



City of Colorado Springs



City Council's Office of the City Auditor

INTEROFFICE MEMORANDUM

To: Mayor and Members of the Utility Board
 From: Denny L. Nester, Interim City Auditor
 Date: April 14, 2010
 Subject: Performance Review – Chief Executive Officer

BACKGROUND

On March 17, 2010, the Utility Board asked the Office of the City Auditor (OCA) to verify the information presented in the 2009 Performance Plan Review for the Chief Operating Officer of Colorado Springs Utilities. The goal of this review was twofold:

- 1) to verify the data used to quantify performance and ensure all performance metrics were accurately reported, and
- 2) to determine if the early implementation of the Governmental Accounting Standards Board's (GASB) Statement 53 had any impact on the CEO's performance review.

This is the first time the Office of the City Auditor has performed such a review.

OBJECTIVES AND SCOPE

To verify the data and ensure proper reporting of the performance metrics, staff performed calculations for accuracy and verified to the appropriate source documentation. Specifically, staff reviewed the supporting data for each performance indicator, verified the accuracy of the data, and compared the result to the rating scale to determine if the performance matched the levels reported to the Utility Board. The summary scores related to each Executive Limitation (EL) were also reviewed to ensure accuracy.

To assess the impact of the early implementation of the GASB 53 statement, staff reviewed the GASB statement and Colorado Springs Utilities year-end 2009 financial statements. Performance measures pertaining to financial goals were then analyzed for impact.

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RESULTS

Performance data:

The performance data, indicator worksheet, and explanation for each of the 14 performance measures (80 percent of CEO performance rating score) was reviewed and analyzed for accuracy, as were the numerical calculations based on the ELs (20 percent of performance rating score). All performance data and rating scores as reported to the Utility Board were verified as accurate.

However, there was one issue identified:

There was some slight inconsistency in terminology related to the reporting period throughout the performance indicators. In 10 of the 14 ratings, the data was referred to as a "4th quarter result", yet none of those cases represented data from October 2009 to December 2009 -- the time period typically referred to as the 4th quarter.

- In four of the ten cases, the data provided was based on the entire year (Economic Development Price Competitiveness, Fixed Cost Coverage Ratio, Cash from Operations, Environmental Index).
- In another four of the cases, the data was based on a 12-month rolling average (Water SAIDI, Disruptions in Water Service per 1,000 customers, Wastewater-SSOs per 100 miles of Mainline, Natural Gas Emergency Response Team).
- In two cases, the data was calculated based on a cumulative average of the prior three quarters with the 4th quarter data (Regional Utility Price Competitiveness Index, Wastewater Improvement Index).

While this information was reported as part of Colorado Springs Utilities' 4th quarter update to the Utilities Board, the data does not represent the 4th quarter of 2009. The OCA recommends this be clarified in future reports.

GASB 53:

The GASB 53 Statement changed the financial reporting of derivatives, which are investment tools used to hedge risks, by requiring effectiveness testing and changing the reporting requirements for effective versus ineffective hedges. Under the previous guidelines (Financial Accounting Standards 133), there was no effectiveness testing, and all derivative mark-to-market hedges were shown on the income statement as a non-operating gain or loss. Under the new rule, the fair value of effective hedges are reported on the balance sheet as deferred inflow/outflow of resources and only ineffective hedges are treated as a non-operating gain or loss on the income statement. This serves to reduce the more volatile swings or variations on the income statement, but could also be viewed as less conservative.

The new GASB 53 statement is slated for implementation no later than the first fiscal year beginning after June 15, 2009, with early adoption encouraged. This would result in adoption for the 2010 financial statements, but Colorado Springs Utilities adopted this new statement as of year-end 2009.

Two of the CEO's performance measures relate to financial performance, the Fixed Cost Coverage Ratio and the Cash for Operations.

1. Fixed Cost Coverage Ratio

This performance measure was rated based on the number of times annual debt service and other fixed costs were covered by net pledged revenue, giving a notion of how well Colorado Springs Utilities can cover fixed expenses with available income. The calculation included operating revenue, cash contributions in aid of construction, and interest and dividends (unrestricted assets only), minus adjusted net pledged revenue, divided by the sum of the yearly debt service, Authority debt service, and capacity costs.

The implementation of GASB 53 was an accounting change that allows the value of effective hedges to be deferred, thus lowering the non-operating gain/loss on the income statement. The non-operating gain/loss was not included in the calculation of the fixed cost coverage ratio.

2. Cash for Operations

This performance measure was rated based on the amount of unrestricted cash available at year end. As GASB 53 pertains to the fair value of an investment that has not yet been realized, there was no impact to cash.

The implementation of GASB 53 did not impact either the Fixed Cost Coverage Ratio or the Cash for Operations performance measures included in the CEO's performance plan.

CONCLUSION

Based on our review of the performance and indicator data, the performance review for the CEO provided by Colorado Springs Utilities was an accurate reflection for the year 2009. While implemented early, the implementation of GASB 53 had no impact on the performance measures upon which the CEO is evaluated.

Please contact me with any questions regarding this report.

C: Jerry Forte, Springs Utilities Chief Executive Officer
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