

USEITI Margin of Variance

What is the purpose of this document?

On May 21, the group of industry, government, and civil society representatives that make up the United States Extractive Industries Transparency Initiative (USEITI) Multi-Stakeholder Group (MSG) approved the Margin of Variance for the 2015 USEITI report¹. This document explains what the Margin of Variance is, how the Independent Administrator (IA) will apply the margin of variance, what the variance thresholds are for the 2015 report, and provides additional detail on how the IA will investigate and reconcile revenue variances above these thresholds.

What is the Margin of Variance?

The purpose of the Margin of Variance is to establish a threshold to define which variances in reported payments require further examination. The MSG has determined that variances below the applicable margin are not material and, therefore, do not require further examination. Variances that are below the respective threshold will be presented as-is in the USEITI Report with no further consideration. Variances that exceed the respective threshold are subject to evaluation and explanation.

How was the Margin of Variance determined?

The MSG considered the potential causes of differences between numbers reported by ONRR, BLM, and OSMRE and by the reporting companies for each revenue stream included in the USEITI reconciliation process. The MSG assigned a rating to each revenue stream based on an assessment of the likelihood of potential differences. The MSG adjusted the ratings for the relative magnitude of the revenue stream. Based on these final ratings, the MSG assigned a variance percentage threshold and a variance floor threshold to each revenue stream.

How is the Margin of Variance applied?

The IA will consider both the variance percentage threshold and variance floor threshold when applying the Margin of Variance:

1. The Variance Percentage Threshold: If the variance amount when divided by the amount reported by the government is greater than the variance percentage for that revenue stream, the IA will consider the variance to exceed the threshold and will then assess whether the Variance Floor applies (see below).
2. The Variance Floor Threshold: This is the minimum dollar threshold for a variance and only applies if a variance exceeds the variance percentage threshold (above). If the variance exceeds the variance percentage threshold and exceeds the variance floor threshold, the IA will perform further evaluation of the variance.

¹ The report prepared in 2015 will reflect calendar year 2013 payments.

What are the Margin of Variance thresholds for the 2015 USEITI Report?

Revenue Stream	Variance Percentage	Variance Floor
ONRR Royalties	1%	\$100,000
ONRR Rents	2%	\$50,000
ONRR Bonuses	2%	\$100,000
ONRR Other Revenues	3%	\$50,000
Offshore Inspection Fees	2%	\$20,000
Civil Penalties	1%	\$1,000
BLM Bonus and First Year Rentals	2%	\$10,000
BLM Permit Fees	3%	\$10,000
BLM Renewables	n/a	n/a
OSMRE AML Fees including Audits and Late Charges	2%	\$100,000
OSMRE Civil Penalties including Late Charges	3%	\$0
Taxes	1%	\$100,000

What is the process for investigating variances that exceed the Margin of Variance thresholds?

Where variances are greater than the margin of variance thresholds, the IA will go first to the government to request additional transaction-level details and attempt to identify the source of the variance. If the IA is unable to resolve the variance with the government, then the IA will request the reporting company also provide additional transaction-level details to support the reported amount.

After reviewing the data provided by both the government and the company, if the IA is able to identify the source of the variance (e.g. timing, classification, etc.), the IA will report the variance in the USEITI report and provide an explanation. If the IA is not able to identify the source of the variance, the variance will remain in the final reconciliation results and the IA will provide an explanation that the source of the variance could not be resolved. The IA will make all possible efforts to work with reporting entities to understand and explain the sources of variance.

Reporting entities (e.g. companies and government) will be given the opportunity to revise their reporting in case the reconciliation process turns up errors that could be corrected (e.g. double counting, miscounting), but restatement is not required and will not adversely affect the entity's inclusion in the report.

How will the IA handle a variance and explanation in the USEITI report?

Below are a few examples of how the IA will explain variances that exceed the Margin of Variance thresholds.

1. Example 1: Variance related to timing issue

A timing issue might occur when a company makes a payment to the government during December, but the government does not record receipt of the revenue until January. In this case, the accounting records for both the company and the government are correct. No revision to the reported amounts would be appropriate. Instead, the numbers will be presented as reported and the IA will provide an explanation of the timing issues related to the variance in the report.

2. Example 2: Payments incorrectly attributed

A situation might occur when payments, such as for rents or bonuses, are incorrectly attributed to a company by the government agency that received the payment. This might occur in an instance where a company has additional partners on a lease and the government has identified multiple owners on the lease. The government may incorrectly attribute a payment from one owner to another owner. In this case, the IA would give the government the opportunity to submit a revised number to adjust the incorrectly attributed payments. The report would then reflect the revised number and would not show a variance. In the event the government chooses not to submit a revised number, the IA would present the number as reported and provide an explanation of the issues related to the variance in the report.

3. Example 3: Missing transactions

A situation might occur when a company reports a number but has excluded certain payments/transactions that the government has included. This might occur when the transactions are from a payor entity that the company did not include, or the reporter was unaware the payor entity made the payments. In this case, if the company agrees that the payments are correct and should have been included, the IA would give the company the opportunity to submit a revised number to include these payments. The report would then reflect the revised number and would not show a variance. In the event the company chooses not to submit a revised number, the IA would present the number as reported and provide an explanation of the issues related to the variance in the report.

What would the margin of variance applied look like for a sample company?

On the page below, *Figure 1- Reconciliation Results for Company ABC* shows what the Margin of Variance application might look like for a sample reporting company. The figure illustrates how the IA will apply the Margin of Variance for each revenue stream and which variances will be subject to further examination.

Figure 1- Reconciliation Results for Company ABC

Government Payee	Revenue Streams	Reported by Government (USD \$)	Reported by Company (USD \$)	Variance Amount (USD \$)	Variance %	Variance Percentage Threshold	Variance Floor Threshold	Results
Payments to Office of Natural Resource Revenue (ONRR)	Royalties	\$135,000,000	\$134,000,000	\$1,000,000	0.74%	1%	\$100,000	a
	Rents	8,242,000	8,222,000	20,000	0.24%	2%	50,000	a
	Bonuses	6,148,430	6,112,440	35,990	0.59%	2%	100,000	a
	Other Revenues	2,150,000	2,135,500	14,500	0.67%	3%	50,000	a
	Offshore Inspection Fees	2,146,500	2,149,500	3,000	0.14%	2%	20,000	a
	Civil Penalties	978,900	948,400	30,500	3.12%	1%	1,000	b
Payments to Bureau of Land Management (BLM)	Bonus and First Year Rentals	2,120,225	2,123,225	3,000	0.14%	2%	10,000	a
	Permit Fees	535,240	547,240	12,000	2.24%	3%	10,000	a
	Renewables	-	-	-	n/a	n/a	n/a	a
Payments to The Office of Surface Mining, Reclamation and Enforcement (OSMRE)	AML Fees including Audits and Late Charges	7,525,800	7,505,000	20,800	0.28%	2%	100,000	a
	Civil Penalties including Late Charges	10,400	9,900	500	4.81%	3%	\$0	b
Internal Revenue Service (IRS)	Corporate Tax Payments	9,800	9,900	100	1.02%	1%	100,000	c

Results Key:

- a. The IA does not investigate these variances because the variance percentage is less than the variance percentage threshold.
- b. The IA does investigate these variances because the variance percentage is above the variance percentage threshold and the variance amount is greater than variance floor threshold
- c. The IA does not investigate these variances because the variance amount is less than the variance floor threshold even though the variance percentage exceeds the variance percentage threshold.