



**Bonneville Power Administration
Office of Internal Audit**

Internal Audit Report

*Review of Bonneville Power Administration's
Business Unit Cash Split Allocation Validation*

Conforms with the International Standards for the Professional Practice of Internal Auditing.



Bonneville Power Administration

Office of Internal Audit

July 9, 2019

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SUBJECT: Review of Bonneville Power Administration’s Business Unit Cash Split Allocation Validation (FY19-02)

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EXECUTIVE SUMMARY

The Bonneville Power Administration (BPA) holds all of its cash in the Bonneville Fund. For rate setting and regulatory purposes, BPA separates the cash between the Power and Transmission business-lines to calculate the financial reserves. This calculation is based on the internal cash split process that uses actual financial data to attribute Power business line transactions to Power’s cash and Transmission business-line transactions to Transmission’s cash.

In July and September 2018, BPA identified errors related to the year-end financial reserve forecast. The identification of these errors resulted in Finance conducting a comprehensive review of its financial reserves processes. During this process review, Finance identified the Business Unit (BU) Cash Split Model as a key component of the financial reserve calculation. The BU Cash Split Model is an internal model that allocates cash held in the Bonneville Fund between Power and Transmission.


As part of the comprehensive review, Finance began comparing the BU Cash Split Model allocations to the actual allocations from PeopleSoft Financials. In January 2019, Finance identified that in one of the modules Transmission costs were misallocated to Power resulting in an approximate error exceeding \$200 million. Finance notified Internal Audit and requested assistance with the comprehensive review.

RESULTS OF REVIEW

Our validation identified weaknesses in BPA’s controls over the BU Cash Split Model allocation process. We found Financial Strategy and Operations (FT) can improve controls in five areas:

- (1) Assumptions used in the model were not sufficiently documented or validated.
- (2) Controls were insufficient to ensure the model accurately reflected the business line transactions in PeopleSoft Financials.
- (3) Variance thresholds with escalation procedures were not established.
- (4) A process to log, review and approve manual adjustments was not established.
- (5) Final versions of the BU Cash Split report files were not locked down or identified as final.

BPA internal control assurance requires that FT log management action plans in the BPA Audit and Review Tracking system within 30 days of report issuance.

We greatly appreciate the cooperation of the Finance organization and other staff contacted during our review. If you need additional copies of the report, or have any questions about it, 


Attachment

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REVIEW OF BPA'S BUSINESS UNIT CASH SPLIT ALLOCATION VALIDATION

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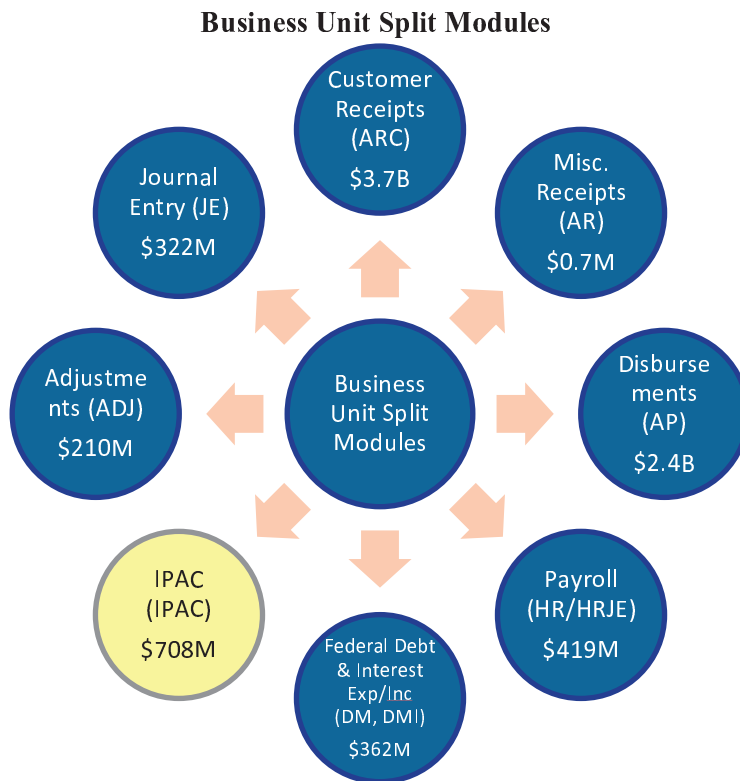
Abbreviations

AP	Accounts Payable
AR	Account Receivable
BPA	Bonneville Power Administration
BU	Business Unit
C	Corporate
DM	Deal Management
DMI	Deal Management Interest
FT	Financial Strategy and Operations
G&A	General and Administrative
HR	Human Resources
HRJE	Human Resources Journal Entry
GSA	General Services Administration
IA	Internal Audit
IOC	Interest Offset Credit
IPAC	Intragovernmental Payment and Collection
JE	Journal Entry
P	Power
T	Transmission

A. BACKGROUND

The Business Unit (BU) Cash Split Model is an internal model¹ that allocates cash held in the Bonneville Fund between Power and Transmission. The model uses inputs from Bonneville Power Administration (BPA) financial system, primarily PeopleSoft Financials, to create monthly calculations of the cash position for Transmission and Power business-lines. The BU Cash Split Model is comprised of ten modules as shown below². The BU Split Cash Model is managed by BPA’s Financial Strategy and Operations group (FT). The error identified in January 2019 was an issue with an assumption embedded in the Intragovernmental Payment and Collection (IPAC) module of the BU Cash Split Model. IPAC is a US Treasury collections and payments system used to transfer funds from one Federal Agency to another. For example, BPA pays rent to the General Services Administration (GSA) for use of the Headquarter building through the IPAC system. The IPAC module within the BU Cash Split Model embedded assumption that allocated all IPAC payments to Power’s Cash which resulted in Transmission-related costs erroneously deducted from Power’s Cash.

Finance completed a comprehensive review of the BU Cash Split Modules from FY2015-2018. When incorrect allocations were identified during this period, Finance went back to FY2003 to determine the error and impact. Finance requested Internal Audit review the work performed for completeness and reasonableness.



¹ The BU Cash Split Model is for internal allocation purposes and does not affect BPA’s Audited Financials as those financials are presented on a consolidated basis.

² The graph shows eight modules for simplification and the amounts represent FY2018 cash transactions. HR consists of two (HR and HRJE) as does Federal Debt and Investments (DM, DMI).

Module Name	Module Descriptions
IPAC	The IPAC Module handles cash receipts and disbursements made through the Intragovernmental Payment and Collection (“IPAC”) system, which is the collections and payments system used by Federal Program Agencies to transfer funds from one agency to another.
ARC	The ARC Module handles accounts receivable cash receipts from customers. ARC cash amounts were allocated to Power (P)/Transmission (T)/Corporate (C) based on the accounting entries for each deposit.
AR	The AR Module handles miscellaneous accounts receivable cash receipts with no Customer ID.
AP	The AP Module handles cash disbursements processed through accounts payable.
HR	The HR Module handles cash disbursements related to employee payroll, taxes, leave and benefits, and other pay-related transactions processed in HRMIS.
HRJE	The HRJE Module handles cash amounts related to miscellaneous payroll related manual journal entries.
DM	The DM Module handles cash receipts and disbursements related to Federal bond issuance, principal repayment, and interest expense. DM cash amounts were allocated to P and T based on the deal portfolios defined on each deal.
DMI	The DMI Module handles cash receipts related to interest income from U.S. Treasury Investments. DMI cash amounts were allocated to P and T based on the monthly average beginning and ending cash balances.
JE	The JE Module handles the year-end Treasury payment, which includes cash disbursements related to Federal appropriation principal and interest payment (net of credits/offsets), Post Retirement Benefit payment, and Irrigation Assistance payment. This amount is manually entered into the module. It also contained Interest Offset Credit (IOC) taken throughout the year, Radio Spectrum, and miscellaneous Treasury-related cash disbursements/collections.
ADJ	The ADJ Module contains manual adjustments related to a) Beginning Balance Adjustments to pick up the ending balance for the prior fiscal year; b) Between Business Line Adjustments to transfer cash depending on actual billing or purchasing activity, and revenues and expenses between the BUs; c) Energy Northwest Adjustments to transfer cash from T to P as part of the Debt Service Reassignment (DSR); and d) IOC Adjustments to transfer cash based on the monthly true-up process of IOC split between P and T.

B. OBJECTIVES

The objectives of this review were to determine whether the Business Unit Cash Split Model allocation of cash between Power and Transmission from FY2015-2018 was consistent with how transactions were recorded in BPA’s rates and financial systems based on the validation work performed by Finance. In addition for allocations identified as incorrect, Internal Audit reviewed Finance’s documentation to determine whether the error identified were based on BPA’s financial records and covered the period of FY2003-2018.

C. SCOPE AND METHODOLOGY

Our review focused on Finance's validation work performed for the period of FY2015-2018 and for any allocations identified as incorrect for the review period of FY2003-2018. We gained an understanding of the BU Cash Split Model allocation process, reconciled data used in the allocation to supporting documentation (such as PeopleSoft financial records, BPA's Rate case publications, and corporate General and Administration (G&A) allocation rates) to verify accuracy and completeness, evaluated the reasonableness of the assumptions and approach used in each BU Cash Split module through the work performed by Finance, and validated the calculation of the allocation errors identified.

D. FINDINGS AND RECOMMENDATIONS

Controls over the Business Unit Cash Split Model are not adequate

Internal Audit (IA) reviewed the validation work performed by Finance for the periods of FY2015-2018 for all ten modules. Finance started with these years because the Business Unit (BU) Cash Split Model process had been automated during FY2015 making the data readily available and in a format that provided for greater ease of review. Finance reconciled the BU Cash Split Model allocations to supporting documentation such as PeopleSoft Financials, Rate Case publications, and Corporate G&A allocation rates.

During the validation process, Finance and IA identified errors related to three areas: the allocation of IPAC costs (in both the automated and manual process); the allocation of pay-related costs (manual process), and the allocation of Corporate Accounts Payable (AP) costs (manual process). For these three areas, Finance reviewed the allocations back to FY2003 as that is the period to which full records for validation are available. Finance and IA also identified several areas where controls were not adequate to ensure the final allocations from the model were accurate. Finance and IA noted the following:

- The IPAC Module applied 100% of the costs to the Power business-line. Finance re-calculated actual allocations based on PeopleSoft Financial reports which resulted in an increase to Power's reserves by \$291 million. Of the \$291 million, \$93 million was specifically identified by Internal Audit³.
- Pay-related costs were not properly allocated prior to FY2016. It was discovered that the payroll allocations were not following the allocations used in PeopleSoft resulting in an increase to Transmission's reserves by \$230 million from FY2003-2015.
- Corporate AP costs from FY2003-2011 were split 50-50; in FY2012-2013 the allocation was changed to 35-65 between Power and Transmission business-lines to better align to Corporate G&A rates; in FY2014-2015 the rates attempted to align superficially to the weighted average Corporate G&A rates. While the latter changes got closer to the allocations in PeopleSoft Financials, none aligned perfectly. Finance used the allocations in PeopleSoft Financials for these time periods to determine the proper allocation to Power and Transmission, resulting in an increase to Power's reserves by \$90 million. This issue was corrected in FY2015 when the process was automated. Of the \$90 million, \$32 million was specifically identified by Internal Audit⁴.

³ Internal Audit noted differences when reconciling IPAC cash activities to the reports used for cost distributions and requested Finance to perform a full reconciliation, which uncovered an omitted second clearing account (the GSA Clearing Account), resulting in an additional \$93 million to the initial error amount.

⁴ Internal Audit noted differences when comparing Corporate AP allocation from the manual process to the BU Cash Split Model and requested Finance perform a full review of all accounts, which uncovered certain accounts (such as the Charge Card Clearing Account) with different allocation rates resulting in an additional \$32 million to the initial error amount.

The following table shows the final accumulated errors associated with the BU Cash Split Model (without interest) for over-and under-payments by Power. The positive amounts represent increases to Power's reserves:

\$ in Millions

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY03 - FY18
Pay-Related	(\$11.2)	(\$10.4)	(\$15.5)	(\$16.0)	(\$19.9)	(\$20.1)	(\$20.6)	(\$20.6)	(\$18.5)	(\$19.0)	(\$18.6)	(\$17.7)	(\$21.7)	\$0.0	\$0.0	\$0.0	(\$229.8)
Corp AP	\$10.4	\$7.7	\$6.9	\$8.5	\$8.2	\$9.4	\$10.1	\$10.7	\$15.3	\$0.5	\$2.4	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$89.9
IPAC	\$14.5	\$15.0	\$14.9	\$14.3	\$16.8	\$16.0	\$18.1	\$18.8	\$21.4	\$19.2	\$21.0	\$21.6	\$20.0	\$19.9	\$20.1	\$19.5	\$291.1
Other	\$0.2	(\$8.8)	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$6.1	\$2.6	\$0.2	\$5.2	\$7.5
Total Cash Impact	\$13.9	\$3.5	\$6.5	\$7.0	\$5.3	\$5.5	\$7.8	\$9.1	\$18.4	\$0.9	\$5.0	\$3.9	\$4.4	\$22.5	\$20.3	\$24.7	\$158.7

During our validation, we identified the following issues and recommendations to improve the overall process:

Issue #1: Finance did not sufficiently document or obtain management approval for all the various assumptions in the BU Cash Split Model.

Recommendation: FT should thoroughly document and obtain management approval for all the assumptions used in the BU Cash Split Model.

Issue #2: Finance did not reconcile data used in the BU Cash Split Model to PeopleSoft Financials to ensure completeness and accuracy.

Recommendation: FT should perform regular reconciliations between data used in the BU Cash Split Model and PeopleSoft Financials.

Issue #3: Finance did not establish variance thresholds with escalation procedures for identified differences.

Recommendation: FT should develop a policy that outlines variance thresholds, including approval levels and procedures for managing the escalation process.

Issue #4: Finance did not maintain an audit log of manual adjustments made to the BU Cash Split Model and did not obtain secondary review/approval of the changes.

Recommendation: FT should maintain an audit log of all manual adjustments which includes supporting documentation and secondary review/approval.

Issue #5: Finance did not lockdown or notate the final version of the BU Cash Split report file.

Recommendation: FT should lockdown and notate the final version of the BU Cash Split report file.