



OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

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23-12 Colorado Springs Utilities Enterprise Balanced Scorecard

May 2023

Purpose

The purpose of this audit was to validate data and support for the Colorado Springs Utilities 2022 Enterprise Balanced Scorecard (Scorecard) reported results. The Scorecard was a strategic planning and management tool to measure and monitor the organization's performance in achieving enterprise strategic objectives. Additionally, the Scorecard was one component of the Chief Executive Officer (CEO) performance plan.

Highlights

We conclude that the 2022 Scorecard results were accurately reported in accordance with Scorecard definitions. Metrics reported to Utilities Board for 2022 were properly supported by valid data and the overall score was in the meets expectations category. We identified one observation and one opportunity to improve Scorecard measurement.

Annually, Scorecard measures and targets were developed and approved by the Utilities Board. Financial stewardship targets were aligned with the Strategic Plan and Annual Operating and Financial Plan.

Utilities utilized the Kaplan-Norton approach for Scorecard development in accordance with the Strategic Plan. Under Kaplan-Norton, the balanced Scorecard looks at strategic measures in addition to traditional financial measures to obtain a more balanced view of organizational performance. Kaplan-Norton incorporates measures that relate to customer/stakeholder, foundational (workforce and safety), and internal business processes (operations and infrastructure), as well as financial perspectives. See page 2 for more information.

The CEO performance plan included results from the Scorecard, in addition to an assessment of strategic initiatives and five competencies (balances internal/external stakeholders, Utilities Board interaction, safety, leadership, and cultivates innovation and a strategic mindset).

We would like to thank Colorado Springs Utilities staff for their support of this audit.

Recommendations

1. Utilities management should revise measurement criteria to track Sustainable Energy Plan (SEP) capital projects that better reflects project performance against budget and schedule.

Opportunity for Improvement

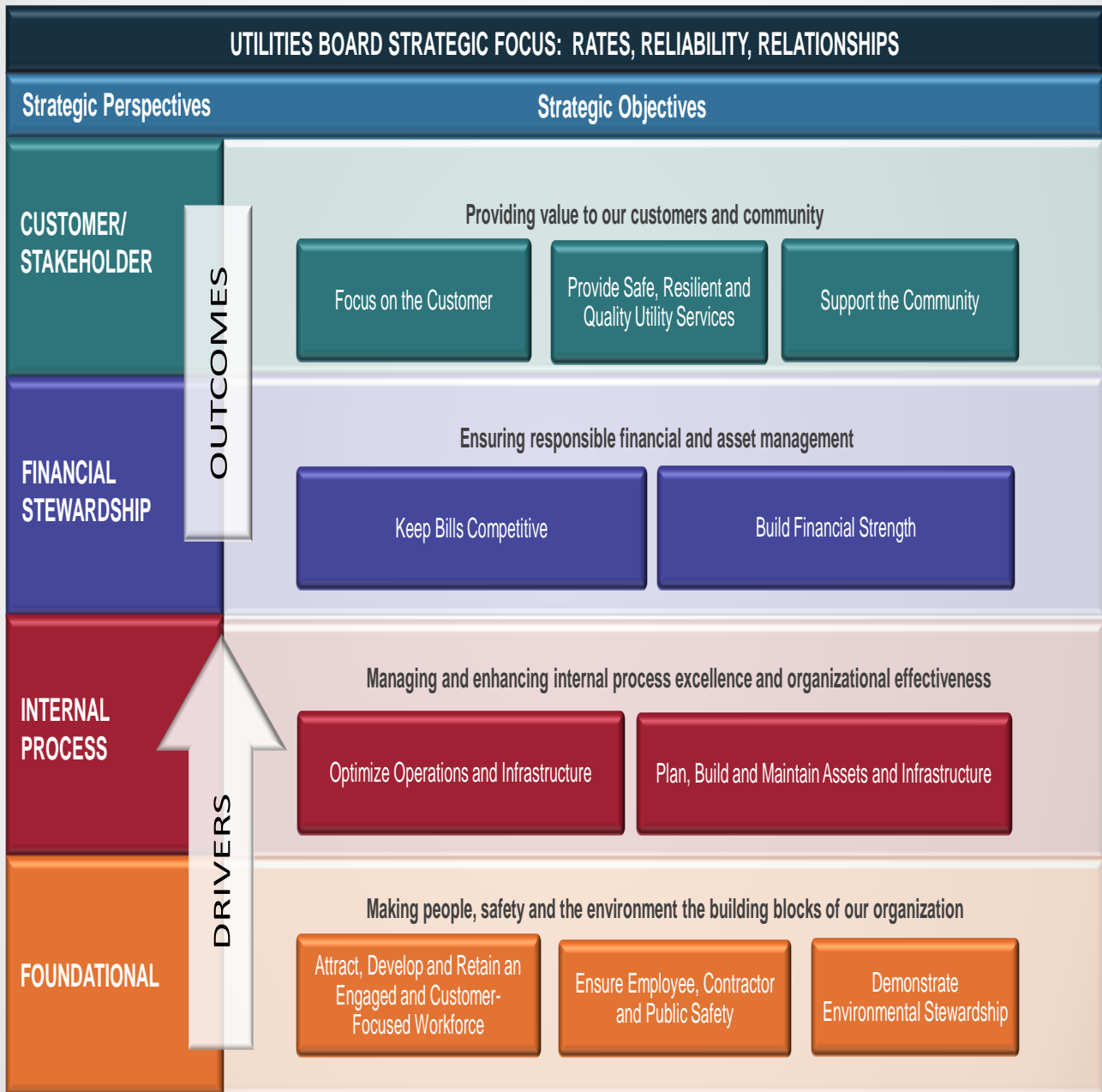
1. Utilities management should consider review of the Scorecard measures to ensure focus on key measures and minimize changes from year to year.

Management Response

Management was in agreement with our recommendations.

Colorado Springs Utilities Strategy Map

Effective January 1, 2022



Source: Colorado Springs Utilities Strategic Plan January 1, 2022

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Observation 1

The 2022 Scorecard included a Cost Performance Index (CPI) measure for the Sustainable Energy Plan (SEP) portfolio multi-year capital projects. The intent of this measure was to indicate the efficiency of cost performance. The measure was not effective in representing cost performance against budget.

Increases to the project cost through change orders and amendments were added to the earned value. This resulted in an earned value exactly equal to actual cost. This method of calculating earned value would always result in a score of 1 (meets expectations).

It was not clear how the project budget used in the calculation was determined. The project budget was not tied to the Annual Operating and Financial Plan budget for 2022. It was not clear at what point the actual budget amount was baselined for the projects, and subsequently updated due to contract amendments as the design progressed.

Management Response

We agree with this recommendation. The calculation of the Cost Performance Index (CPI) methodology for this metric is in accordance with the Project Management Institute. Utilities acknowledges that the CPI index is not a representative metric to monitor the success of this project. Staff will re-examine and recommend alternative budget and schedule measures for the 2024 Enterprise Balance Scorecard development, as applicable, by January 31, 2024.

Recommendation

Utilities management should revise measurement criteria for SEP capital projects to ensure criteria:

- Reflects project performance against budget and schedule.
- Specifies at what point the actual budget is established and when it is appropriate to update the budget to track and report any variances.

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Opportunity 1

Changes to certain Scorecard categories for 2022 included adding measures, revising measurement criteria for existing metrics, and changing weighting of scores. The Scorecard included twenty-six measures in total for the 40% components of the CEO performance plan. The remaining 60% were for the CEO measures which were not scored in 2022 due to the CEO position being vacant.

Changes from the 2021 to the 2022 Scorecard included increased weighting of reliability measures while decreasing weighting of rates and financial strength measures. Measurement criteria for residential and business customer satisfaction, and the workforce index were revised. Three financial strength measures were added. Rates comparison metrics were revised to increase the number of residential measures and decrease the number of commercial measures. Changes were made to some of the measures that did not meet or partially met 2021 expectations.

Limiting Scorecard changes facilitates consistent assessment of performance and clear understanding of progress towards strategic goals over time.

Auditors identified literature authored by Kaplan-Norton which encouraged focus on a few measures through the balanced scorecard that are most critical to the business. Under Utilities governance guidance, Utilities Board was responsible for approval of the annual Scorecard measures.

Management Response

We agree with this recommendation. Due to executive leadership and Utilities Board member changes, Utilities management anticipates updates to the 2024 scorecard. Utilities is reviewing the past five years of scorecard performance measures and targets with the goal of identifying those metrics most relevant to the Board strategic focus areas and enterprise strategic objectives. As part of this review, we will consider the recommendation to reduce the number of measures to focus on those best reflecting enterprise performance and that can be sustained over multiple years to allow for better year-to-year comparison. The 2024 enterprise balanced scorecard will be presented to the Utilities Board for approval at the December meeting.

Recommendation

Utilities management should consider:

- Review of Scorecard measures to ensure focus on a limited number of key performance and strategy measures.
- Practices that minimize Scorecard changes from year to year.