

CUSTOMER

SUMMER 2016

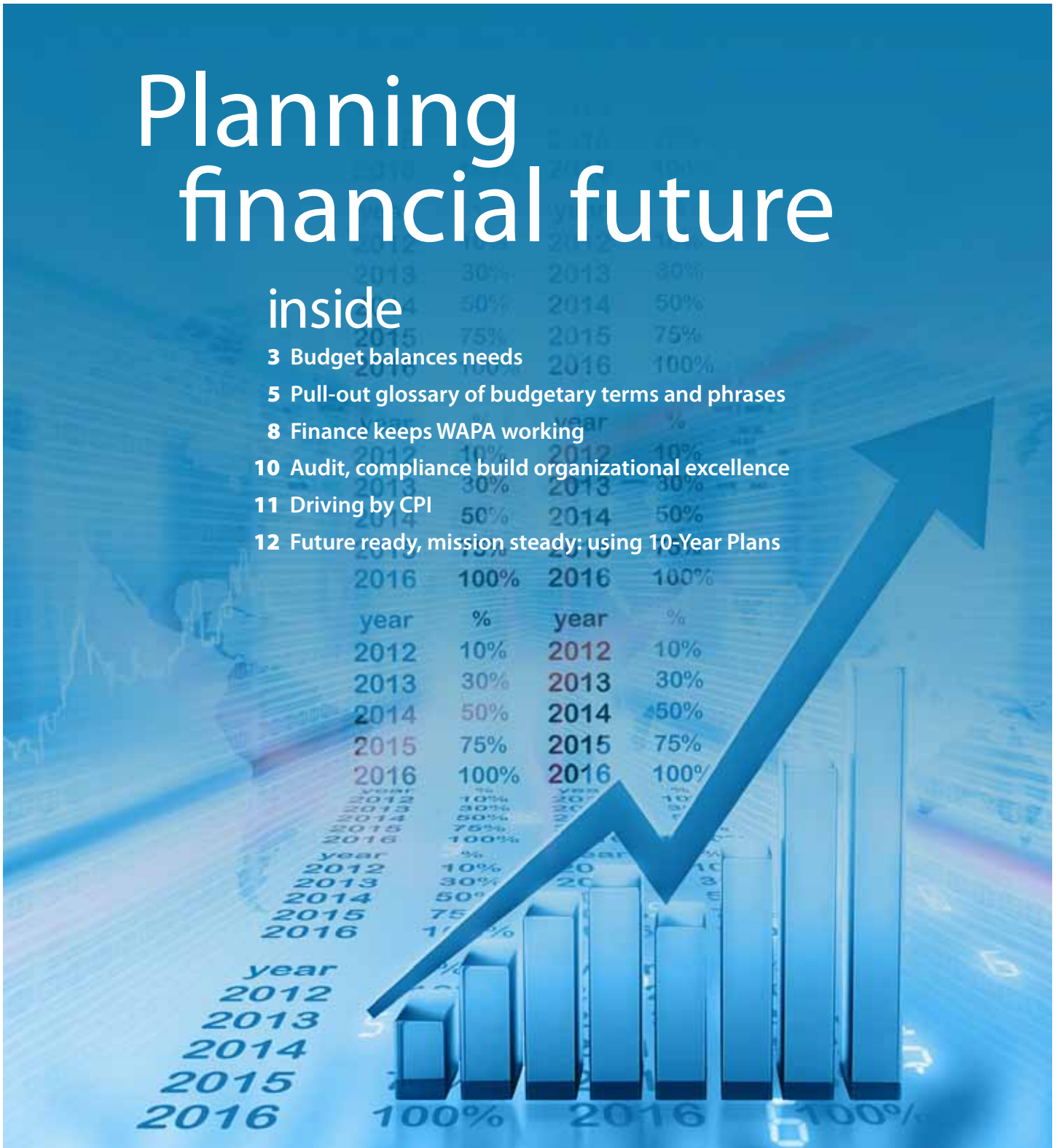
# Circuit

WESTERN AREA POWER ADMINISTRATION

## Planning financial future

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**M**any changes are affecting WAPA and the entire energy industry, including budget and finance. Changes abound in the world of federal financial tools, reporting and technology. All of these factors combine to drive a new way of doing business in the financial world. At WAPA, our financial professionals demonstrate sound financial stewardship and deliver quality products and services to meet the needs of our customers and the public we serve.

As a billion-dollar enterprise whose core mission is to deliver safe and reliable power and transmission services 24/7, budgetary and financial decisions are made hourly across every spectrum of financial activities to ensure seamless services. Cost containment is at the core of our philosophy to ensure seamless services are delivered at the lowest cost consistent with sound business principles. For example, our Budget and Analysis function along with our Continuous Process Improvement Office designed a new approach to allow for an iterative budget review that includes customer input each year. This philosophy, and the work it inspires, helps keep customers in touch with our processes and drives how and when we purchase power and when we fund capital-intensive activities.

Long-term cost containment also drives our decision-making, ensuring our core financial and budget formulation systems are up to date, processing transactions efficiently and effectively. In the past, our budget and core financial systems were not integrated. Now, the updated systems work together, eliminating the cost of manual intervention and reconciliations when accessing and comparing data between in-house systems. A keen focus on organizational excellence motivates each of the functions under the Office of the Chief Financial Officer—Budget and Analysis, Financial Management, and Governance and Policy—to work hard streamlining processes so our staff have the capacity to design or enhance products that best meet our customers' needs for accurate, consistent and timely financial information.

As you meet our budget and financial professionals personally in this "Planning financial future" edition of *Customer Circuit*, you will learn how our programs contribute to WAPA's mission. Our financial professionals have proven to be adaptable in these changing times; and through strong partnerships with our customers, we continually create new opportunities to work together to ensure a sustainable funding future for WAPA.

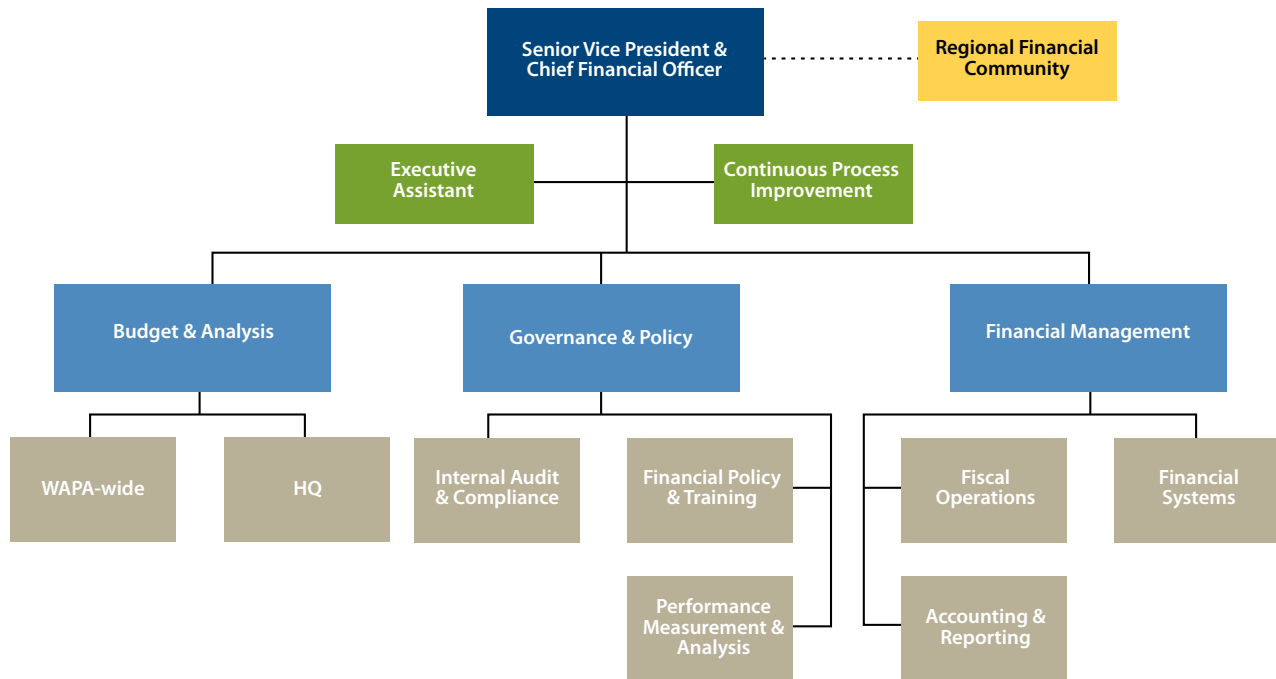
A handwritten signature in black ink that reads "Linda S. Kimberling". The signature is written in a cursive, flowing style.

Linda S. Kimberling | Senior Vice President and Chief Financial Officer



**A**s a wholesale energy supplier, WAPA designs and develops contracts to sell and deliver federal hydropower and transmission services. Additionally, WAPA operates and maintains the transmission system, facilitates interconnections and partners for joint construction and use of transmission facilities. Yet none of this work is possible without budgetary support, financing and repayment of our activities. The Chief Financial Officer compartmentalizes these activities into three organizations that, in turn, provide an anchor in WAPA's overall structure.

## Organizational chart reporting to the Chief Financial Officer



## Budget balances needs

**B**udget and Analysis is responsible for three major processes: budget formulation, presentation and execution.

**Budget formulation** is the preparation and consolidation of WAPA's annual budget request. WAPA receives, on average, less than eight percent of its annual operating budget from congressionally appropriated federal dollars; the majority of the organization's annual budget comes from customer payments and advances. In developing the annual plan, Budget and Analysis balances the goals, objectives and priorities of

stakeholders and customers with input from all levels of the organization, including both the Department of Energy and the Office of Management and Budget. Incorporating so many different, and often competing, needs and demands can be a difficult balancing act.

Because each year's budget formulation and plan must be approved as part of the overall federal budget, **budget presentation** is an important part of the work conducted by Budget and Analysis, annually. It

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involves preparing what will become WAPA's portion of the President's budget request to Congress. This is lofty work requiring development of the explanatory briefing materials to be used in demonstrations and meetings with DOE leadership, as well as in WAPA's annual congressional testimony to the House Committee on Natural Resources' Subcommittee of Water, Power and Oceans. That is why every March, our administrator and CEO travels to Washington, D.C., to testify on the upcoming fiscal year budget to gain congressional authority for our planned expenditures.

Once congressional authority is secured and an annual funding bill or temporary bill, such as a continuing resolution, is enacted (i.e., passed by both houses of Congress and signed by the President), **budget execution** can begin. Execution includes OMB apportionment, DOE allotment, and WAPA sub-allotment into a host of congressionally determined and controlled areas for spending. These are further divided for internal control by WAPA power system and organization buckets. By working with DOE and collaborating with customer input, WAPA budgets, plans and monitors

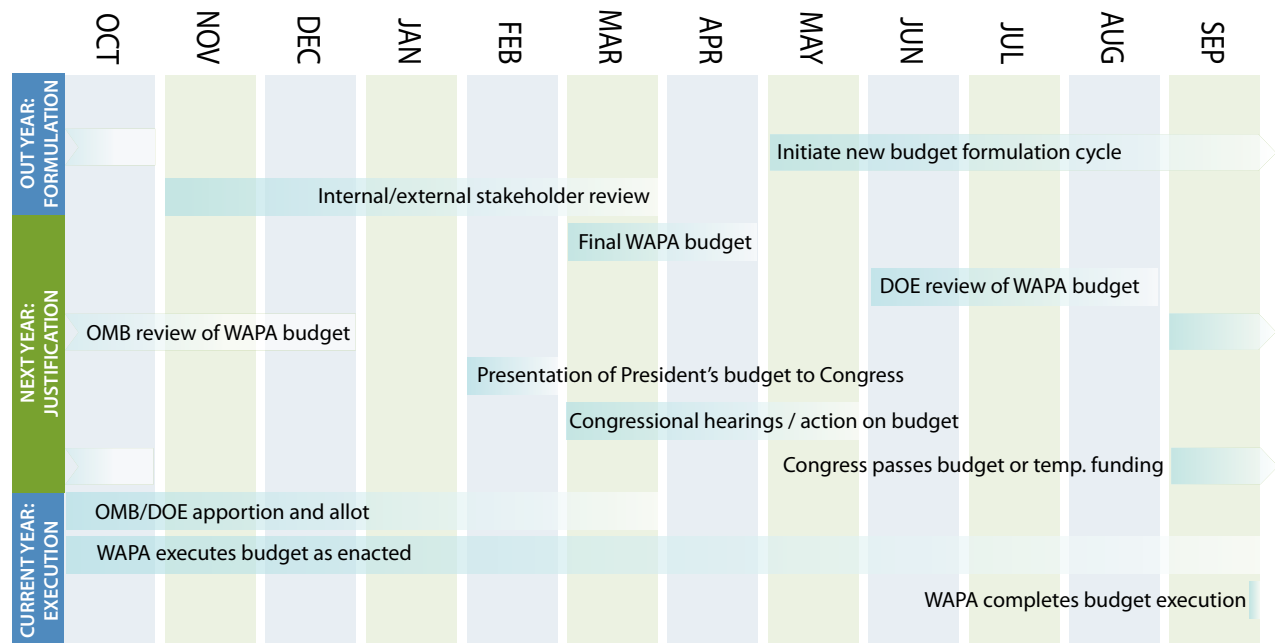
the status of the budget based on the funding levels received for each of the internal control buckets until the funds are either expended or rescinded.

The budget is a fairly consistent process that follows a schedule based on the federal fiscal year. What that means is, barring a Presidential election year, there is expectation for certain product development and presentations at certain times each season. For example, every October brings the beginning of the fiscal year and with it four general activities:

1. Apportionment, allotment, and sub-allotment activities for the current fiscal year
2. WAPA development of the "out-year" budget cycles, which begins more than two years ahead of the planned execution
3. OMB review of WAPA's budget submission for the coming fiscal year
4. Closeout and reporting on the prior fiscal year

In this way, Budget and Analysis handles three or four budget years all at the same time. ■

## Seasons of the fiscal year



**Budget and Analysis' work on the budget includes overlapping activities for multiple fiscal year planning. The federal fiscal year begins on October 1 and ends on September 30. Throughout that time frame, Budget and Analysis prepares for multiple deadline cycles.**

## Pull-out glossary of budgetary terms and phrases

**Alternative financing**—a term used for financial arrangements that extend beyond traditional federal financing instruments such as appropriations, offsetting collections or reimbursable agreements. Alternative financing includes the receipt of funds in exchange for a credit on a predetermined billing cycle. An example of this arrangement is the use of pre-payments in the Desert Southwest region.

**Appropriation Act**—a statute under the jurisdiction of the House and Senate Committees on Appropriations that generally provide legal authority for federal agencies to incur obligations and make payments out of the Department of the Treasury for specified purposes.

**Appropriation**—the authority to incur obligations and to make payments from the Treasury for specified purposes. Appropriations do not represent cash actually set aside in the Treasury; they represent amounts that agencies may obligate during the period of time specified in the respective appropriation acts.

**Bills**—(1) charges for services rendered; (2) Congressional legislation that has been proposed, but not enacted.

**Budget**—a detailed statement of anticipated revenues and expenditures during an accounting period.

**Budget authority**—the permission provided by federal law to enter into financial obligations that will result in the immediate or future expenditure or receipt of federal funds. Basic forms of budgetary authority include: appropriations, borrowing, contracting, obligation and expenditure of offsetting receipts and collections.

**Capital funds**—funding available for expenditures or investments related to federally-owned buildings, land, structures, equipment of a durable nature. Conversely, **non-capital funds** are typically expenses or expendable items (e.g., non-durable supplies and materials, utility services, travel, training, rents, miscellaneous transportation).

**Collections**—amounts received by the federal government during the fiscal year. They are classified into three categories: receipts, offsetting collections and offsetting receipts.

- **Governmental receipts** result from the exercise of the government's sovereign powers.
- **Offsetting collections and receipts** result from businesslike transactions with the public or transactions between appropriated activities and are recorded as offsets to spending. They are offsetting collections when the incoming amounts are authorized by law to be credited to expenditure accounts. Otherwise, they are deposited in receipt accounts and called **offsetting receipts**. Unlike offsetting collections, offsetting receipts cannot be used without being appropriated.

**Executed dollars**—funds that have been obligated or expended. In some cases, funds that are committed may also be considered executed; however, at fiscal yearend, all commitments that have not been obligated or expended are cleared.

**FTE**—full-time equivalent: reflects the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave and compensatory time off and other approved leave categories are considered to be “hours worked” for purposes of defining FTE employment.

**Fund**—generally speaking, a **general fund** account is an account within the Treasury that holds federal money for a specific purpose. By law, money in one fund cannot be allocated to any other fund account. There are two kinds of fund accounts: **expenditure** and **receipt**. Essentially, expenditure is money going out of the federal budget and receipt is money coming in.

**Internal control**—integral component of an organization’s management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations, (2) reliability of financial reporting and (3) compliance with applicable laws and regulations. Safeguarding of assets is a subset of all three of these objectives.

**Justification**—rationalizing support for a budget request or purchase

**Multi-year budget planning**—process, such as the one used to develop the President’s budget and the congressional budget resolution, designed to ensure that the longer range consequences of budget decisions are identified and reflected in the budget totals.

**Obligation**—payment to be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service or takes other actions that require the government to make payments to the public or from one government account to another.

**Obligated balance**—amount of a payment scheduled to be made to a specific end, i.e., money has been designated for an order, contract, grant, service, etc. Conversely, an **unobligated balance** is the portion of obligational authority that has not yet been scheduled or assigned.

**Outlay**—issuance of checks, disbursement of cash, or electronic transfer of funds made to liquidate a federal obligation.

**Passback**—OMB or Departmental comments on budget presentation that are provided to an agency, essentially as edits, to their proposed budget.

**Rates**—amount WAPA charges for services provided. WAPA’s rates are developed through a formal public process that allows customer, stakeholder and public input into rate formulation.

**Reimbursement**—amount, authorized by law, collected for materials or services furnished to the public or other government accounts. At WAPA, reimbursements serve as a type of offsetting collection netted against gross outlays in determining net outlays from appropriations (for accounting purposes, earned reimbursements are also known as revenues).

**Revolving fund**—account that remains available to finance an organization’s continuing operations without any fiscal year limitation, because the organization replenishes the fund by recovering the funds used from the account. Revolving funds have been used to support government business operations authorized by law on a permanent basis with authority to bill and collect and to expend its collections.

# Governance and Policy enhances services

One way WAPA has evolved its services is through the creation of the Governance and Policy office, or “G&P.” It is a result of a financial consultant’s 2013 organizational and program assessment of WAPA’s Office of Chief Financial Officer. The recommendations included establishing an internal audit program and closing gaps and inefficiencies by adding policy and performance measurement programs. These changes are building blocks for achieving a high-performing financial organization at WAPA.

G&P has three specific teams that work together as an advisor to WAPA in the areas of operational program auditing and compliance, as well as financial auditing, financial policy development and enforcement and financial and non-financial performance measurement. But, each team also has its own set of goals.

The **Policy Program** goals are to develop and maintain:

- New and existing financial policies to include WAPA orders, procedures, manuals and technical guidance
- WAPA-wide financial community core competencies and training program
- Communication- and information-sharing protocols



**Internal Audit and Compliance** goals are to:

- Partner and consult with WAPA’s managers and staff in protecting WAPA’s assets
- Proactively identify and recommend solutions for strengthening controls in advance of external oversight reviews
- Evaluate compliance with applicable laws, regulations and policies
- Assess information security and related risk exposures
- Report internal control deficiencies and provide recommendations for improvement
- Protect WAPA’s people and assets through implementation of the “right” internal controls and provide awareness of oversight responsibilities and accountability

The **Performance Measurement Program** goals are to:

- Research, design and develop WAPA-wide financial and non-financial performance indicators and measures
- Support the Strategy Office and Continuous Process Improvement with the design, development and implementation of evaluative tools to address WAPA-wide strategic priorities and operational improvement needs
- Support the Chief Operating Office with data analytics and business intelligence in the areas of asset management, risk management and other program areas
- Report internal and external performance measurement results regularly to senior management

With G&P fully engaged, management has an advisor, a controls expert, an efficiency specialist, a problem-solving partner and a safety net. G&P serves as an ethical checkpoint for WAPA—a self-evaluating and assessing function. G&P promotes legal and regulatory compliance and appropriate standards of honesty, integrity, and ethics throughout the organization to assist in fulfilling WAPA’s mission. ■

# Finance keeps WAPA working

**F**inance is the heart of any office environment. There is not much an organization can do without money. It is the responsibility of Finance to make sure there are sufficient monetary resources to fund WAPA's operation both in the short and long term. That is why Finance works closely with WAPA's internal and external stakeholders: to ensure monies are spent in ways that best benefit our customers.

The schedule in Finance follows a fiscal year pattern, supported by the budgetary planning schedule and consists of three phases: record, execute and report. But unlike Budget and Analysis, who plans several fiscal years at the same time, Finance focuses on making those plans become reality for the current fiscal year. Each year, Finance records monies coming into the organization from a variety of sources ranging

from rate-based customer payments to appropriations allotted by the Department of Energy. Finance then implements the budget plan for the current year, executing, i.e., spending, in real time. Dollars saved through Continuous Process Improvement programs, audits and other review and cost-avoidance measures are monitored and made available for other needs within the congressional controls and in coordination with customers. All of these dollars saved and spent are then reported as results to DOE and the Department of the Treasury.

Although it may seem like a simple process from the outside looking in, the day-to-day work required for each one of the three phases has thousands of associated tasks requiring a steadfast attention to detail and extensive knowledge of federal and departmental laws, rules and regulations. ■

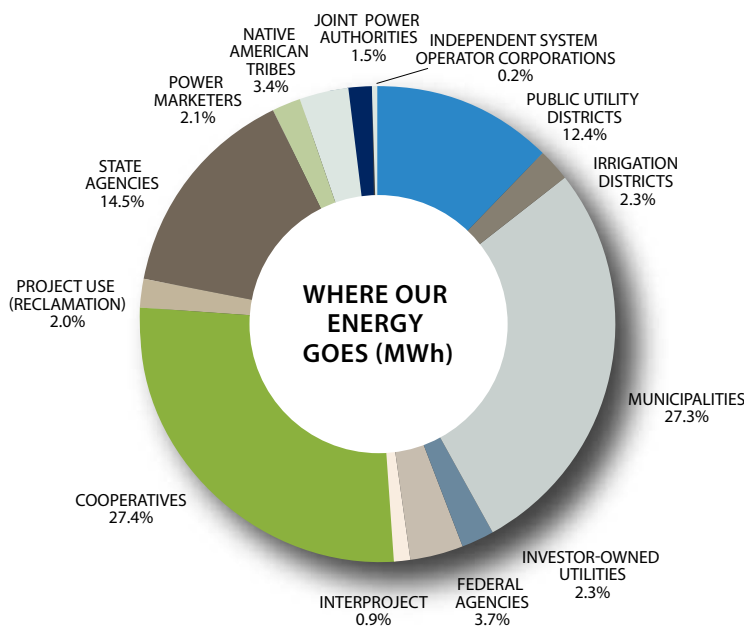
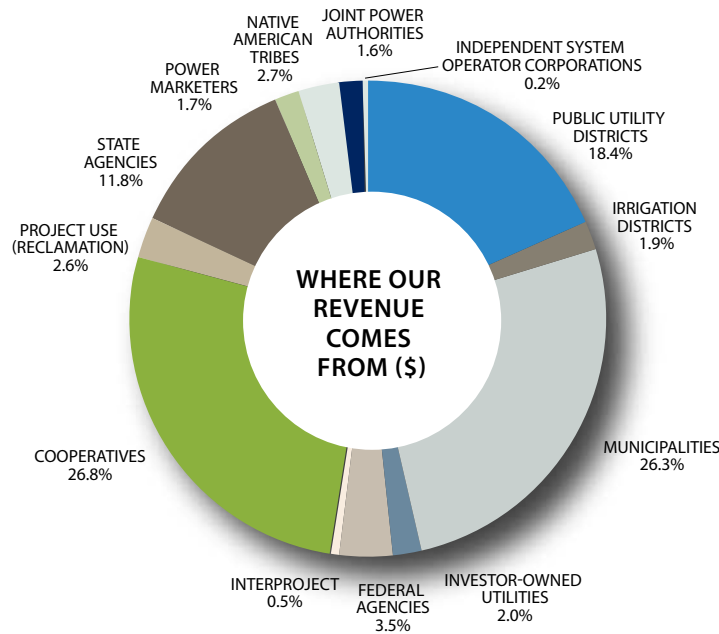




# REVENUE IN, ENERGY OUT



**F**or Fiscal Year 2017, which begins on Oct. 1, 2016, WAPA requested authorization to spend a total of \$1.2 billion. Only six-percent of that \$1.2 billion will come from the federal budget. As a result, the FY 2017 net appropriation requirement for WAPA is only \$72.8 million. The remainder comes from offsetting collections and alternative financing, which WAPA collects from customers in the form of revenues.



# PLANNING



In marketing electricity, WAPA must follow many laws, regulations and policies, while at the same time maintaining the lowest possible rates and working in concert with customers to address their needs and concerns. To strike this balance and continue delivering on its promise, WAPA initiated three important planning strategies: internal audit and compliance, continuous process improvement and the 10-Year Planning process.

## Audit, compliance build organizational excellence

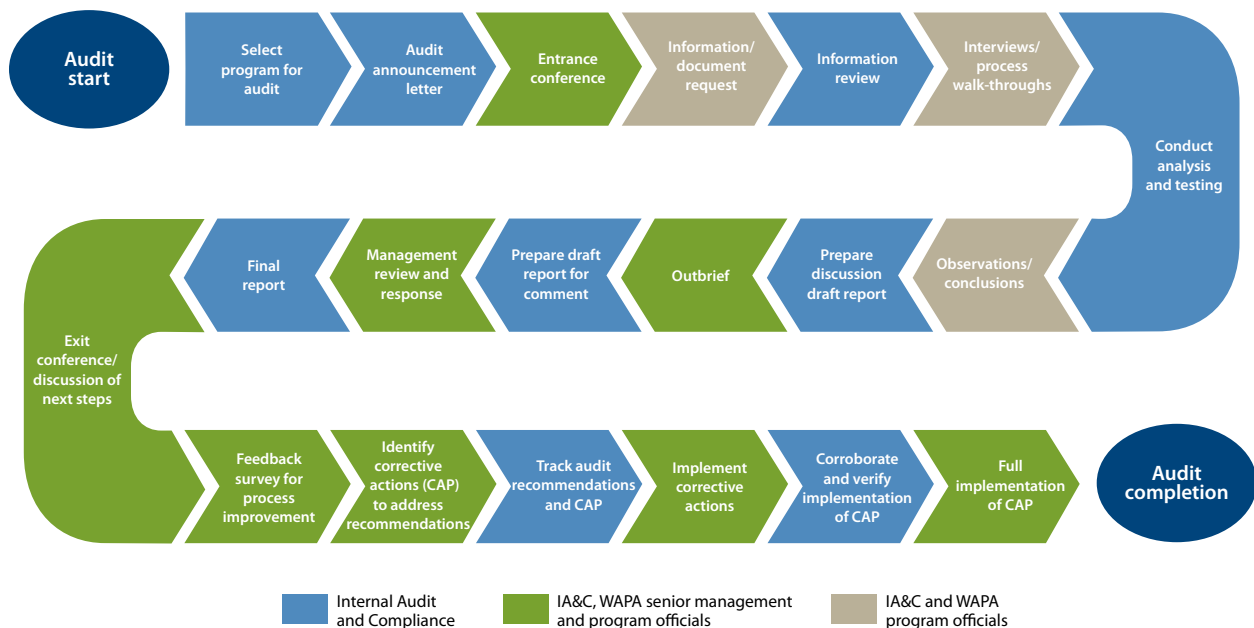
Stakeholders sometimes think that because Internal Audit and Compliance is positioned under the Chief Financial Officer the program's focus is solely on financial auditing. While IA&C serves as a liaison for WAPA's annual financial statement audit and performs analyses of certain financial and accounting processes during A-123 reviews, it has evolved over the past couple of years into a work plan consisting primarily of performance and operational audits.

It is true that a performance audit typically entails some level of financial-related analysis, but IA&C also focuses on WAPA's compliance with governing laws, regulations and policies and procedures. Further, IA&C

tries to identify opportunities for improvement and ways for WAPA to become more efficient and effective in its operations.

Examples of IA&C's current audits include WAPA's overtime expenditures, the fitness program, and travel and aviation card programs. In the near future, IA&C plans to audit: WAPA's telework program; continuing service agreements; relocation, retention and recruitment incentives; and procurement. For employees who are currently, or may later be, involved in one of these audits, and for customers and stakeholders to have better insight into how WAPA conducts this type of internal check, IA&C has developed a diagram to better explain what to expect during an internal audit.

### Audit stages and responsibilities



Throughout the year, IA&C collects information from various internal and external sources relevant to WAPA's operations, such as prior audit results, media attention, WAPA's initiation of new programs or focus areas, and suggestions from management. This information is used to develop an annual audit plan and to select a program for audit. Once a program is selected, employees in the program will be notified via email, receive an audit announcement letter, and be requested to participate in a kick-off meeting called an 'entrance conference.' During the entrance conference, IA&C has an opportunity to explain the purpose of the audit, the scope, methodology and reporting timeframes.

Following the entrance conference, auditors request information and documentation and schedule interviews with key officials to help gain a better understanding of the program. Next, IA&C performs analyses and arrives at preliminary observations and conclusions, which are shared with the program's management. IA&C's observations and conclusions

are also communicated in a series of draft and final reports, in which program and senior management are given the opportunity to review and respond.

Once the final report is issued, the audit team and management hold an exit conference and management is encouraged to complete a short survey to help IA&C improve its process for the next audit. If the audit report contains recommendations, IA&C will track and monitor WAPA's implementation of the corrective actions and will not consider the audit process complete until all of the corrective actions are implemented. This same process is then followed for the next program audit that IA&C performs. In this way, WAPA's internal process is very similar to that of the DOE Inspector General's Office and the Government Accountability Office.

IA&C is dedicated to doing its best to coordinate across the broader organization to build more business and organizational excellence into WAPA's day-to-day operations. ■

## Driving by CPI

In 2013, WAPA launched its Continuous Process Improvement program to help staff identify and implement opportunities for streamlining processes and improving customer service. The CPI office reports to the Chief Financial Officer and provides WAPA-wide support.

"One of the most important aspects of how WAPA set up its process improvement program is it leverages the knowledge and experiences of our employees – the people who know these processes best – to make improvements," said Jennifer Rodgers, supervisory management and program analyst. "Although the CPI office is only 3 years old, we have already tracked more than \$8 million dollars in savings or avoided costs because our employees focus on how to better achieve program results."

The CPI office uses Lean Six Sigma methodology with emphasis on both rapid improvement events and "Just do it" projects. Rapid improvement events are week-long workshops where process stakeholders from across WAPA come together to collectively fix the identified process issues. This approach improves teamwork across WAPA and enables us to get results quickly. Just do it projects are process improvements that employees implement at their desk or truck – with the goal of constantly striving to be more efficient and effective in daily work.

"The CPI program is a critical element of our Roadmap 2024 – helping drive the organization toward our first destination—business, technology and organizational excellence," said Administrator and CEO Mark A. Gabriel. "Additionally, it enables us to prioritize keeping our rates among the lowest in the nation, while continuing to meet the increasing regulatory demands we are facing." ■

# Future ready, mission steady: Using 10-Year Plans

**W**APA began working with the 10-Year Capital Plans several years ago. "As part of our promise to customers to be collaborative and transparent in delivering on our mission, we seek their engagement in our broader planning process," said Administrator and CEO Mark A. Gabriel. "One of the most critical needs facing WAPA is the ability to clearly articulate investment needs and acquire adequate funding to sustain reliability while also maintaining affordable services."

That planning strategy is embodied in the 10-Year Capital Investment Plans for supporting infrastructure and budget requests. The plans, developed at a regional level, act as a sort of linchpin for sustainable funding. Created in collaboration with customers, they are rolled up into a WAPA-wide plan, tying together asset management data and funding requests by identifying necessary construction and maintenance, funding sources and conceptual schedules for the next decade.

As a result, the plans include all of WAPA's capital funding requirements. Investments are categorized consistently by the regions and merged together into five primary areas:

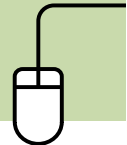
- Transmission lines
- Building and programs
- Mobile and heavy equipment
- Communication systems
- Substations



Capital costs consolidated WAPA-wide are presented by headquarters staff, who last met with customers on HQ capital planning measures in December 2015. The next HQ 10-Year Capital Planning Meeting is a technical one and will be held at HQ in Lakewood, Colorado, on Sept. 14. During the meeting, customers will be asked to question and provide feedback on the proposed budget for Fiscal Year 2018.

"Understanding our assets is critical because the future is bringing change," said Gabriel. "We want to be ready for the future so our customers can continue receiving the benefits of our federal mission. We do this best when we plan together." ■

More information about WAPA's 10-Year Capital Planning efforts can be found on *The Source*, under "Budget allocations" at [www.wapa.gov/about/the-source/](http://www.wapa.gov/about/the-source/)



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