Tracking and verifying company payments to Government agencies in the U.S. extractive industries

A goal of USEITI is to support transparency in extractive industries’ payments to the United States Federal Government. Extractive industries Companies (such as oil & gas or mining Companies) and the U.S. Government are subject to extensive laws and regulations that guide the process for receiving payments. The five most relevant topics surrounding payments include:

1. Standards
2. Payment and Collection
3. Data Validation and Audits
4. Revenue Disbursements
5. Publication and Disclosure

This document contains information about how payments and revenues are recorded and verified in the extractive industries in the U.S. This includes the types of revenues Companies are required to pay and the statutes providing authority to the U.S. Government to collect them. Likewise, it illustrates where these payments are recorded, how they are verified, and how they are publicized.

Links below provide additional information on key standards, processes, and agencies that support transparency in extractive industries’ payments. The end notes contain additional detail on key terms, supporting laws, and regulations.
Tracking company payments to the U.S. Government

This page highlights current processes for tracking payments from Companies to U.S. Government agencies, as well as the systems in place to verify accuracy of payment data.

Standards

Standards govern the ecosystem of payments in the extractive industry. Professional associations and Government agencies create and update standards that are used by internal and external parties. Even before payments are made, standards influence Company and agency behavior.

Payments & Collection

Extractive industries payments include: Taxes, Royalties, Rents, Bonuses, and Fees.

Several U.S. agencies are tasked with managing and collecting revenue from Companies, including some who focus primarily on the extractive industries.

Data Validation & Audits

Numerous laws and regulations require Companies and Government agencies to assure the accuracy of reported payment data. Reporting standards and third-party auditors validate payment data. This includes audits of financial statements.

Revenue Disbursement

Revenues from natural resource extraction are disbursed to a variety of end recipients across the U.S.

Data Publication

The U.S. Government must balance mandates requiring broad transparency with legal limits on data publication. For example, certain data that are determined to be harmful to a company’s competitiveness is exempt from publication.

Laws in the U.S. and other jurisdictions require Companies to publish certain data in Securities and Exchange Commission (SEC) filings and other financial reports.
STANDARDS

Standard-setting bodies monitor, regulate, and update audit and controls requirements

There are rigorous standards that Companies and the U.S. Government must follow to ensure revenue payments and collections are verifiable. The U.S. legal code contains penalties for inaccuracies. Professional associations and Government entities produce audit and control standards for both Companies and Government agencies, protecting shareholders and taxpayers from malfeasance and abuse. Standards are important for assurance as detailed results of company audits may or may not be publically available. The indication of a passed or failed audit sufficiently demonstrates strong or weak data validation and reporting practices because of the standards auditors follow. Government audit results are publically disclosed on an annual basis.

How It Comes Together

Professional Associations & Government Entities
- Create and update professional standards

Professional Standards
- Govern third-party auditors’ actions

Third-Party Auditors
- Ensure company and government payment accuracy
- Serve on Professional Associations

Controls, Accounting, and Audit Standards

1 Companies
Controls
Companies follow standards when reporting tax and non-tax payments:
- Sarbanes-Oxley Act
- Internal Revenue Code of 1986

Accounting & Audit
- GAAP
- Investment Company Act
- GAAS
- IRS
- Third-party Auditors

2 U.S. Government
Controls
The U.S. Government follows standards governing and requiring financial transparency and revenue reporting:
- OMB Circular No. A-123
- Chief Financial Officers Act of 1990
- U.S. GAO Green Book

Accounting & Audit
- Yellow Book – GAGAS
- OMB Bulletin 14-02
- GAAP

Standard-setting bodies & standards supporting data accuracy

Standard-setting bodies shape the requirements for Companies and Government agencies. Prior to the Sarbanes-Oxley Act of 2002, the auditing profession was self-regulated.

Companies
- CPA
- GAAP
- GAAS

Government Agencies
- IRS
- OMB Circular A-123
- Legislation – Sarbanes-Oxley

Enhances corporate responsibility, financial disclosures, and combats fraud.
In the U.S., payments come in two types: non-tax and tax

Companies are required to make certain payments to the U.S. Government in order to do business on Federal land. This begins with payment of bonus bids for a lease to obtain the rights to look for oil, gas, or minerals, and moves through paying rents and royalties as Companies extract resources. The USEITI focuses on corporate income taxes, although businesses and their individual owners pay other types of taxes that do not need to be reported.

A number of U.S. Government agencies are involved in the process of collecting these payments. Several different agencies collect non-tax payments depending on the type of payment, the location of exploration and production, and the type of resource being extracted. These include: Department of the Interior’s Office of Natural Resources Revenue (ONRR), the Bureau of Land Management (BLM), and the Office of Surface Mining Reclamation and Enforcement (OSMRE). The Internal Revenue Service (IRS) is responsible for collecting (corporate) income taxes. Corporations pay Federal corporate income taxes regardless of whether they extract natural resources from Federal, State, or privately held lands, inside or outside of the United States, so long as they have a tax liability.

### Tax and Non-Tax Payments & Management in the U.S.

#### PAYMENTS

1. Non-Tax Payments
   - Applicable laws & regulations
     - Mineral Leasing Act of 1920
     - Outer Continental Shelf Lands Act of 1953
     - Federal Oil & Gas Royalty Management Act (FOGMA) of 1982
   - Payment Types
     - Abandoned Mine Land Fees
     - Bonuses
     - Fees
     - Penalties

2. Corporate Income Tax Payments
   - Applicable laws & regulations
     - Internal Revenue Code of 1986— the portion of Federal tax law, requires public and non-public Companies to pay corporate income tax
   - Payment Types
     - Corporate Income Tax
DATA VALIDATION AND AUDITS

Prior to publication, different revenue payments are verified by high levels of internal and external scrutiny.

Standards, controls, and audits play an integral role in data validation. Some standards relate to controls (such as those listed above), while others subject data to additional management—primarily via independent audits.

Controls are the first step to ensure data validation, and are particularly important for Companies as most data is not publicly available even once validated and reported to the Government. These controls help Companies report correct data on the first attempt, as Companies are subject to penalties if found incorrectly calculating or reporting payments.

Audits are designed to ensure that the appropriate controls are in place at both Companies and Government agencies. They are also intended to validate that the proper payments occur. Internal and external auditors work in concert with Companies and the IRS to make sure that payment data is correct.

Data Validation & Audits

1. Companies

Transaction Audits
Government agencies conduct audits of company production and specific payments:

- ONRR xxvi
  Examine company records to ensure accuracy of reporting and payments
- BLM xxvii
  Verify production, permits, conduct onsite inspections
- IRS xxviii
  Audit company tax returns

System Audits
Companies are also subject to audits of their internal systems (i.e. accounting) to ensure they comply with standards:

2. U.S. Government

Transaction Audits
Federal agencies have Offices of Inspector Generals that perform audits which are publicly listed on websites. This is in addition to the audits that GAO performs at agencies. Federal agencies are also scrutinized by the independent State and Tribal agencies that perform audits on Federal production within States or Tribal lands.

Click here for more information

System Audits
The U.S. Government is subject to third-party audits to ensure that agencies follow their own standards. Some audits are routine, and some are ad hoc in response to events:

Third-party Auditors
Click here for the latest GAO Audit
Once revenues are collected and verified, they are disbursed to a variety of end recipients.

The Office of Natural Resources Revenue (ONRR) is responsible for collecting, disbursing, and verifying Federal and Indian energy and other natural resource revenues on behalf of all Americans. In FY 2015, ONRR disbursed over $9.87 billion to the U.S. Treasury, various State and Indian accounts, and special use accounts, such as the Reclamation Fund. ONRR disbursed these amounts in accordance with legislated formulas.

Every American benefits from the revenues generated from mineral resources, either directly through payments to Tribes and Individual Indian Mineral Owners (IIMOs) or indirectly through payments to the Historic Preservation Fund, the Land and Water Conservation Fund, the Reclamation Fund, States, and the General Fund of the U.S. Treasury.

Government Revenue Disbursement

For more information on Federal disbursement of extractive industries revenue, and to see historical disbursement data, click here.

1 State Recipients

States which have natural resource extraction receive revenue disbursements from ONRR. 37 States received revenue payments in 2015. The $1.84 billion mineral revenues disbursed to States can be a significant element of a State’s financial resource picture, providing funding for local schools, roads, libraries, public buildings, and general operations, as the States deem necessary.

2 Federal Accounts

Mineral leasing revenues are one of the U.S. Government’s greatest sources of non-tax receipts. ONRR disburses revenues directly to the U.S. Treasury as well as several other Federal beneficiaries.

- **U.S. Treasury General Fund**: $4.75 Billion, funding various Government functions and programs through the General Fund of the U.S. Treasury.
- **Bureau of Reclamation**: $1.39 Billion, funding a significant portion of water resource development and maintenance work in the western United States.
- **Land and Water Conservation Fund**: ONRR transfers nearly $900 million annually to be used by Federal, State, and local Governments to help acquire, develop, and improve outdoor recreation areas.
- **Indian Tribes and Indian Mineral Owners**: $853 million collected from mineral leases on Indian lands are distributed regularly to Tribal Governments or IIMOs. These funds provide direct and tangible benefits to thousands of individuals, often as a major source of primary income.
- **National Historic Preservation Fund**: ONRR annually transfers $150 million to NHPF as seed money to preserve and protect our Nation’s irreplaceable heritage for current and future generations.
Payments (non-tax and tax) from Companies to the Government are closely monitored in the U.S. However, not all the data is made available to the public.

Section 13(q) of the **Securities Exchange Act** requires extractive industry Companies registered with the SEC to publish payment data. In addition, other jurisdictions require Companies to publish extractive payments to governments including those applicable to U.S. activities. U.S. legislation found in the 2010 **Dodd-Frank Act** will require extractives Companies to publicize revenue payments data. Some Companies do voluntarily publish data in order to promote transparency in the sector.

Different regulations compel the U.S. Government to publicize information. However, the U.S. Government is limited in the amount of data it can disclose by law. As a result, the Government publishes mostly **aggregated figures**—thus allowing it to disclose the amount of payments it received without publishing privileged or competitive information.

**Government Payment Reporting**
The U.S. Government publishes aggregate information in as much detail as allowable by law.

**Applicable laws & regulations**
The U.S. Government is subject to numerous laws governing data publication, including:

- Federal Financial Management Improvement Act of 1996 – Ensures Federal financial management systems provide accurate, reliable, and timely information to Government managers
- Government Management Reform Act of 1994 – Requires the audited agency financial statements that cover all accounts and activities of Government agencies
- 26 U.S. Code § 6103 – Requires confidentiality of tax returns and return information
- 18 U.S. Code § 1905 – Punishes disclosure of proprietary information by a Government employee
- Privacy Act of 1974 – Precludes the IRS from gathering information that is not used for tax administration purposes

**Company Payment Reporting**
U.S. Companies’ reporting requirements are different for public and non-public Companies; some Companies publish more data than legally required on a voluntary basis.

- **Public Companies** are required to file financial reports with the SEC.
  - Annual Disclosure:
    - Form 10-K
    - Form 20-F
    - Form 40-F
  - Quarterly Disclosure
    - Form 10-Q

- **Non-public Companies** typically use GAAP or GAAS to generate financial reports, but are not required to publicly disclose the financial or operational data.

Section 13(q) of the Securities Exchange Act requires extractive industry Companies registered with the SEC to publish payment data.
The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) requires monthly distribution and disbursement of payments to the Government for mineral leasing revenues and authorizes penalties for violations. The distribution and disbursement functions within ONRR ensure proper distribution of payments. ONRR’s mission is to collect, account for, and verify Federal, State, and Indian energy and other natural resource revenues due to States, American Indians, and the U.S. Treasury on behalf of all Americans. Each month, ONRR receives and processes 49,000 royalty and production reports. To ensure that ONRR collects the proper revenues, it performs automated processes coordinating payments and reporting with industry and the U.S. Government, and may perform further controls such as audits to ensure proper payments.

Government Revenue Disbursement
For more information on Federal disbursement of extractive industries revenue, and to see historical disbursement data, click here.

Verification of Payments
To help ensure ONRR collects the proper revenues on Federal lands, ONRR performs automated processing of royalty (Form 2014 xlix) and production reports (OGOR l), coordinating reporting and payment matters with industry, State Governments, American Indian Tribes, and other Federal agencies.

Controls
ONRR’s own processes are subject to standards and verification from third-parties:

1. Third-party audits – In addition to annual Office of the Inspector General audits, third-parties (external) audit ONRR’s financial functions annually.
2. GAGAS – Framework used for conducting high quality audits with competence, integrity, objectivity, and independence. Audits have a high standard of verification in the form of evidence from company source documents and records – resulting in greater accuracy of payment and reporting.
3. USSGL – ONRR uses USSGL accounts to prepare external reports to OMB and the U.S. Treasury to provide financial information for inclusion in its annual consolidated Interior Agency Financial Report.
4. CFO Act – The CFO Act requires annual audits of Department of the Interior’s financial statements that include a thorough review of ONRR’s mineral revenue custodial accounts.

Enforcement Mechanisms
If ONRR discovers inaccurate payments, it has several enforcement mechanisms at its disposal:

1. Alternative Dispute Resolution – ONRR establishes meetings with Companies and auditors to discuss disputed issues or negotiating settlements of disputes when there was a risk that ONRR might not prevail in litigation.
2. Litigation – ONRR provides litigation support to the Office of the Solicitor and Department of Justice in appeals before the Department and in Federal Court. Litigation support includes preparing proofs of claims to submit in bankruptcy cases and collecting any monies due.
3. Civil Penalties – The Civil Penalty program is a tool ONRR uses to encourage compliance and to deter future violations. ONRR issues civil penalties when Companies fail to comply with or knowingly or willfully violate applicable regulations or laws.

If a Company Underpays or Overpays ONRR
The Internal Revenue Service collects company corporate income taxes

The **IRS** is responsible for collecting income taxes. Corporations pay Federal corporate income taxes regardless of whether they extract natural resources from Federal, State, or privately held lands, inside or outside of the United States, if they have a tax liability. Multi-national and multi-industry corporations generally pay Federal income taxes based on a consolidated company basis which may include taxable income from a variety of countries and industries in the U.S. and other countries.

The IRS relies on Companies to **self-report corporate income tax**. After a company files its tax return, the IRS has the **authority to require an examination (an audit) to ensure compliance**. The IRS examines approximately 7,000 large corporations each year. In Fiscal Year 2015, IRS audited 11.15% of large corporations’ tax returns. The IRS uses (1) **algorithms**, (2) **models**, and (3) **alternative methodologies** to select a population of business entities for examinations.

The IRS’s **Large Business & International Examination (LB&I) Division** is responsible for examining corporations, subchapter S corporations, and partnerships with assets greater than $10 million, including in-scope Companies for USEITI. The **IRS’s Examination Process** provides an organizational approach for conducting examinations of large Companies. The examination process is captured below:

**IRS Examination Process**

**Planning**

This phase of the examination process determines the scope of the audit.

Issues selected for examination should have the broadest impact on compliance regardless of the size or type of entity. Once the IRS determines the issues to be examined, the IRS works together with Companies to establish effective steps to complete the examination in a timely manner. The IRS processes and procedures for conducting an examination are explained at an opening conference.

**Execution**

This phase focuses on determining the facts, applying the law to those facts, and understanding the various tax implications of the issue.

The parties conduct interactive discussions, using the Information Document Request (IDR) process to develop the facts. If required, Notices of Proposed Adjustment are provided throughout this phase to present the government’s legal position to the taxpayer. The taxpayer’s response to these proposals allows the IRS to gain an understanding of the taxpayer’s position to facilitate issue resolution at the earliest appropriate point.

**Resolution**

This phase consists of reaching agreements on the tax treatment of each issue examined (if possible). If necessary, a Revenue Agent Report (RAR) is issued to the taxpayer.

A Revenue Agent Report (RAR) is a detailed document describing an IRS examiner’s audit findings and stating the amount of deficiency or refund the agent found the taxpayer to owe or be owed.

LB&I revenue agents often work in teams, especially when examining large corporations. LB&I employs individuals with specialized knowledge, experience, or education to assist agents when needed. Some of those specialist areas include engineers, computer audit specialists, financial products specialists, and economists, among others. Additionally, agents have subject matter experts available to consult with them or work alongside them on issues when necessary. Subject matter experts serve to increase collaboration and expand technical expertise throughout LB&I.

IRS agents can be co-located in Companies’ corporate offices where they spend a substantial portion of each year performing audits. Companies assign dedicated staff, generally on a full time basis, to work with IRS agents to address inquiries and complete audits in a timely manner.