

BPA Policy 211-1

Budgeting by Accruals

Finance

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1. Purpose

This policy formally documents the adoption of accrual-based budgeting for the Bonneville Power Administration.

2. Policy Owner

BPA's Chief Financial Officer (CFO) is the owner of this policy. BPA's CFO is delegated the authority by the Administrator to manage the processes and procedures used on a BPA-wide basis to budget for and manage all funds expended and received in connection with the acquisition, transmission, and sale of electric energy and other BPA services.

3. Applicability

This policy is applicable to Bonneville's Chief Budget Officer (CBO) and all BPA managers and employees who develop and review budgets that are subsequently submitted to DOE, OMB and Congress. A "submitted budget" under this policy is the budget document that is sent to DOE and OMB for review and inclusion in the narrative section of the President's Budget. This policy does not affect Bonneville's submission to the OMB MAX Information System.

4. Terms & Definitions

- A. Accrual:** The basis whereby transactions and events are recognized upon receipt of a good or service, regardless of when ordered or cash paid.
- B. Obligation:** Obligation means a legally binding agreement that will result in outlays, immediately or in the future. An obligation is incurred whenever an order is placed, a contract is signed, a grant is awarded, a service is purchased, or other actions are taken that require the Government to make payments to the public or transfer funds from one Government account to another. The federal budget operates on an obligation basis with requirements that federal entities not exceed their budget authority.

5. Policy Background

As a federal entity operating as a commercial business, Bonneville's unusual mandate was recognized from its inception. When the Bonneville Project Act of 1937 created Bonneville as an appropriated agency, it laid the groundwork for a more commercial approach by requiring that Bonneville, subject to the requirements of the Federal Power Act, keep complete and accurate accounts of operations and "obtain an independent commercial type audit" at the close of each fiscal year.¹

Bonneville was substantially freed from the annual appropriations process by the Federal Columbia River Transmission Act of 1974, which granted BPA a permanent, indefinite appropriation. The Transmission Act also directed BPA to operate under the same rules as a Government Controlled Corporation, while retaining the right of the Comptroller General to audit BPA "at such times and to such extent that the Comptroller General deems necessary".

¹ Bonneville Project Act, §9(a), 50 Stat. 736

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In reference to the 1974 Transmission Act, the Senate Report for the 1977 Department of Energy Organization Act outlined the history of BPA as the only PMA that was created directly by statute. The Report states:

“The purpose of this act [the Transmission Act] was, among other things, to enable BPA to handle its financial affairs in a businesslike manner, subject only to the constraints of the Government Corporation Control Act”.

BPA started receiving generally accepted accounting principles (GAAP) audit opinion statements based on the Financial Accounting Standards Board (FASB) in 1985. However, BPA was using accrual-based accounting for expense prior to this date. For example, accrual-based accounting was stated as a requirement in the 1956 annual report.

6. Policy Decision and Implementation

In 1995, Bonneville was chosen as a reinvention laboratory under Vice-President Al Gore’s National Partnership for Reinventing Government. The aim for the initiative was to create a government that “works better, costs less, and gets results Americans care about.” Bonneville’s goal in this effort was to shift our operations from a bureaucratic approach towards a more business-focused model.

Typical obligation-based budgeting was seen as ineffective for Bonneville in that it focuses on preventing an agency from incurring obligations or making expenditures in excess of congressional appropriations, with the ultimate goal of protecting the U.S. Treasury. The intent of the 1974 Transmission Act was to substantially free Bonneville from the annual appropriations process and allow it to operate in a more business-like manner. Consistent with this direction, Bonneville already used accrual accounting for its business operations and complied with FASB GAAP to support independently audited financial statements.

In 1995, Bonneville was operating with a combination of federal and business budgeting philosophies. Budgets were on an obligation basis, without the consequences of violating the Antideficiency Act for either time or amount due to its permanent, indefinite appropriation. At the same time, as a business, Bonneville’s budgets were viewed flexibly, with quarterly reviews developed on an accrual basis and used to manage current operations. This hybrid approach inhibited Bonneville’s ability to control the outflow of funds, establish managerial accountability through variance reporting, react to changing circumstances and measure business performance against planned results.

At the time, Bonneville was under considerable competitive pressure to manage rate increases. Bonneville’s rates were rising to match or exceed the market and Bonneville management determined that it was essential that Bonneville budget and manage costs on an accrual basis to better forecast cash flows and net revenues, enabling better rate setting during times of financial uncertainty.

After considerable study and review, the Bonneville Executive Committee made the formal decision to move from obligation to accrual-based budgeting in June 1995, with

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implementation in the FY 1996 start-of-year and FY 1997 congressional budgets. The decision document is attached to this policy as appendix A.

Bonneville, with review and sign-off by the Department of Energy and the Office of Management and Budget, notified Congress of the switch to accrual based budgets in the FY 1997 federal budget. The change to accruals was noted in the Congressional Budget’s Program Mission Summary as follows:

“The spending estimates that appear at the budget line item of detail in the following Performance Summaries are accrued expenditures. Budget obligations continue to be shown at the program level, however. Managing to and reporting of accrued expenditures allows Bonneville to better control funds, reduce costs, and focus on results that positively impact Bonneville’s financial condition and probability of repaying the U.S. Treasury. Bonneville’s total forecast obligations that appear on the Program Funding Profile (Lead Table), BP-1 Summary, BP-2 Table and Program and Financing Summary were estimated based on Bonneville’s forecast of accrued expenditures.”²

This change in budgeting methodology was affirmed in the FY 1998 Congressional Budget where the Funding Summary table now included the title “(accrued expenditures in millions of dollars)” and the Overview of Performance Summaries section outlined the relationship of accruals to obligations with the following note:

“BPA’s performance summaries that follow present budget requirements of budget line items (BLI) on the basis of accrued expenditures. Accrued expenditure is the basis for presenting BPA’s program funding levels in the power and transmission ratemaking processes, and is naturally, the basis upon which BPA managers control their resources to provide products and services. Accrued expenditures relate costs to performance. Traditional budget obligational requirements for BPA’s budget are shown on the Program and Performance Schedule prepared in accord with OMB Circular A-11.”³

Congressional budgets after FY 1997 have been developed with the assumption that BPA uses accruals as the basis for management and presents accruals as obligations in the budget. Throughout budget documents, program tables are labeled “Funding Schedule of Accrued Expenditures”. This is also manifest through the consistent, interchangeable use of the terms “accruals” and “obligations”.

7. Responsibilities

- A. **Manager of Budget Planning and Forecasting (Chief Budget Officer):** Responsible for establishing policy, operational procedures and practices for federal and internal budgeting, forecasting, and analysis.
- B. **Budget Strategy and Forecasting Manager:** Provides strategic planning and leadership for BPA’s budget development and forecasting processes. Oversees development and

² Bonneville Power Administration FY 1997 Budget Submission March 1996 for Congress, pg. 10

³ Bonneville Power Administration FY 1997 Budget Submission for Congress, pgs. 3, 14

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submission of federal budgets and coordinates with DOE on budget issues. Responsible for issuing funding allocations in conformance with approved financial targets.

C. BPA Staff and Subject Matter Experts: Responsible for developing accrual-based budgets in accordance with this policy.

8. Policy

Consistent with the policy change made in 1995, Bonneville continues to develop federal and all other budgets on an accrual basis, consistent with its business operations in a competitive environment and its mandate to function under the requirements of a government controlled corporation. Transactions, events, and circumstances that have financial impacts on BPA shall be budgeted for in the period in which those transactions, events, and circumstances occur rather than when cash is disbursed.

9. Performance & Monitoring

Oversight of the proper development and implementation of accrual-based budgets will be the responsibility of the Chief Financial Officer, working through the Chief Budget Officer.

10. Authorities & References

BPA Budget Handbook, federal budget documents.

11. Review

Review of this policy is conducted every five years.

12. Revision History

Version	Issue Date	Description of Change
1	12-08-2016	New Policy

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13. Appendix A – 1995 Accrual-Based Budgeting Decision Document

DOE F 1325.8 e Electronic Form Approved by CGIR - 01/20/95
(8-89)

Reading File Copy

United States Government

Department of Energy

Bonneville Power Administration

memorandum

DATE:

REPLY TO
ATTN OF: A

SUBJECT: Accrual-Based Budgeting Decision

TO:

Staff Managers - AB, CB, EB, FB, L, MD, SC, TB
 R. Seifert - AC
 M. Walker - CB
 C. Roller - ECB
 M. Pfeifer - FB
 D. Steele - MD
 C. Hanks - SC
 S. Melton - TD
 L. Dinan - TD

On June 20, the Executive Committee gave its approval to go ahead with the development and implementation of accrual-based budgeting for internal management purposes. The reasons for adopting this proposal include the need to better control the outflow of funds, a desire to derive the full benefits from the product-costing effort currently under way, and the aspiration to take another step toward becoming more business-like and results-oriented in the management of Bonneville's resources.

Bonneville managers and staff will be working together to make this decision fully effective October 1, 1995. There will be transition issues and numerous problems yet to solve. To facilitate the transition we need to ask every employee to be aware of the business implications resulting from their actions during this transition period. Executive management is committed to supporting people during the transition. This commitment embodies the awareness and respect of the workload that this decision will place upon people. We agreed that we all need to be flexible and understanding of the learning curve as we change the emphasis of our management focus regarding spending decisions. The Financial Services Group will be coordinating the transition process and will be available to provide assistance to you with your questions.

There has been a considerable amount of up-front work done already by you, and as some of the key players I want to thank you for your participation. I realize that many others in your work groups are contributing to the success of this effort, please pass along my appreciation to them.

Sue Hickey
Chief Operating Officer

cc:
 Group Vice Presidents - C, E, F, L, M, S, T
 Vice Presidents - AC, MG, MP, TE, TF
 Manager, Council Liaison - AR
 Manager, Corporate Communications - CK
 Manager, Financial Operations - FR
 Manager, Budget Support - FRB
 Official File - BU-11-15

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