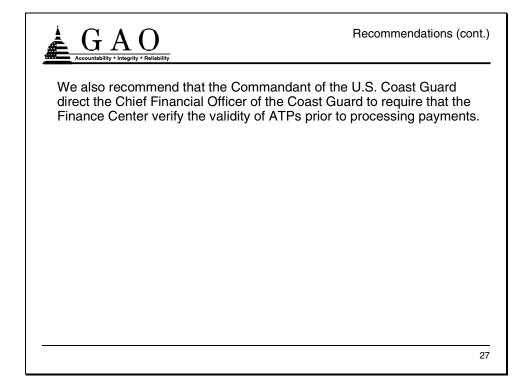


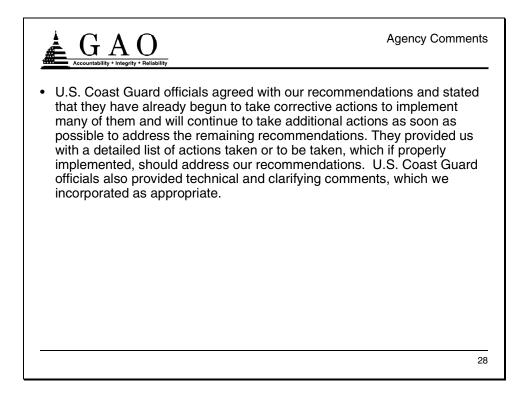


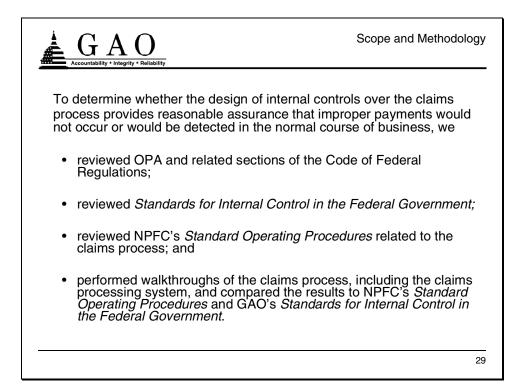


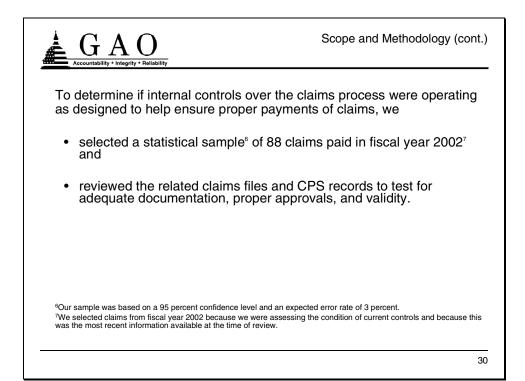


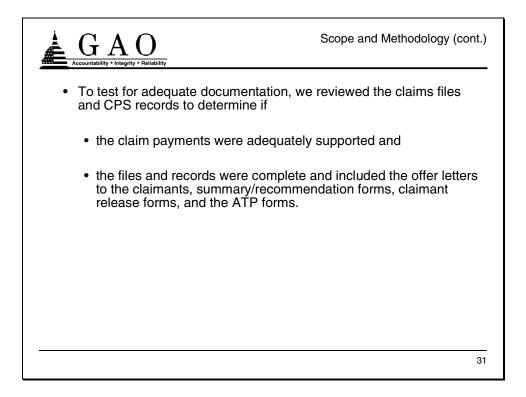


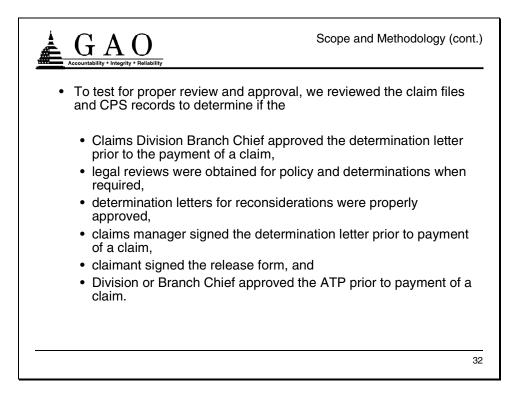


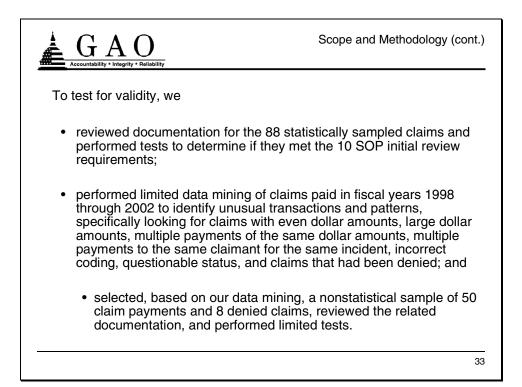


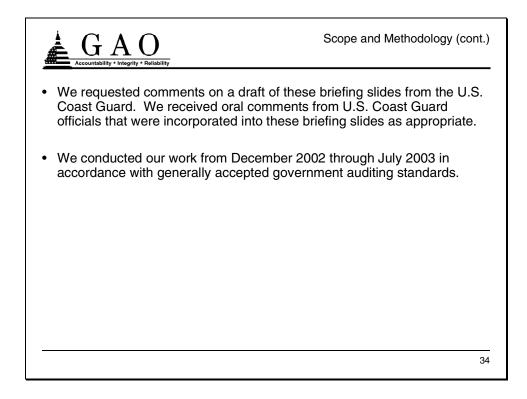


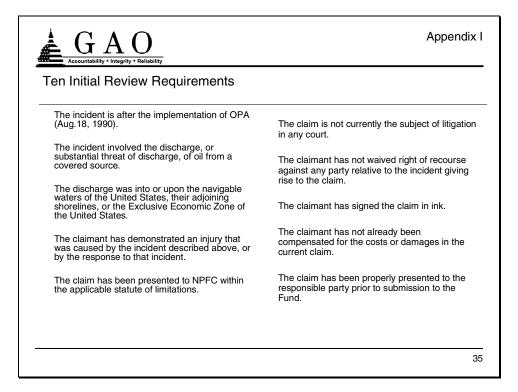












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