

Standardized Budgeting & Reporting for WAPA-wide Programs

Meeting Transcript

(WAPA Remarks Only)



**Western Area
Power Administration**

November 2020

Standardized Budgeting & Reporting for WAPA-wide Programs

Slide 1:

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Just a quick note on this. The purpose of recording today's meeting is to get a transcript of the discussion so that we can effectively respond to customer questions/concerns and provide a written record of the discussion including our answers. After the meeting the transcript and answers will be posted on The Source for transparency.

Slide 2:

Good afternoon and welcome to the technical briefing of WAPA's Standardized Budgeting and Reporting for WAPA-wide Programs. Today I'm going to speak to the budgeting component of this Tactical Action Plan initiative.

I'm Colin Marquez, VP of Budget & Analysis, and with me is John Fileccia, HQ Budget Supervisor, the Project Manager for this effort, and today will be running the slides and monitoring the chat. We also have Mike Peterson, WAPAs Senior VP and Chief Financial Officer.

Today we will discuss an improvement WAPA is making to more efficiently and effectively allocate WAPA-wide program costs across our regions.

As a housekeeping note, if you have comments or questions you can either unmute yourself or use the chat feature in WebEx. If you do unmute yourself, please be sure to mute again to avoid audio feedback.

Slide 3:

Budgeting and reporting for WAPA-wide programs is complex, unpredictable, difficult to repeat and administratively burdensome.

Much of this complexity stems from the changes WAPA-wide Programs have experienced over the last decade. Specifically, the reorganizations of Information Technology, Safety, Security, Human Resources, Asset Management, and Risk and Reliability Compliance. Each of these functions existed in the regions in some form before being reorganized into HQ as WAPA-wide Programs. Much of the budgeting and reporting for these programs still reflect those regional origins which has resulted in inconsistent accounting, unclear allocations, and unpredictable results.

To be clear, the regional accounting and budgeting treatment for these Programs was not wrong, it is simply inconsistent and thus difficult to apply and compare now that these programs operate WAPA-wide. It also introduces inefficiencies and lack to financial transparency which leads to unnecessary administrative costs and sub-optimal management information support.

To address the inefficiencies and lack of financial transparency that resulted from this complexity, WAPA has developed a new Standardized Budget and Reporting Framework which is an activity-based costing model that efficiently and effectively allocates program costs WAPA-wide.

The graphic on the right illustrates these benefits. In our current state, WAPA's requirement by requirement costing approach is detailed but leads to complexity, inconsistency, and lack of clarity. By sorting and arranging our data into homogenous cost activities, it allows us to standardize how we account for and allocate costs while also enabling clearer financial reporting.

In summary, we believe the new framework will increase:

- ✓ visibility and transparency.
- ✓ predictability between formulation and execution.
- ✓ efficiency by reducing administration.
- ✓ consistency in the method of allocating costs to their beneficiaries.

Slide 4:

This slide highlights the key issues in our current state as well as the opportunities in the proposed state that I covered in the previous slide. As you can see, we believe these improvements provide benefits both for management information support as well as financial transparency. You can refer to this slide as a reminder of the key things we are addressing in this effort.

Slide 5:

This slide is a graphical representation of our approach to the Standardized Budgeting and Reporting Framework. The funnel in the center represents the process where we evaluated WAPA-wide Programs to determine whether a program was inherently a regional direct program or an enterprise-wide program.

Our evaluation started by gathering all program requirements, FTE, and contract labor for each Program. We then conducted interviews with Program Managers to identify cost or budget activities. Next, we grouped the requirements and labor costs into the cost activities. This activity based approached enables us to account for and allocate like requirements in a standard way while also adding the reporting benefits of an activity-based model. We will step through a concrete example of the activity-based approach on the following slide but before we do, I'd like to highlight some of the conclusions we reached regarding the program evaluations.

First, the programs listed here are not meant to be comprehensive. There are several more programs within HQ but the ones listed here were critical to our evaluation.

Notice the programs we've identified as inherently regional direct. Regional direct programs are those that provide specific and direct benefits to a region or project within a region and are therefore accounted for as direct charges to the region or project. Our evaluation identified programs such as Design & Engineering, SCADA, Power Marketing, Security, Natural Resources as inherently regional direct.

On the right you'll find the Enterprise-wide programs which provide a more broad-based support across WAPA and are therefore accounted for as WAPA-wide. Programs such as IT Network, Enterprise Applications, Cyber Security, IT Infrastructure, Finance, and Human Resources were identified as inherently enterprise-wide.

Slide 6:

This next slide provides a concrete example from the IT Network Program of the activity-based approach and resulting benefits to transparency and cost allocations.

In the current state, the requirement-by-requirement based approach doesn't provide much in the way of clarity and leads to a sub-optimal allocation of costs. First, the costs are divided between General & Administrative (or G&A) and Direct Charge. This view doesn't provide much insight into the types of costs or benefits of the IT Network Program. Also, despite IT Network providing unique benefits to maintenance and operations functional areas, the costs distribute across all of WAPA based on total Direct Labor.

In the proposed state, you can clearly see the added insight and financial transparency we get from the activity-based approach. Instead of the generic pool of General & Administrative costs, we can now see the various activities that IT Network has. 13% of costs consist of Desktop support, 44% from General Support Systems (or GSS) which includes the corporate network that allows us to hold virtual meetings like this one, 8% G&A for basic program costs like training, travel and miscellaneous supplies, 11% Secure Enclave Support Center (or SESC) which provides networking for substations and communication sites, and 5% for the Supervisory Control and Data Acquisition (or SCADA) network. Note that SESC and SCADA Network activity costs do not follow the same G&A distribution. Due to the activity-based approach we can better align costs with the beneficiary. In the case of SESC, Maintenance is the driver of this activity so we are distributing costs using Maintenance Direct Labor versus total Direct Labor. Similarly, in the case of SCADA Network, Operations is the driver of this activity so we are distributing costs using Operations Direct Labor versus Total Direct Labor.

In other programs we also have support costs of Power Marketing. This new approach allows us to distribute Power Marketing related support costs using Power Marketing Direct Labor.

In summary, the activity-based approach improves visibility into Program spend while better aligning costs with the beneficiary.

Slide 7:

This slide shows the current state and proposed state by cost distribution. The data is based on budget data from Fiscal Years 2019, 2020, and 2021 averaged together. In the current state, you'll see 64% of HQ costs are distributed using the G&A distribution (or total Direct Labor), 2% of costs are distributed using the Maintenance distribution (or Maintenance Direct Labor), and the remaining 34% are Direct Charged to a specific project. In the proposed state, G&A declines from 64% to 58%, Maintenance increases from 2% to 13%, and now we also add Operations at 2% and Power Marketing at 1%, with the remaining 26% as Direct Charge. What this data shows is most of the changes come from Associated Direct Expense (or ADE) costs. These are costs that are neither General & Administrative in nature nor are they truly direct project costs either. Instead, these are costs that are associated with direct functions such as Maintenance, Operations and Power Marketing. By leveraging the G&A, Maintenance, Operations, and Power Marketing distributions, WAPA can better align costs to beneficiaries in a way that is simpler to understand and administer across WAPA.

Slide 8:

At this point, I'm sure you are all wondering how these distributions impact your respective power system. This slide shows the percent allocation to each system by distribution. Here, the data is based on actual direct labor from fiscal years 2017, 2018 and 2019 averaged together. To better understand the relative makeup of these distribution pools, notice the total in dollars shown on the far right. You'll see most WAPA-wide Program costs are in the G&A distribution pool, followed by Direct Charge, Maintenance etc. There are two factors that can lead to changes to the distributions percentages by power system. First, the proportionate share of direct labor within each power system and labor pool. As that proportion fluctuates, so too do the allocation of costs. The second factor is the proportionate share of WAPA-wide costs in each pool. For example, a shift of costs from G&A to Maintenance would result in a different share of costs being allocated. Despite these variables, WAPA believes this new framework will add more stability and predictability in how costs are allocated across WAPA.

Slide 9:

This next slide shows the same information but now presented by dollar amount allocated instead of relative distribution percent. Again, you'll see most WAPA-wide Program costs are in the G&A distribution pool, followed by Direct Charge, Maintenance etc. Given the nature of how costs are allocated, the allocation of dollars shown are for illustrative purposes and only represent a point in time. The amounts allocated moving forward will be dependent on that year's circumstances and assumptions.

Slide 10:

This slide shows the allocation of costs using actuals from 2016 – 2019 derived from data available on The Source. The bars in grey represent each of the budget years we used for our data model (budget years 2019, 2020, and 2021). As you can see, the new Standardized Budgeting and Reporting Framework shows relatively minimal changes when compared to actuals but provides numerous benefits in terms of transparency, predictability, efficiency, and consistency.

Slide 11:

I know the other charts may have been difficult to see the dollar amounts by power system so we've provided this data table to supplement. Again, given the nature of how costs are allocated, the allocation of dollars shown are for illustrative purposes and only represent a point in time. The amounts allocated moving forward will be dependent on that year's circumstances and assumptions.

Slide 12:

Just to recap:

- Budgeting and reporting for WAPA-wide programs is complex, unpredictable, difficult to repeat and administratively burdensome.
- The standardized Budgeting and Reporting Framework is an activity-based costing model that efficiently and effectively allocates program costs WAPA-wide.

In summary, we believe the new framework will increase:

- ✓ visibility and transparency.
- ✓ predictability between formulation and execution.
- ✓ efficiency by reducing administration.
- ✓ consistency in the method of allocating costs to their beneficiaries.

Slide 13:

Additional questions for discussion? (See FAQ)