Performance Audit of Management of Interdepartmental Services

Prepared for the

Board of Supervisors
of the City and County of San Francisco

by the

San Francisco Budget and Legislative Analyst

April 28, 2025

CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

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April 28, 2025

Supervisor Jackie Fielder, Chair, Government Audit and Oversight Committee
    and Members of the San Francisco Board of Supervisors
Room 244, City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Dear Supervisor Fielder and Members of the Board of Supervisors:

The Budget and Legislative Analyst is pleased to submit this *Performance Audit of Management of Interdepartmental Services.* In response to a motion adopted by the Board of Supervisors in November 2023 (Motion M23-140), the Budget and Legislative Analyst conducted this performance audit, pursuant to the Board of Supervisors powers of inquiry as defined in Charter Section 16.114 and in accordance with U.S. Government Accountability Office (GAO) standards, as detailed in the Introduction to the report.

The performance audit contains nine findings and 24 recommendations, of which 13 are directed to the Controller's Office, seven are directed to the Mayor's Budget Office, one is directed to both the Controller's Office and the Mayor's Budget Office, one is directed to the City Attorney's Office, one is directed to the Department of Public Works, and one is directed to the Board of Supervisors. The Executive Summary, which follows this transmittal letter, summarizes the Budget and Legislative Analyst's findings and recommendations. The recommendations are intended to improve citywide management and efficiency of interdepartmental services, also known as workorders.

The City Attorney's Office, the Controller's Office, the Department of Public Works, and the Mayor's Budget Office have provided written responses to our performance audit, which are attached to this report starting on page B-1. The City Attorney's Office agrees with the one recommendation directed to it. The Controller's Office agrees with thirteen and partially agrees with one of the fourteen recommendations directed to it (including the one recommendation directed to both the Controller's Office and the Mayor's Budget Office). The Department of Public Works agrees with the one recommendation directed to it. The Mayor's Budget Office agrees with four and partially agrees with four of the eight recommendations directed to it (including the one recommendation directed to both the Controller's Office and the Mayor's Budget Office)

We would like to thank the staff at the Controller's Office, the Mayor's Budget Office, the City Attorney's Office, and the Department of Public Works for the assistance they provided during the audit.

Respectfully submitted,

Dan Goncher
Principal

cc: President Mandelman   Mayor Lurie
     Supervisor Chan   Controller
     Supervisor Chen   Mayor's Budget Director
     Supervisor Dorsey   Director, San Francisco Public Works
     Supervisor Engardio   Chief Financial Officer, City Attorney's Office
     Supervisor Mahmood   Clerk of the Board
     Supervisor Melgar
     Supervisor Sauter
     Supervisor Sherrill
     Supervisor Walton

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Executive Summary

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the management of interdepartmental services through a motion (M23-140) passed on Nov. 28, 2023. The scope of this performance audit includes management of interdepartmental services citywide between FY 2018-19 and FY 2022-23, including: budgeting, recording of expenditures, billings, and carryforwards; measurement and management of performance and adherence to contractual requirements; a comparison of the City's processes to best practices; a review of agreements for overbilling; and, the justifications used for the establishment of such agreements.

Section 1: Overbudgeting for Interdepartmental Services

In each year between FY 2018-19 and FY 2022-23, appropriations for interdepartmental services had between $53 and $80 million across all funds remaining at year-end, separate from any unspent funds carried forward for anticipated future use. From FY 2018-19 to FY 2022-23, the amount of these unspent appropriations increased by $23 million, or 43 percent, across all funds, and by $12 million, or 70 percent, in the General Fund. We also observed overbudgeting in our review of sampled interdepartmental services: in FY 2022-23, out of our sample of 48 interdepartmental services accounts, 25 accounts (52 percent) had funds remaining at year-end that were not carried forward for anticipated future use. Ongoing and increasing overbudgeting for interdepartmental services causes overall budgetary inefficiency and ties up funding, including a significant amount of General Fund monies, that could otherwise be budgeted for and spent on other programs or services.

Service levels and unit costs for interdepartmental services are primarily established and managed by the requesting and performing departments. Although the Mayor's Budget Office may identify underspending and work with performing departments to evaluate cost structures, this review is done on a case-by-case basis. Additionally, due to time constraints, the Budget and Legislative Analyst's Office does not conduct an in-depth review of interdepartmental services during the Board of Supervisors review of the Mayor's proposed budget. To improve reporting and visibility into spending on interdepartmental services and overall budgeting efficiency, we recommend that the Mayor's Budget Office and Budget and Legislative Analyst's Office annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports, consider these reports when reviewing departments' proposed budgets, and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

Recommendations

The Mayor's Budget Director should:

1.1 Request Mayor's Budget Office staff to: (a) annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports, and (b) consider these reports when reviewing department budget submissions and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

The Board of Supervisors should:

1.2 Direct the Budget and Legislative Analyst's Office to: (a) annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actuals reports, and (b) consider these reports when reviewing the Mayor's proposed budget and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

Section 2: Oversight of Interdepartmental Services Carryforwards

Our review of manual carryforwards for interdepartmental services (IDS) between FY 2018-19 and FY 2022-23 identified potentially unnecessary carryforwards and patterns of consistent carryforward use from year to year. Unnecessary carryforwards reduce the flexibility of the Mayor and Board of Supervisors to make budget policy decisions, particularly in the General Fund. Use of manual carryforwards for IDS should therefore be limited to circumstances when necessary for the completion of the service or to meet anticipated obligations, such as when work has been performed but not yet fully billed. Although the Controller's Office and the Mayor's Budget Office annually review and approve or deny City departments' manual carryforward requests, we found that departments did not consistently provide sufficient or thorough justification.

To prevent unnecessary IDS carryforwards, we recommend that the Controller's Office and Mayor's Budget Office modify their carryforward request template to require departments to clearly indicate, for each interdepartmental services request: (a) whether the IDS work has been performed or is yet to be performed, and (b) the prior year manual carryforward request, if applicable. These offices should then consider this information when approving or denying manual carryforward requests. We also recommend that the Mayor's Budget Office, as part of the current budget development process, conduct a one-time review of IDS accounts with (a) prior carryforwards without corresponding expenditures, (b) consistent carryforward amounts,

and (c) high carryforward amounts, and use the results of this review to make reductions as appropriate when reviewing proposed budgets for FY 2026-27 and FY 2027-28. Further, we recommend that the Controller's Office incorporate review of manual carryforwards into future post audit and continuous monitoring evaluations.

Recommendations

The Mayor's Budget Director and the Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

2.1   Modify their carryforward request template to require departments to clearly indicate, for each interdepartmental services carryforward request: (a) whether the interdepartmental services work has been performed or is yet to be performed, and (b) the prior year manual carryforward request and reason, if applicable, and consider this information when approving or denying manual carryforward requests.

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

2.2   Incorporate a review of manual carryforwards into future post audit and continuous monitoring evaluations to monitor departments' use of manual carryforwards and accounting and internal control practices.

The Mayor's Budget Director should:

2.3   During the summer of 2025, direct a one-time review of selections of IDS accounts with (a) carryforwards but no subsequent expenditures; (b) consistent manual carryforward amounts across multiple years; and (c) high total manual carryforwards. The Mayor's Budget Director should use the results of this review to make reductions, as appropriate, when reviewing proposed IDS budgets for FY 2026-27 and FY 2027-28.

Section 3: Methods for Tracking IDS Expenditures

The Controller's Office, the Mayor's Budget Office, and the other City departments lack sufficient visibility into actual spending on interdepartmental services (IDS) due to a software functionality issue. Although the City's prior financial system allowed departments to track IDS spending using a unique identifier for each IDS, this functionality does not exist in the City's current financial system, PeopleSoft. As a result, City staff track IDS spending through internal spreadsheets that vary by department. Maintaining these spreadsheets requires staff time and effort and may lead to staff delays in updating internal IDS trackers, limiting their visibility into spending. The lack of systematic expenditure tracking also raises the possibility of human error, which can lead to

billing disputes between the performing and requesting departments. The Controller's Office can address these issues by initiating and implementing a project to automate tracking IDS spending.

Recommendations

To reduce the administrative burden on departments involved in a work order, the San Francisco Controller should:

3.1   Add to the Controller's Office Performance Goals for FY 2025-26 and/or FY 2026-27 the scoping of a project to streamline the tracking of IDS spending to enable the Controller's Office, the Mayor's Budget Office, and City departments to see IDS spending in real time without the need for workarounds.

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

3.2   Allocate staff time to scope out a project to streamline the tracking of IDS spending, whether through the existing PeopleSoft system or with other software.

3.3   Once the scoping period is complete (see Recommendation 3.2), request the funding necessary to implement the proposed streamlining, which may include internal AOSD staff time, Systems' team time, and outside consultants. This would also include accounting data cleanup and transitioning IDS data from the current system to the new module.

Section 4: MOUs, Performance Monitoring, and Dispute Resolution

Many interdepartmental services (IDS) across the City do not have Memorandum of Understanding agreements (MOUs) between the requesting and performing departments. Others have an MOU that does not describe a process for performance monitoring or resolving a dispute between the departments. Out of a sample of 48 non-centrally loaded IDS reviewed by our audit team, departments only provided MOUs for half. Because some IDS cover multiple transactions, these 24 IDS were documented in 49 MOUs provided to the audit team; of these, none had a section dedicated to performance monitoring by the requesting department, and 18 (37 percent) lacked a clause describing a specific process for dispute resolution. Further, the MOUs were in 15 distinct formats.

Without a written agreement – or with one that lacks performance monitoring or dispute resolution processes – requesting departments may experience difficulties holding a performing department accountable for delivering satisfactory services. Although the Controller's Office's

Accounting Policies & Procedures manual recommends that departments use an MOU for IDS and provides a template, this practice generally remains up to department discretion. By updating its policy manual to require usage of an MOU with performance monitoring and dispute resolution clauses, the Controller's Office can further promote the delivery of satisfactory interdepartmental services.

Recommendations

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should update its Accounting Policies and Procedures to:

4.1   Require that departments utilizing a non-centrally loaded IDS develop a Memorandum of Understanding, and that the MOU is developed based on individual work orders between the requesting and performing departments.

4.2   Require, if Recommendation 4.1 is adopted, that departments complete the recommended MOU template in the Controller's Office Policies & Procedures (p. 381-382), with the update described in Recommendation 4.3 should that recommendation be adopted. Departments may also choose to complete an MOU in a different format, whether for legal reasons or because they choose to include more detail. All MOUs at a minimum must include the required MOU elements as described in the Policies & Procedures.

4.3   Add to the MOU template (p. 381-382 of the Controller's Policies & Procedures) a performance monitoring section that describes how the requesting department will monitor the work of the performing department. Input from other City departments should be sought in developing this section.

4.4   Include a customizable template performance monitoring report, developed with input from other City departments, that requesting departments can utilize to assess the services provided by performing departments.

Section 5: Centrally Loaded Interdepartmental Services

Certain City departments perform interdepartmental services (IDS) for most or all other departments, such as providing utilities service, maintenance of City vehicles, or technology infrastructure. For these services, referred to as "centrally loaded IDS," requesting departments generally do not play a role in determining their budgeted expenditures. This leaves the Mayor's Budget Office (MBO) as the entity best positioned to constrain costs. However, MBO lacks a documented process for its staff to review these budgeted costs. In addition, some centrally

loaded IDS are calculated as a function of a department's prior-year usage; because neither the requesting nor the performing department has a clear incentive to identify cost-saving efficiencies, an additional layer of review could help produce budget savings. Performing departments also record their cost models in varying ways, complicating MBO review.

The Mayor's Budget Director can address these issues by documenting a process to scrutinize centrally loaded IDS budgets and requiring performing departments to use a standardized template for sharing cost model information. The Controller's Office can further strengthen internal controls through periodic reviews by the City Services Auditor or the City Performance Unit of selected centrally loaded IDS for opportunities for cost savings.

Recommendations

The Mayor's Budget Director should:

5.1   Update the MBO training materials and Analyst Manual to include a framework for reviewing the justification for centrally loaded IDS costs.

5.2   Include in future Mayor's Budget Instructions a template that performing departments must complete with cost model information about centrally loaded IDS. If Recommendation 5.1 is adopted, the template proposed in Recommendation 5.2 should provide MBO staff with the information needed to conduct the review described in Recommendation 5.1.

The Controller should:

5.3   Consider directing either the City Services Auditor or the City Performance Unit to periodically review high-risk centrally loaded IDS for opportunities for cost savings.

Section 6: Billing Lags and Other Administrative Issues

Certain billing practices limit requesting departments' visibility into their spending to date for an interdepartmental service (IDS), hindering their ability to budget for the future. Although the Controller's Office describes monthly billing as a best practice, performing departments typically bill on a quarterly basis for IDS. For 96 percent (46 out of 48) of IDS in our sample, performing departments billed the requesting department quarterly in FY 2022-23. In addition, the delegated authority billing method, in which a performing department charges requesting departments and can bypass standard approval procedures, limits the visibility of requesting departments. According to Controller's Office staff, their Office has stopped allowing the use of delegated authority for any new projects, but this change has not been codified in its Accounting Policies and Procedures manual.

By making and codifying changes to improve the visibility of requesting departments into actual spending, the Controller's Office can make it easier for these departments to alter the scope and services of an IDS if they wish to do so based on actual spending and/or prepare for cost overruns. By requiring departments that use IDS to fund contracts to approve renewal of these arrangements on an annual basis, the Controller's Office can also reduce inefficiencies.

Recommendations

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

6.1   Establish checkboxes for monthly, quarterly, and annual billing in its IDS Memorandum of Understanding (MOU) template, through which the requesting department can request its preferred frequency of billing for an IDS.

6.2   Codify in the Controller's Accounting Policies and Procedures manual the prohibition on the use of delegated authority for new projects.

Section 7: Review of Non-Centrally Loaded Interdepartmental Services

Neither the Administrative Code nor the Mayor's Budget Office (MBO) require City departments to justify delivering a service through an Interdepartmental Service (IDS). Although MBO and Controller's Office staff analyze proposed IDS during the budget review, they generally do not analyze whether an IDS is the best delivery method or whether ongoing costs are justified. This increases the risk of an IDS continuing in perpetuity despite the expiration of the need for it. Our sample review found an apparent example: Due to a temporary funding restriction, the Department of Early Childhood (DEC) entered into an IDS through which the Department of Children, Youth and Their Families funded a childcare subsidy distributed by DEC. This IDS remains in place today, despite the lifting of the funding restriction. To strengthen controls around the use of IDS, we recommend that MBO require departments to justify the need for an IDS on an annual basis and that MBO staff review these justifications during the annual budget process.

At least two interdepartmental service agreements in our sample had hourly rates that exceeded at least some private-sector rates for similar services. The costs of these IDS may have been well-justified, due to higher service quality, civil service worker protections, cost allocation of Citywide services, or for other reasons. However, no process existed to ensure this was the case. As an additional control, we recommend the City Performance Unit consider reviewing the unit costs

and service levels of IDS it determines to be high risk and working with the involved departments, where appropriate, to improve cost efficiency.

Recommendations

The Mayor's Budget Director should:

7.1   Develop an Interdepartmental Service Justification template, for departments to justify on an annual basis the need for a specific IDS; and require through future Mayor's Budget Instructions that departments submit this form during the annual budget process.

7.2   If Recommendation 7.1 is adopted, update the MBO analyst manual and training materials to direct staff to (a) review the justification submitted by departments during the annual budget process; and (b) at staff discretion, ask departments to justify unit costs or service levels for a specific IDS.

The Controller's City Performance Unit should:

7.3   Consider periodically reviewing the cost of certain interdepartmental services it determines to be high-risk and, as appropriate, recommending steps the requesting and performing departments can take to improve cost efficiency. This review should consider at least: (a) the justification provided by departments if Recommendation 7.1 is adopted; (b) private-sector cost estimates for similar services; and/or, (c) estimated rates if the requesting department performed the service with their own staff. This review would be separate from the Controller's Office annual review and certification of Proposition J contracted services.

Section 8: Positions Funded Through IDS

Some interdepartmental services (IDS) are specifically created for a requesting department to pay the salary of one or more employees working in a different department. Although we did not find evidence of any conflict with rules and regulations, such arrangements can raise questions about cost eligibility, the need for such positions and funding structures, and budget transparency. For one IDS we reviewed, in which a department used special revenue monies to fund 15.54 full time equivalent positions (FTEs) in another department, staff initially questioned whether this was an allowable use of the funding source. For another IDS, in which five departments shared the cost of a director-level position, none of the departments were able to provide our team with documentation showing the need for the position or rationale for the funding arrangement. A third IDS we reviewed involved one department reimbursing another for a position functionally based in the second department but authorized and funded in the first.

To ensure that such arrangements are sufficiently justified, we recommend that the Mayor's Budget Office (MBO) require documentation of the justification for IDS that fund positions and provide this annually to the Controller's Office and the Board of Supervisors' Budget and Legislative Analyst's Office. The Mayor's Budget Office could implement this recommendation by requiring performing and requesting departments to provide this justification in their department phase budget submissions to the Mayor's Budget Office, which would then be publicly available during subsequent phases of the budget development process.

Recommendations

The Controller should:

8.1   Add to the IDS Memorandum of Understanding template in its Accounting Policies & Procedures Manual a checkbox in which the requesting department must check if the IDS funds one or more positions.

The Mayor's Budget Office should:

8.2   Provide to the Controller's Office and the Budget and Legislative Analyst's Office, as part of the annual budget process, a list of IDS that fund positions, including the start date and funding sources for each, along with the rationale for creating the position and funding it in this way.

Section 9: As-Needed Legal Services and Facilities Maintenance

The City Attorney's Office (CAT) routinely bills departments for legal services months after the end of a quarterly billing period. We reviewed invoices that CAT sent to five departments for the quarter ending Sept. 30, 2022; the invoices had been uploaded to the City's financial system between Dec. 15, 2022 and Jan. 3, 2023. City Attorney's Office management informed us that they hope to reduce the amount of time it takes to review and upload invoices for interdepartmental services, and doing so would provide requesting departments more time to identify additional funds when expenditures are on pace to exceed the budgeted amount.

During the department phase of the budget process (approximately December to February), Department of Public Works (DPW) staff pursue agreement with requesting departments on a budget for facilities maintenance and other services for the upcoming year. However, DPW staff do not consistently provide requesting departments with detailed breakdowns showing the basis for their cost estimates. Although it is impossible to project the exact maintenance services a department will need, providing a more specific breakdown of estimated costs for planned work

would let requesting departments conduct a more thorough review. This would decrease the likelihood of significantly overbudgeting such services, which ties up funding that could be utilized elsewhere, or underbudgeting, which requires departments to identify alternative funding sources mid-year.

Recommendations

The City Attorney's Office Chief Financial Officer should:

9.1   (a) Once vacant positions are filled, make adjustments to expedite the process of billing interdepartmental services, and (b) report to the Board of Supervisors by June 30, 2026 on progress towards increasing the timeliness of billing these services.

The Department of Public Works' Chief Financial Officer should:

9.2   Work with client departments during the budget development process to identify planned work (e.g. scheduled maintenance, routine inspections, etc.) and, to the extent possible, provide a more detailed breakdown of estimated associated costs, prior to finalizing a Memorandum of Understanding for maintenance and repair work during the upcoming fiscal year.

Introduction

The Board of Supervisors directed the Budget and Legislative Analyst's Office to conduct a performance audit of the management of interdepartmental services through a motion (M23-140) passed on November 28, 2023.

Scope

The scope of this performance audit includes management of interdepartmental services citywide between FY 2018-19 and FY 2022-23, including:

  i.   *budgeting, recording of expenditures, billings and carryforwards;*
 ii.   *measurement and management of performance and adherence to contractual requirements;*
iii.   *a comparison of the City's processes to best practices;*
 iv.   *a review of agreements for overbilling; and*
  v.   *the justifications used for the establishment of such agreements.*

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In accordance with these requirements and standard performance audit practices, we performed the following performance audit procedures:

- Held an Entrance Conference with representatives from the Mayor's Budget Office and the San Francisco Controller's Office on February 1, 2024.
- Submitted an initial Request for Information (RFI) to the Mayor's Budget Office and the San Francisco Controller's Office, requesting, among other materials:
  - Copies of existing reports and/or budget system downloads showing citywide interdepartmental services budgeted and actual revenues and expenditures
  - All current office-level and, if applicable, citywide policies and procedures related to interdepartmental services
  - Copies of any audits, analyses, assessments, reports, evaluations, or studies produced or conducted between July 1, 2018 and June 30, 2023 of citywide spending on interdepartmental services.

- o Copies of any Mayor's Budget Office strategic planning documents issued between July 1, 2018 through June 30, 2023 that include guidance to departments, Mayor's Budget Office staff, the Controller's Office, or other City agencies related to budgeting for interdepartmental services.
  - o A list of all provisions in federal, state, and/or local law, regulations, City code, and guidance applicable to the Controller's Office that pertain to interdepartmental services.
- Conducted 18 survey interviews with staff working at a range of levels across 10 departments related to management of interdepartmental services.
- Requested from 34 departments information about:
  - o a sample of 50 non-centrally loaded interdepartmental services, selected with the goal of including types of IDS that we perceived to be high-risk based on our survey interviews.
  - o The 27 centrally loaded[1] IDS in FY 2022-23.[2]
- Conducted a risk assessment to identify high-risk areas from information collected during the initial phase of our edit.
- Conducted additional interviews and analysis to substantiate or refute the presence and details of specific risks we previously identified.
- Held a fieldwork verification conference as an audit team to discuss the strength of the evidence collected through audit fieldwork.
- Submitted a draft report with findings and recommendations to the Mayor's Budget Office, the Controller's Office, and other departments whose practices were discussed in detail on December 26, 2024.
- Conducted an exit conference with representatives of the Mayor's Budget Office and the Controller's Office on January 24, 2025.
- Submitted the final draft report, incorporating comments and information provided by the Mayor's Budget Office, the Controller's Office and other departments, to the Mayor's Budget Office and the Controller's Office on March 6, 2025.

Interdepartmental Services

Services that one City department provides to another department are known as interdepartmental services (IDS), often referred to as work orders. Departments that provide and

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[1] As described below, centrally loaded IDS are services that a performing department provides to all (or nearly all) departments citywide and that are loaded into the budget system by the Mayor's Office and the Controller's Office.
[2] Interdepartmental Services Balancing Report, FY 2022-23, provided by San Francisco Controller's Office.

are compensated for these services are referred to as performing departments; departments that pay for and receive such services are referred to as requesting departments.

Some IDS cover services that a performing department provides to all (or nearly all) departments citywide, such as information technology, contract monitoring, and human resources support. These services are loaded into the budget system by the Mayor's Office and the Controller's Office, and they are known as centrally loaded IDS.

Other IDS emerge from agreements between departments for a purpose specific to those departments. For the purposes of our audit, we refer to this latter category in this report as "non-centrally loaded IDS." To budget for these services, the Mayor's Budget Instructions to finance and budget staff in City departments ask requesting and performing departments to reach agreement on a proposed budget during the department phase of the annual budget process. Put another way, the requesting department's proposed expenditure must match the performing department's budgeted revenue for the service. These proposals are then subject to review by the Mayor's Budget Office and the Controller's Office during the Mayor's phase of the budget process.

For FY 2022-23, the final budget for the City and County included a total of $1.3 billion across all funds for interdepartmental services, or approximately 10 percent of the $14 billion in total budgeted expenditures across all funds.[3] Within the General Fund, budgeted expenditures totaled $669 million for interdepartmental services, or approximately 10 percent of the $6.8 billion in total General Fund budgeted expenditures.[4] Exhibit I.1 below shows a breakdown of budgeted IDS expenditures for FY 2022-23.

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[3] The IDS total comes from our analysis of an IDS Balancing Report provided by the Controller's Office, while the citywide expenditures total comes from the Annual Appropriation Ordinance. There is some discrepancy between these two documents, as the total we obtained across all funds for budgeted interdepartmental services ($1,341,568,241) differs slightly from a total amount of "interdepartmental recoveries" ($1,340,184,392) listed in the Annual Appropriation Ordinance for FY 2022-23.

[4] The IDS total comes from our analysis of an IDS Balancing Report provided by the Controller's Office, while the citywide General Fund expenditures total comes from the Annual Appropriation Ordinance. There is some discrepancy between these two documents, as the General Fund total we obtained for budgeted interdepartmental services ($668,895,220) differs slightly from a total amount of General Fund "interdepartmental recoveries" ($667,788,780) listed in the Annual Appropriation Ordinance for FY 2022-23.

Exhibit I.1: Budgeted Expenditures for Interdepartmental Services, FY 2022-23 (Millions)

	Centrally Loaded	Non-Centrally Loaded	Total
General Fund	$145.1	$523.8	$668.9
Other Funds	585.7	87.0	672.7
Total	$730.8	$610.8	$1,341.6

Source: BLA Analysis of IDS Balancing Report provided by San Francisco Controller's Office.
Note: Spreadsheets for centrally loaded and non-centrally loaded interdepartmental services were first cleaned to show expenditures only; totals above reflect the sum of the FY 2022-23 Requesting Proposal (for non-centrally loaded IDS) and FY 2022-23 Centrally Loaded Proposal (for centrally loaded IDS) fields. General Fund amounts were obtained by filtering to show fund titles that included the prefix GF.

For FY 2022-23, non-General Fund monies funded approximately $586 million (80%) of centrally loaded IDS, while General Fund monies funded the remaining $145 million (20%). By contrast, General Fund monies funded $524 million (86%) of all non-centrally loaded IDS, while other monies funded $87 million (14%). Exhibit I.2 below compares the breakdown of General Fund monies and other sources for centrally loaded and non-centrally loaded IDS.

Exhibit I.2: Sources of Funds for Centrally Loaded and Non-Centrally Loaded IDS, FY 2023-23 (Millions)
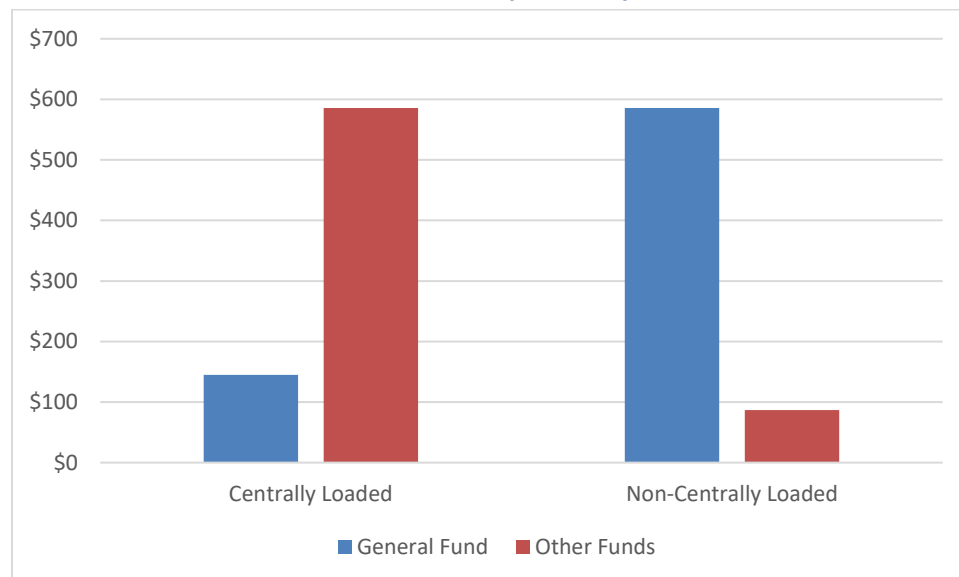
Source: BLA Analysis of IDS Balancing Report shared by Controller's Office.

Over the course of a budget year, performing departments provide services to requesting departments, and they charge requesting departments for the services provided. The Controller's Accounting Policies and Procedures Manual, as of its August 2024 update, allows three billing methods for IDS:

1. **Direct charge**, in which the requesting department assigns an IDS account budget to the performing department; the performing department then transfers funds from the requesting department's account based on actual expenditures.
2. **Internal billing**, in which the performing department sends invoices to the requesting department through journal entries in the City's accounting system.
3. **Delegated authority,** in which the requesting department assigns an IDS account budget to the performing department; the performing department can reassign these funds to a new budget unit and then directly transfer funds based on actual expenditures.

The Controller's accounting manual dictates which billing method(s) can be used for a specific IDS, depending on characteristics of the service.

At the end of each fiscal year, certain unspent funds can be "carried forward," or kept in the same account for later use. Section 2 of this report discusses carryforwards in detail. Funds not carried forward (i.e., savings) are returned to fund balance and can be repurposed depending on the restrictions of each fund type. Together, these savings and carryforwards represent funds that were budgeted for a given year but not expended.

For FY 2022-23, a total of $332 million budgeted for interdepartmental services remained unspent at the end of the fiscal year. This included both funds carried forward for future use and savings returned to fund balance. Of these unspent monies, $110 million were in Enterprise Funds, $107 million were in Special Revenue Funds, and $82.41 million were in the General Fund. The remaining $32 million were in other funds. Exhibit I.3 below shows all unspent IDS funds citywide – including both savings and funds carried forward into the next year – for FY 2018-29 through FY 2022-23.

Exhibit I.3: Savings and Carryforwards of Interdepartmental Services, FY 2018-19 to FY 2022-23

Savings and Carryforwards Out	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	5-Year Change ($)	5-Year Change (%)
Enterprise Funds	$91.0	$109.3	$115.7	$98.4	$110.2	$19.1	21%
Special Rev. Funds	47.02	68.18	71.17	109.89	107.35	60.33	128%
General Fund	74.88	81.98	88.51	85.11	82.41	7.53	10%
Other Funds	10.17	8.35	15.05	21.95	32.45	22.28	219%
Total	**$223.1**	**$267.8**	**$290.4**	**$315.4**	**$332.4**	**$109.3**	**49%**

Source: BLA analysis of budget vs. actual reports, City financial system. Calculated as the sum of *Surplus/Savings(Shortfall/Overspending)* and *Other Carryforward Out. "Other Funds" consists of Component Units, Pension Funds, Capital Projects Funds, Internal Service Funds, and Permanent Fund.*

As shown in Exhibit I.3 above, the amount of unspent interdepartmental services monies increased approximately $109 million, or 49 percent, between FY 2018-19 and FY 2022-23.[5] The amount of unspent IDS monies in special revenue funds increased by approximately $60 million (128 percent). The amount of unspent IDS monies in the General Fund increased by $7.5 million (10 percent).

Many of the recommendations in this report relate to improving the accuracy of budgeting for interdepartmental services. This can help address the overbudgeting described above, freeing up funds for other needed services without impacting the services delivered through IDS. More accurate budgeting can also help prevent the opposite problem – underbudgeting, which forces departments to make difficult tradeoffs mid-year. Other recommendations can reduce the administrative burdens involved in administering IDS, help ensure that services are delivered with satisfactory quality and service levels, and increase the cost efficiency of service provision.

Acknowledgements

We would like to thank the staff of the Mayor's Budget Office and the Controller's Office for their assistance and cooperation during this audit. We would also like to thank the staff of the 32 other departments that we included in our sample for their responses to our questions.

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[5] Of note, this time period included the enactment of two special taxes in 2018 (Proposition C, related to homelessness services, and "Baby" Proposition C, related to child care and early education); it also included service interruptions related to the COVID-19 pandemic.

1. Overbudgeting for Interdepartmental Services

In each year between FY 2018-19 and FY 2022-23, appropriations for interdepartmental services had between $53 and $80 million across all funds remaining at year-end, separate from any unspent funds carried forward for anticipated future use. From FY 2018-19 to FY 2022-23, the amount of these unspent appropriations increased by $23 million, or 43 percent, across all funds, and by $12 million, or 70 percent, in the General Fund. We also observed overbudgeting in our review of sampled interdepartmental services: in FY 2022-23, out of our sample of 48 interdepartmental services accounts, 25 accounts (52 percent) had funds remaining at year-end that were not carried forward for anticipated future use. Ongoing and increasing overbudgeting for interdepartmental services causes overall budgetary inefficiency and ties up funding, including a significant amount of General Fund monies, that could otherwise be budgeted for and spent on other programs or services.

Service levels and unit costs for interdepartmental services are primarily established and managed by the requesting and performing departments. Although the Mayor's Budget Office may identify underspending and work with performing departments to evaluate cost structures, this review is done on a case-by-case basis. Additionally, due to time constraints, the Budget and Legislative Analyst's Office does not conduct an in-depth review of interdepartmental services during the Board of Supervisors review of the Mayor's proposed budget. To improve reporting and visibility into spending on interdepartmental services and overall budgeting efficiency, we recommend that the Mayor's Budget Office and Budget and Legislative Analyst's Office annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports, consider these reports when reviewing departments' proposed budgets, and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

Background

Like other City services, budgets for interdepartmental services (IDS) are set during the City's annual appropriations process. Over the course of the year, the department funding an interdepartmental service (the "requesting department") pays the department providing the service (the "performing department") using the funds that were budgeted and appropriated for that purpose. For reasons described below and later in this report, actual expenditures for an interdepartmental service may be lower than the budgeted amount for that service, leaving unspent funds at the end of a fiscal year.

In some cases, funds not spent in one fiscal year are rolled over into the same account for the next fiscal year. This process is referred to as carrying forward funds. In continuing funds, which are typically used for project-based activities or capital projects, unspent appropriations are automatically carried forward into the following fiscal year. In annual funds, which are typically used for operational non-project activities, unspent appropriations are only carried forward at a department's request, known as a manual carryforward request, and is subject to approval from the Controller's Office and the Mayor's Budget Office. If unspent appropriations in annual funds are not carried forward (for example, if the services have been completed and the remaining funding will not be needed), these unspent funds return to fund balance and become available for other purposes.

This section uses the word "savings" to describe unspent funds that remain at year-end that are not carried forward. Section 2 of this report, *Oversight of Interdepartmental Services*, describes issues related to carried-forward funds, referred to as carryforwards. As described in that section, additional savings are likely available among carried-forward funds, due to insufficient controls to ensure that funds are only carried forward when needed to complete the planned services.

Interdepartmental services have both revenue and expenditure components, and because interdepartmental services budgets are balanced between the requesting department (expenditure) and performing department (revenue), if a requesting department's expenditure on an interdepartmental service is less than the budgeted amount, then the performing department's revenue will also be less than the budgeted amount. For simplicity, this section evaluates only budgeted and actual <u>expenditures</u> on interdepartmental services by the requesting department.

Five-Year Review of Spending on Interdepartmental Services

Between FY 2018-19 and FY 2022-23, appropriations for interdepartmental services in account 5810, Services of Other Departments, had savings of (in other words, were underspent by) between $53 and $80 million annually, as shown in Exhibit 1.1 below. These savings do not include carryforwards, which are discussed in more detail in Section 2 of this report.

Exhibit 1.1: Savings on Interdepartmental Services, FY 2018-19 to FY 2022-23

Savings	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	5-Year Change $	%
Enterprise Funds	$26,155,566	$37,662,552	$33,797,724	$19,652,958	$20,459,768	-$5,695,798	-22%
General Fund	17,234,251	21,987,025	27,119,135	28,514,988	29,380,366	12,146,115	70%
Int. Svc. Funds	652,015	470,464	385,536	186,040	801,984	149,969	23%
Pension Funds	1,114,126	1,417,143	2,535,077	956,776	1,254,003	139,877	13%
Special Rev. Funds	8,141,954	13,119,773	16,502,558	14,288,394	24,395,101	16,253,147	200%
Total	**$53,297,912**	**$74,656,957**	**$80,340,030**	**$63,599,156**	**$76,291,223**	**$22,993,310**	**43%**

Source: BLA analysis of budget vs. actual reports, City financial system. Calculated as the sum of *Surplus/Savings(Shortfall/Overspending) in account 5810, Services of Other Departments*.

As shown in Exhibit 1.1 above, from FY 2018-19 to FY 2022-23 savings resulting from underspending on interdepartmental services increased by $23 million, or 43 percent, across all funds, and by $12 million, or 70 percent, in the General Fund. These are amounts that were budgeted for expenditures on interdepartmental services, not spent during the fiscal year, and not carried forward by departments to meet a future obligation. Special revenue funds in total had the highest increase in savings, followed by the General Fund. In FY 2022-23, the General Fund had the highest amount of savings ($29 million) across all fund categories. According to Controller's Office staff, underlying IDS expenditures by the performing department can vary from the budget for several reasons, including:

- During the COVID-19 pandemic, many departments shifted staff efforts from IDS recoverable activities to emergency response and City vacancy rates increased, both of which reduced spending on IDS activities.
- Departments may intentionally generate mid-year budget savings.

Overbudgeting in Sampled Workorders

We also observed underspending in our review of sampled interdepartmental services. In FY 2022-23, out of our sample of 48 interdepartmental services accounts, 25 accounts (52 percent) had unspent funds remaining at year-end that were not carried forward. Out of the sample's total revised budgets of $128,109,507, including funds carried forward from previous years, these 25 interdepartmental services accounts had a total of $8,212,866 in unspent funds in FY 2022-23. Put another way, six percent of the total revised budgets of our sampled interdepartmental

services accounts went unspent in FY 2022-23. The amounts of savings ranged from $606 to $4,289,071 in unspent funds per account.

Effects of Overbudgeting

Ongoing and increasing overbudgeting for interdepartmental services causes overall budgetary inefficiency and ties up funding that could otherwise be budgeted for and spent on other programs or services. Minimizing overbudgeting and maximizing budget efficiency is particularly important during periods of financial constraint. The Mayor's Policy Instructions and Controller's Technical Instructions to departments for the FY 2023-24 and FY 2024-25 budget highlight the City's projected General Fund deficit and instruct departments to reduce their General Fund support to help address the shortfall. Adjusting budgets for interdepartmental services in the General Fund to reduce overbudgeting would result in greater budget efficiency and free up General Fund monies for other needs and services.

Causes of Overbudgeting

Overbudgeting on interdepartmental services could be caused by one or both of the following factors, depending on the circumstances of the service and how its budget is calculated:[1]

- Overbudgeting for unit costs (for example: if the performing department bills the requesting department based on units of service provided, and the interdepartmental services budget overestimates the cost of the unit of service);
- Overbudgeting for the level or volume of services provided (for example: if the performing department bills the requesting department based on units of service provided, and the interdepartmental services budget overestimates the number of units of service needed in a fiscal year).

This section focuses on underspending due to overbudgeting, meaning budgeting more for a service than the amount needed to complete it. Departments may also underspend their budget in a given year due to delayed spending, either due to performance delays or billing delays. Performance monitoring is discussed in Section 4 of this report, and billing delays are discussed in Section 6. As discussed in Section 2 of this report, strong controls are also needed to ensure

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[1] Other external factors outside the control of the City or departments (such as the national or regional economy, statutory changes, legislation, or weather) may also affect the need for or performance of a service and contribute to underspending.

that departments do not construe overbudgeting as delayed spending in order to improperly carry forward funds.

Oversight of Proposed Budgets

The budgets for interdepartmental services are established in one of two ways: (1) discretionary or (2) centrally loaded, as described below.

Discretionary Interdepartmental Services
For discretionary/voluntary interdepartmental services, City departments include either proposed expenditures (for requesting departments) or revenues (for performing departments) in their annual budget submissions to the Mayor's Budget Office and Controller's Office. The Mayor's Policy Instructions and Controller's Technical Instructions to departments state that departments must consult with performing departments so that costs for interdepartmental services are accurately estimated, and that expenditures and revenues for interdepartmental services must be balanced between the requesting and performing departments.

After departments submit their proposed budgets to the Mayor's Budget Office, the Mayor's Budget Office reviews and may make adjustments to department budget proposals, including interdepartmental services, during the development of the Mayor's proposed budget. According to Mayor's Budget Office staff, service levels and unit costs for interdepartmental services are primarily managed by the departments, although the Mayor's Budget Office may work with performing departments to evaluate cost structures during the budget cycle. When evaluating proposed budgets for interdepartmental services, Mayor's Budget Office analysts may review systematic underspending using budget vs. actual reports and current-year and prior-year six- and nine-month reporting and use that information to inform updates to interdepartmental services budgets during the budget process. The level of detail for this review is determined on a case-by-case basis depending on the departments involved and the one-time or ongoing nature of the work.

During budget development, the Mayor's Budget Office also works with the Controller's Office to ensure all interdepartmental services budget proposals are balanced between the requesting and performing departments. Following the submission of the Mayor's proposed budget by June 1, the Board of Supervisors and the Budget and Legislative Analyst's Office review and may make adjustments to the Mayor's proposed budget, including proposed budgets for interdepartmental services. However, due to the complexity of balancing interdepartmental services expenditures and recoveries between requesting and performing departments, as well as the constraints on the Board of Supervisors budget review timeframe, the Budget and Legislative Analyst's Office

does not conduct a comprehensive review of proposed discretionary interdepartmental services as part of the budget review.

Centrally Loaded Interdepartmental Services
Unlike discretionary/voluntary interdepartmental services, budgets for centrally loaded interdepartmental services are set up in the City's budget system by the Mayor's Budget Office and/or the Controller's Office and are not adjusted by the requesting and/or performing departments. These budgets are typically based on cost models developed by the performing departments, as discussed in more detail in Section 5 of this report. According to Mayor's Budget Office staff, Mayoral budget analysts may review cost recovery models to varying degrees and collaborate with departments to make adjustments during the development of the budget.

Budgets for centrally loaded interdepartmental services are also reviewed for balancing by the Controller's Office and submitted to the Board of Supervisors as part of the Mayor's proposed budget. The Board of Supervisors and Budget and Legislative Analyst's Office may make adjustments to the proposed budgets for centrally loaded interdepartmental services; however, due to the complexity of balancing interdepartmental services expenditures and recoveries and the constraints on the Board of Supervisors budget review timeframe, the Budget and Legislative Analyst's Office does not conduct a comprehensive review of centrally loaded interdepartmental services budgets. Section 5 of this report includes recommendations to improve the development and review of centrally-loaded interdepartmental services.

Improving Review of Interdepartmental Services Budgets

While there will always be unforeseen or external factors that cause underspending (and sometimes overspending) on interdepartmental services, to make the best use of its financial resources, the City should incorporate budget development and review processes that minimize underspending resulting from overbudgeting. As summarized above, service levels and unit costs for interdepartmental services are primarily established and managed by City departments; while the Mayor's Budget Office may work with performing departments to evaluate cost structures and review spending patterns to identify underspending, this review is done on a case-by-case basis. Additionally, due to time constraints, the Budget and Legislative Analyst's Office does not conduct an in-depth review of proposed budgets for interdepartmental services.

To improve reporting and visibility into spending on interdepartmental services, we recommend that the Mayor's Budget Office and the Budget and Legislative Analyst's Office annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports, consider these reports when reviewing proposed budgets

for interdepartmental services, and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

Conclusion

Accurately budgeting for interdepartmental services to minimize overbudgeting, particularly in the General Fund, would allow the City to make more efficient use of its funds while maintaining service levels for interdepartmental services.

Recommendations

The Mayor's Budget Director should:

1.1   Request Mayor's Budget Office staff to: (a) annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports, and (b) consider these reports when reviewing department budget submissions and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

The Board of Supervisors should:

1.2   Direct the Budget and Legislative Analyst's Office to: (a) annually generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actuals reports, and (b) consider these reports when reviewing the Mayor's proposed budget and make reductions where possible to reduce overbudgeting for interdepartmental services without impacting service delivery.

Benefits and Costs

Implementation of the proposed recommendations would require a small amount of annual staff time at the Mayor's Budget Office and the Budget and Legislative Analyst's Office. These recommendations would result in more reporting on and review of interdepartmental services budgets, which could improve the efficiency of the City's budget and generate savings that could be appropriated for other needs and services.

2. Oversight of Interdepartmental Services Carryforwards

Our review of manual carryforwards for interdepartmental services (IDS) between FY 2018-19 and FY 2022-23 identified potentially unnecessary carryforwards and patterns of consistent carryforward use from year to year. Unnecessary carryforwards reduce the flexibility of the Mayor and Board of Supervisors to make budget policy decisions, particularly in the General Fund. Use of manual carryforwards for IDS should therefore be limited to circumstances when necessary for the completion of the service or to meet anticipated obligations, such as when work has been performed but not yet fully billed. Although the Controller's Office and the Mayor's Budget Office annually review and approve or deny City departments' manual carryforward requests, we found that departments did not consistently provide sufficient or thorough justification.

To prevent unnecessary IDS carryforwards, we recommend that the Controller's Office and Mayor's Budget Office modify their carryforward request template to require departments to clearly indicate, for each interdepartmental services request: (a) whether the IDS work has been performed or is yet to be performed, and (b) the prior year manual carryforward request, if applicable. These offices should then consider this information when approving or denying manual carryforward requests. We also recommend that the Mayor's Budget Office, as part of the current budget development process, conduct a one-time review of IDS accounts with (a) prior carryforwards without corresponding expenditures, (b) consistent carryforward amounts, and (c) high carryforward amounts, and use the results of this review to make reductions as appropriate when reviewing proposed budgets for FY 2026-27 and FY 2027-28. Further, we recommend that the Controller's Office incorporate review of manual carryforwards into future post audit and continuous monitoring evaluations.

Carryforwards of Interdepartmental Services Appropriations

As stated in section 7.1 of the Controller's Office Accounting Policies and Procedures, at the end of each fiscal year, unspent appropriations for interdepartmental services (IDS) in annual funds[1] are closed if the services are completed. If the services are not completed, the requesting and performing departments may request that the unspent appropriations be carried forward into the next fiscal year. This request, known as a "manual carryforward request," must be approved by the Controller's Office and the Mayor's Budget Office. If unspent appropriations are not

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[1] Annual funds are used for operational, non-project-based activities. Unspent appropriations in annual funds are closed and return to fund balance at the end of each fiscal year.

carried forward, the remaining surplus amounts return to fund balance and are available for other purposes. Unspent appropriations for IDS in continuing funds[2] automatically carry forward into the next fiscal year.

Carryforward amounts are added to any new appropriations approved for that fiscal year. In other words, if a department carries forward $150,000 in unspent appropriations at the end of FY 2024-25 for an IDS, and the department's approved FY 2025-26 budget includes new appropriations of $200,000 in that same IDS account, the department's revised FY 2025-26 budget for that account will be $350,000 in total. If the department's approved FY 2025-26 budget does not include any new appropriations for that interdepartmental services account, the department will still have $150,000 in carryforward budget available to spend in FY 2025-26.

As shown in Exhibit 2.1 below, in each year between FY 2018-19 and FY 2022-23, the City carried forward between $61.2 and $79.1 million in unspent appropriations for IDS in annual funds and between $97.6 and $172.7 million in continuing funds. General Fund carryforwards for interdepartmental services ranged from $30.6 to $38.3 million in annual funds and between $13.1 and $29.4 million in continuing funds each year. In total across all funds, carryforwards for interdepartmental services increased by $92.6 million, or 58 percent, between FY 2018-19 and FY 2022-23, and General Fund carryforwards increased by $7.5 million, or 15 percent.

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[2] Continuing funds are used for project-based activities or capital projects. Unspent appropriations in continuing funds automatically carry forward into the following fiscal year.

Exhibit 2.1: Interdepartmental Services Carryforward Budget, FY 2018-19 to FY 2022-23

Annual Funds	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	*5-Year Change*	
						$	*%*
Enterprise	$17,520,008	$20,488,442	$17,691,184	$27,826,346	$28,795,193	*$11,275,185*	*64%*
Gen. Fund	35,962,837	35,962,544	30,576,852	38,319,106	34,351,247	*-1,611,590*	*-4%*
Int. Svc.	180,957	557,510	612,738	1,729,873	2,016,349	*1,835,392*	*1,014%*
Pension	227,379	656,838	148,994	612,144	4,513,155	*4,285,776*	*1,885%*
Special Rev.	7,695,584	5,299,445	12,197,965	9,874,677	9,377,557	*1,681,973*	*22%*
Annual Funds Total	**61,586,766**	**62,964,778**	**61,227,732**	**78,362,146**	**79,053,500**	**17,466,734**	**28%**
Continuing Funds							
Cap. Proj.	5,436,200	3,127,134	2,965,951	3,899,429	5,366,736	*-69,464*	*-1%*
Comp. Units	2,700,464	3,474,161	2,551,482	5,740,857	8,835,290	*6,134,825*	*227%*
Enterprise	39,000,661	44,385,010	53,976,202	54,090,856	49,979,472	*10,978,811*	*28%*
Gen. Fund	13,130,094	21,683,585	29,414,020	23,069,204	22,238,900	*9,108,806*	*69%*
Int. Svc.	213,468	482,091	107,091	71,322	-	*-213,468*	*-100%*
Perm. Fund	54,750	101,417	73,105	73,188	73,188	*18,438*	*34%*
Special Rev.	37,015,799	33,574,241	42,860,654	44,793,456	86,228,635	*49,212,837*	*133%*
Cont. Funds Total	**97,551,435**	**106,827,638**	**131,948,505**	**131,738,312**	**172,722,221**	**75,170,785**	**77%**
General Fund Total	*49,092,931*	*57,646,129*	*59,990,872*	*61,388,310*	*56,590,147*	*7,497,216*	*15%*
ALL FUNDS TOTAL	*$159,138,201*	*$169,792,416*	*$193,176,237*	*$210,100,458*	*$251,775,721*	*$92,637,519*	*58%*

Source: BLA analysis of budget vs. actual reports for interdepartmental services (5801), City financial system.

Carryforwards in Sampled Workorders

We also observed carryforwards in our review of sampled interdepartmental services. In FY 2022-23, out of our sample of 48 interdepartmental services accounts, 28 accounts (58 percent) had funds that were carried forward into the following fiscal year (FY 2023-24). Out of the sample's total revised budgets of $128,109,507, including funds carried forward from previous years, these 25 interdepartmental services accounts had a total of $20,125,778 in carryforward funds at the end of FY 2022-23. Put another way, 16 percent of the total revised budgets of our sampled interdepartmental services accounts was unspent in FY 2022-23 and carried forward into FY 2023-24. The amounts of carryforwards ranged from $1,207 to $4,414,356 per account.

Budgetary Impact of Carryforwards

If unspent appropriations are not carried forward at the close of a fiscal year, the amounts return to fund balance and are available for other purposes. (According to the Controller's Office FY 2024-25 and FY 2025-26 Revenue Letter, the Mayor's proposed FY 2024-25 and FY 2025-26 budget appropriated $445.4 million in unassigned General Fund balance to support FY 2024-25 and FY 2025-26 spending.) Carrying forward unspent appropriations ties up those funds and

makes them unavailable for other uses, which effectively reduces the flexibility of the Mayor and Board of Supervisors to make budget policy decisions, particularly in the case of General Fund carryforwards.

Therefore, consistent with the Controller's Office Accounting Policies and Procedures, the use of manual carryforwards for interdepartmental services should be limited to circumstances when necessary for the completion of the service or to meet anticipated obligations, such as when work has been performed but not yet fully billed.

Review and Monitoring of Carryforwards

Carryforwards are not included in the Mayor's proposed budget or considered by the Board of Supervisors in June as part of the City's budget process. City departments submit manual carryforward requests for unspent appropriations in annual funds to the Mayor's Office and the Controller's Office after the close of the fiscal year, typically in August or September. (As stated above, unspent appropriations for IDS in continuing funds automatically carry forward into the next fiscal year.)

Manual carryforward requests are reviewed and approved annually by the Controller's Office and the Mayor's Budget Office. Departments provide written justification for each request. The Controller's Office reviews the request to verify that funds are available and that the request follows accounting standards, and the Mayor's Budget Office evaluates the request for reasonableness and the status of the work performed.

In addition, beginning in 2024, the Controller's Office began reviewing manual carryforwards (including carryforwards for IDS) as part of its post audit and continuous monitoring program, which assesses City departments' accounting and internal control practices. As part of this review, the Controller's Office selects samples of manual carryforward requests and tests departments' financial and procurement transactions for compliance with manual carryforward requests. It then communicates any findings and recommendations to City departments in a memo.

Five-Year Review of Manual Carryforwards

Our review of manual carryforward appropriations for interdepartmental services in annual funds and corresponding manual carryforward requests from departments between FY 2018-19 and FY 2022-23 found that:

- Some departments carried forward unspent appropriations for IDS in accounts that subsequently showed no spending during the following fiscal year;

- Some departments carried forward the same or very similar amounts for IDS for multiple fiscal years in a row;
- Some IDS accounts had consistently high amounts of manual carryforwards for multiple fiscal years in a row; and
- Departments did not always provide details in their manual carryforward requests to explain the cause of or need for the carryforward.

Each of the patterns we observed is discussed below.

Manual Carryforwards without Corresponding Actual Expenditures

Between FY 2018-19 and FY 2022-23, we found that departments manually carried forward between $4.7 and $7.2 million each year in unspent IDS appropriations in accounts that subsequently had no spending the following fiscal year. These unspent manual carryforward funds included between $1.6 and $3.2 million of annual General Fund appropriations, as shown in Exhibit 2.2 below. For this analysis, we identified IDS accounts with non-zero carryforward budgets, non-zero revised budgets, and $0 in total general ledger actuals by department and by fund.

Exhibit 2.2: IDS Manual Carryforwards Without Corresponding Actual Expenditures, Annual Funds, FY 2018-19 to FY 2022-23

Interdepartmental Services	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**
Total carryforward budget	**$61,586,766**	**$62,964,778**	**$61,227,732**	**$78,362,146**	**$79,053,500**
Total carryforward budget in accounts with $0 GL actuals*	7,189,815	5,613,341	6,139,485	6,614,179	4,725,503
Total General Fund carryforward budget	**35,962,837**	**35,962,544**	**30,576,852**	**38,319,106**	**34,351,247**
Total General Fund annual carryforward budget in accounts with $0 GL actuals	2,053,666	1,983,864	1,960,550	1,661,656	3,278,580

Source: BLA analysis of budget vs. actual reports for interdepartmental services (5801), City financial system.

*This analysis totals the carryforward budget in interdepartmental services accounts (5801) with non-zero carryforward budgets, non-zero revised budgets, and $0 in total general ledger actuals by department and by fund.

Our review of department justifications of a random sample of 20 of these manual carryforward requests for FY 2022-23 found that:

- Seven requests, or 35 percent, indicated that the project or service was ongoing or continuous but did not provide any additional details, such as whether the work had

already been performed. Examples of this type of justification are: *"Services are ongoing. Carryforward funds will be used accordingly."* and *"Ongoing Work Order - ADM D04 AB Neighborhood Resiliency."*

- Only three requests, or 15 percent, indicated that there were delays in billing for the project or service or that future bills were expected.
- Two requests, or 10 percent, indicated that the project or service was delayed due to COVID-19.

It is possible that some of the amounts shown in Exhibit 2.2 were unspent due to unforeseen changes in circumstances that eliminated the need for the funds that had been carried forward. However, the lack of spending in these accounts could also indicate that the carryforward budgets were not necessary. Carryforwards of unneeded funds could be caused by over-budgeting for an IDS and subsequent inadequate justification for the carryforward. In our sampling, 35 percent of carryforward requests did not provide any additional details other than that the project or service was ongoing or continuous. To limit unnecessary carryforwards, we recommend that the Controller's Office and Mayor's Budget Office (a) require departments to indicate whether the work has been performed when they request manual carryforwards for interdepartmental services, and (b) consider this information when reviewing manual carryforward requests.

Similar Manual Carryforwards In and Out

We also identified interdepartmental services accounts for which the same or similar amounts were manually carried into and then out of a given fiscal year to understand the extent to which carryforwards are unused for multiple years and to identify patterns of consistent carryforward use every year. For this analysis, we identified interdepartmental services accounts by department and by fund with non-zero carryforward budgets in and non-zero carryforwards out. We then identified which of these accounts had carryforwards out that were identical to, within 10 percent of, and within 20 percent of the carryforward budget in. The results of each of these analyses are shown in Exhibit 2.3 below.

Exhibit 2.3: Interdepartmental Services with Similar Manual Carryforwards In and Out, Annual Funds, FY 2018-19 to FY 2022-23

Interdepartmental Services	**FY 2018-19**	**FY 2019-20**	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**
All annual funds: total carryforward budget	**$61,586,766**	**$62,964,778**	**$61,227,732**	**$78,362,146**	**$79,053,500**
Carryforward budget with identical carryforward out	4,174,127	4,675,507	6,650,092	1,818,458	1,971,913
Carryforward budget with carryforward out within 10%	9,557,123	7,299,642	11,275,515	5,030,992	8,596,351
Carryforward budget with carryforward out within 20%	18,097,723	14,539,586	17,037,184	12,408,927	21,000,195
Annual General Fund: total carryforward budget	**35,962,837**	**35,962,544**	**30,576,852**	**38,319,106**	**34,351,247**
Carryforward budget with identical carryforward out	1,181,380	1,492,987	2,024,323	709,149	1,075,064
Carryforward budget with carryforward out within 10%	3,752,983	3,181,129	4,574,967	2,988,147	2,701,367
Carryforward budget with carryforward out within 20%	10,710,892	7,110,877	8,628,231	5,928,988	8,566,093

Source: BLA analysis of budget vs. actual reports for interdepartmental services (5801), City financial system.

*This analysis includes interdepartmental services accounts with non-zero carryforward budgets in and non-zero carryforward budgets out by department and by fund.

Our review of a random sample of manual carryforward requests across FY 2021-22 and FY 2022-23 for 35 of these interdepartmental services accounts found that:

- 22 of the accounts, or 63 percent, had requests with the same or similar reasons in both years;
- Nine of the accounts, or 26 percent, did not provide enough detail in one year to know whether the requests were for similar or different reasons; and
- Four of the accounts, or 11 percent, had requests for different reasons in both years.

Similar carryforward amounts in and out could indicate chronic delays in IDS performance or billing. In addition, surplus funds that are carried forward from year to year could also indicate overbudgeting and inadequate justification for the carryforward. In our sample review, we observed that most accounts with similar carryforward amounts had similar justifications in both years. To limit unnecessary carryforwards, we recommend that the Controller's Office and Mayor's Budget Office require departments to indicate the prior year manual carryforward request, if applicable, and consider this information when approving or denying manual carryforward requests for interdepartmental services.

High Amounts of Manual Carryforwards

We also identified the IDS accounts that had manual carryforward budgets of more than $1 million for at least one year between FY 2018-19 and FY 2022-23. As shown in Exhibit 2.4 below, most of these accounts exceeded $1 million in total manual carryforwards for multiple years in a row.

Exhibit 2.4: Interdepartmental Services Accounts with Carryforward Budget Greater than $1 Million in Annual Funds, FY 2018-19 to FY 2022-23

Account	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
	Sum of Carryforward Budget – Annual Funds Only				
GF-Con-Internal Audits	$4,587,165	$5,651,158	$5,276,450	$10,289,937	$14,745,194
GF-City Attorney-Legal Service	1,379,070	3,775,910	6,752,223	7,107,709	6,524,417
Sr-DPW-Architecture	3,462,865	1,796,283	1,504,121	1,594,795	5,443,688
GF-CON-Info System Ops	4,256,085	4,248,655	1,780,106	2,986,377	4,750,397
Sr-DPW-Building Repair	2,800,656	3,171,964	3,307,558	5,213,532	4,677,190
GF-Mental Health	3,397,228	4,302,575	2,835,443	6,482,668	4,353,562
GF-HR-Workers' Comp Claims	5,765,559	2,971,830	4,633,054	2,788,087	3,925,626
DT Technology Projects	5,831,658	6,366,955	3,282,969	4,199,966	3,196,482
GF-Police Security	712,717	181,767	-	-	1,913,588
GF-Real Estate Service	2,881,474	2,849,583	9,945,560	2,508,366	1,903,923
Sr-DPW-Urban Forestry	278,688	592,860	561,020	505,672	1,669,666
GF-Con-Fast Team	528,954	1,015,887	1,211,092	1,805,130	1,667,331
GF-Chs-Medical Service	4,333,454	2,561,157	1,931,537	1,997,154	1,560,295
GF-Arts Commission	458,655	371,462	558,137	565,482	1,381,347
Sr-DPW-Engineering	346,987	509,474	367,382	927,084	1,361,395
GF-Mayor's - Cdbg	2,197,120	1,601,393	670,953	1,118,165	963,877
GF-Rec & Park-Gardener	1,201,249	1,304,098	1,032,116	1,354,255	922,819
Gf-Homelessness Services	104,165	1,469,250	523,664	496,250	876,943
GF-City Planning	554,747	1,186,501	465,196	631,758	843,677
GF-Bus & Ecn Dev	871,682	964,753	498,281	5,435,019	525,480
Is-Purch-Centrl Shop-AutoMaint	462,595	1,144,768	645,926	408,526	223,905
GF-Social Services	950,840	937,986	1,017,175	469,645	97,087
GF-PUC-Light Heat & Power	420,522	1,508,265	256,305	5,221,448	82,385
DT Enterprise Tech Contracts	694,631	1,389,315	47,528	20,432	5,000
Ef-PUC-Admin Svc	3,576,567	2,898,251	2,990,577	2,893,212	-
GF-Assessor's Office	1,417,637	-	-	-	-

Source: BLA analysis of budget vs. actual reports for interdepartmental services (5801), City financial system. Does not include automatic carryforwards in continuing funds.

High volumes of carryforwards in these interdepartmental services accounts reflect the Citywide nature, and therefore high total volume, of many of the services. For example, the Controller's Office internal audit function and the City Attorney's Office legal services both provide services to every City department. However, use of manual carryforwards for IDS appears to be consistent

and widespread, including among many lower-volume transactions as well, which underscores the need for a systematic approach to strengthening approval and monitoring.

Manual Carryforward Approval and Monitoring

On an individual basis, the manual carryforwards summarized in Exhibits 2.2, 2.3, and 2.4 above may have been necessary to support interdepartmental services that had not been completed or fully billed, consistent with City policy. However, as discussed, the Citywide patterns could also be caused by:

- Chronic delays in service performance, billing, or both;
- Unnecessary carryforwards; and/or
- Over-budgeting for interdepartmental services.

Recommendations in other sections of this report can help address chronic delays in service performance and billing. In Section 6 of this report, we make recommendations to improve interdepartmental services billing efficiency and timeliness. In Section 4 of this report, we recommend that requesting departments conduct regular performance monitoring, which can help address delays in service performance. Over time, the recommendations in these sections can help reduce the amount of carryforwards resulting from these issues.

To prevent unnecessary carryforwards, the Controller's Office and the Mayor's Budget Office review and approve or deny City departments' manual carryforward requests after the close of each fiscal year. However, our review of these manual carryforward requests found that departments did not consistently provide sufficient or thorough justification for their carryforward requests. To ensure that departments provide sufficient justification for manual carryforward requests and limit unnecessary carryforwards, we recommend that the Controller's Office and Mayor's Budget Office modify their carryforward request template to require that departments clearly indicate, for each interdepartmental services carryforward request: (a) whether the interdepartmental services work has been performed or is yet to be performed, and (b) the prior year manual carryforward request and reason, if applicable, and consider this information when approving or denying manual carryforward requests. We also recommend that the Controller's Office incorporate a review of manual carryforwards into future post audit and continuous monitoring evaluations, to monitor departments' use of manual carryforwards and accounting and internal control practices.

Regarding overbudgeting, the trends discussed in this section suggest that certain IDS budgets may be able to be reduced without impacting services. Indicators of potential savings include accounts with carryforwards but no subsequent expenditures, accounts with consistent manual

carryforward amounts across multiple years, and accounts with high total manual carryforwards. In each of those categories, the Mayor's Budget Office should conduct a one-time review of a selection of accounts during the summer of 2025 and should use this review to make reductions as appropriate in IDS budgets for FY 2026-27 and FY 2027-28.

Conclusion

Although the Mayor's Budget Office and the Controller's Office review and monitor manual carryforwards, we observed several patterns that could indicate unnecessary carryforwards and patterns of consistent carryforward use from year to year for interdepartmental services. Because carryforwards reduce the flexibility of the Mayor and the Board of Supervisors to make budget policy decisions, particularly in the case of General Fund carryforwards, use of manual carryforwards for interdepartmental services should be limited to circumstances when necessary for the completion of the service or to meet anticipated obligations, such as when work has been performed but not yet fully billed. Improvements in the review and monitoring of manual carryforwards could improve budgetary efficiency and ensure that only needed surpluses are carried forward every year. While these improvements take effect, a one-time review of selected IDS accounts, chosen due to carryforward patterns that could indicate overbudgeting, could also yield near term budget savings.

Recommendations

The Mayor's Budget Director and the Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

2.1   Modify their carryforward request template to require departments to clearly indicate, for each interdepartmental services carryforward request: (a) whether the interdepartmental services work has been performed or is yet to be performed, and (b) the prior year manual carryforward request and reason, if applicable, and consider this information when approving or denying manual carryforward requests.

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

2.2   Incorporate a review of manual carryforwards into future post audit and continuous monitoring evaluations to monitor departments' use of manual carryforwards and accounting and internal control practices.

The Mayor's Budget Director should:

2.3   During the summer of 2025, direct a one-time review of selections of IDS accounts with (a) carryforwards but no subsequent expenditures; (b) consistent manual carryforward amounts across multiple years; and (c) high total manual carryforwards. The Mayor's Budget Director should use the results of this review to make reductions, as appropriate, when reviewing proposed IDS budgets for FY 2026-27 and FY 2027-28.

Benefits and Costs

The recommendation to modify the carryforward request template would require City department budget staff to provide additional information when submitting carryforward requests, which would require additional time but can be accomplished with existing resources. This recommendation would improve the Mayor's Budget Office and Controller's Office review and oversight of carryforward requests and help ensure that only needed, necessary surpluses are carried forward every year.

The recommendation to incorporate review of manual carryforwards into future post audits and monitoring would require Accounting Operations and Supplier Division staff to continue to devote time to such reviews, which the Division started in 2024. This recommendation would improve internal controls and oversight of carryforwards.

The recommendation to conduct a one-time review of selected IDS accounts would require Mayor's Budget Office staff time to analyze carryforward patterns and obtain additional information from City department staff to understand the basis for budgeted amounts. This recommendation would help Mayor's Budget Office staff identify potential budget savings.

3. Methods for Tracking IDS Expenditures

The Controller's Office, the Mayor's Budget Office, and the other City departments lack sufficient visibility into actual spending on interdepartmental services (IDS) due to a software functionality issue. Although the City's prior financial system allowed departments to track IDS spending using a unique identifier for each IDS, this functionality does not exist in the City's current financial system, PeopleSoft. As a result, City staff track IDS spending through internal spreadsheets that vary by department. Maintaining these spreadsheets requires staff time and effort and may lead to staff delays in updating internal IDS trackers, limiting their visibility into spending. The lack of systematic expenditure tracking also raises the possibility of human error, which can lead to billing disputes between the performing and requesting departments. The Controller's Office can address these issues by initiating and implementing a project to automate tracking IDS spending.

The City's Financial System Does Not Identify IDS Budgets or Spending

An interdepartmental service (IDS) contains three financial components: the requesting department's expenditures, the performing department's revenues, and the performing department's use of that revenue as an expenditure. Each component *may* be budgeted as a single budget unit (expenditure category), but departments can also spread an IDS across multiple budget units. For example, a requesting department might source the funds for an IDS from multiple budget units, and the performing department might receive the corresponding revenue in multiple budget units.

In the City's previous financial system, the Financial Accounting Management Information System (FAMIS), each IDS had a unique identifier that allowed users to connect the three components of an IDS. This allowed City staff to easily search a specific IDS and see how much of its budget had been spent. In 2017, the City transitioned from FAMIS to PeopleSoft. As currently configured for the City, the PeopleSoft system does not assign a unique identifier connecting the three parts of an IDS. The loss of the identifier was not intentional in the process of this overhaul, and since the issue was identified, the Controller's Office has been evaluating options to create an equivalent identifier in PeopleSoft.

The loss of the unique IDS identifier in the City's transition to PeopleSoft means that City departments, the Controller's Office, and the Mayor's Budget Office are unable to directly track IDS budgets or spending in PeopleSoft. This has required staff to develop workaround methods for doing so.

Controller's Office, Mayor's Budget Office, and City Departments Track IDS Spending with Workaround Methods

Since City users cannot search PeopleSoft for a specific IDS to see its budget and actual spending, City departments involved in IDS, the Controller's Office and the Mayor's Budget Office (MBO) must use a combination of workaround methods.

The Controller's Office generates an annual report called the IDS Balancing Report, a Microsoft Excel spreadsheet file that shows solely the annual budgeted amounts for IDS that upcoming fiscal year. During the budget development process, which for departments typically starts in December and ends in February, department budget teams enter their IDS budgets into the San Francisco Budget System, a software system used to record budgeted funds. From the Budget System, the Controller's Office then generates the IDS Balancing Report, which reflects the budgeted amount for each IDS that upcoming fiscal year. Once the budget development process ends, the IDS Balancing Report cannot be changed. No spending or mid-year IDS adjustments are reflected in the IDS Balancing Report.

Once a fiscal year begins, Budget Versus Actual (BVA) reports from the financial system show the amount that has been spent for each budget unit, such as projects and accounts. However, it is not possible to identify a specific IDS in a BVA report with full confidence, because there is no unique identifier that is consistent across the IDS Balancing Report and BVA report to ensure that the correct line item is identified.

The Mayor's Budget Office reviews IDS spending on a case-by-case basis. According to MBO staff, MBO expects that the requesting department and performing department of an IDS agree on their service needs and costs; if there is disagreement or significant year-over-year cost increase or decrease of an IDS in a given year, MBO staff expect at least one of the involved departments to make them aware. To review IDS brought to their attention, MBO analysts use a combination of the departmental budget reports from prior years and BVA reports.

To monitor IDS spending with any level of detail, departments use internal tracking spreadsheets. These spreadsheets vary in format, as discussed later in this section.

Matching IDS Budgets to Spending Requires Manual Comparison

We were able to match IDS budgets with their actual spending for FY 2022-23 for the 48 non-centrally loaded IDS in our sample through a manual and cumbersome process. To do this, we used the IDS Balancing Report and the Budget Versus Actual (BVA) report downloaded from the financial system. This indicates that the process for tracking IDS expenditures is administratively burdensome and more likely to be prone to human error than an automated process would be.

For each IDS, we first identified the department pair, Work Order Reference ID, and budget in the FY 2022-23 IDS Balancing Report. To find the actual amount spent in FY 2022-23, we then used the Budget Versus Actuals (BVA) report to analyze the requesting department's budget, specifically at Account Level 5810 (Services of Other Departments). We identified, within the 5810 Account, a line item with an Account Description that matched, or nearly matched, the Work Order Reference ID from the IDS Balancing Report.

In all 48 cases, we were able to identify an Account Description in the BVA report that matched the Work Order Reference ID from the IDS Balancing Report. However, this required a manual comparison for all IDS. For each IDS, the fields were similar but not identical. For example, for an IDS in which the City Administrator's Office (ADM) pays the City Attorney's Office (CAT) for legal services, the IDS Balancing Report listed the Work Order Reference ID as "CAT-LEGALSVCS" while the BVA listed the Account Description as "GF-City Attorney-Legal Service".

We then confirmed we had successfully matched the Work Order Reference ID with the Account Description by checking the BVA report's Original Budget amount. For all but one of the 48 IDS we reviewed, the BVA report's Original Budget matched the original budget listed in the IDS Balancing Report. For one IDS in our sample, the Original Budget in the BVA report did not match the budget in the IDS Balancing Report. However, we were able to confirm the budget by looking at the MOU for the IDS and it matched the BVA report.

The process of matching actual spending of an IDS to its budgeted amount was manual and time-consuming. Furthermore, due to the Account Description in the BVA report not exactly matching the WO Ref ID in the IDS Balancing Reports, there is no guarantee this process will work for every IDS pair in the City. Having a manual process to analyze IDS spending contributes to administrative burden for the budget staff who update their department's IDS trackers. This can also result in human error in data entry.

City Departments Track IDS Spending with Internal Spreadsheets

In lieu of a PeopleSoft function showing IDS spending, departments log expenditures using internal tracking spreadsheets. To better understand how departments monitor their IDS billing and expenditures, we requested IDS tracking documents from five City departments:

- City Administrator's Office (ADM)
- Children, Youth & Their Families (CHF)
- Public Health (DPH)
- Homelessness and Supportive Hosing (HOM)
- Human Services Agency (HSA)

Logging expenditures in these spreadsheets requires data entry by department budget staff. The administrative burden of this work may lead to delays in updating the trackers, making it difficult for departments to see their spending in real time and adjust the scope of an IDS if they wish. Relying on data entry also introduces the potential for data entry errors, which could eventually lead to avoidable billing disputes.

Each of the IDS trackers provided by these departments were Microsoft Excel spreadsheets. Each listed the IDS, whether the department was the performing or receiving department, and the budgeted amount. The departments' IDS trackers also varied considerably in format. Exhibit 3.1 below shows ways in which the trackers differed.

Exhibit 3.1: Departments' IDS Trackers

Variation in…	Description
Number of spreadsheets	Most departments have 1 or 2. One department submitted 12[1]
Number of tabs per spreadsheet	Between 1 and 55
Categorization of tabs	Some organized by whether the department was the requesting or performing department; one used a tab for each department with which they were engaged in an IDS; others used tabs for pivot table budget summaries
Frequency of billings posted	Monthly, quarterly, or annually

Source: Spreadsheets provided by the City Administrator's Office, the Department of Children, Youth and Their Families, the Department of Public Health, the Department of Homelessness and Supportive Housing, and the Human Services Agency

It is clear from these IDS trackers that departments have different ways of inputting IDS billing and spending information into their trackers. Each department organizes their spreadsheets, tabs, and categorizations of tabs differently, as well as posts spending and billing at varying cadences. Such variation between internal IDS tracking spreadsheets could lead to difficulty in understanding the tracking for anyone outside of the department. This could lengthen the time needed for two departments to collaborate or resolve a billing dispute; it also limits the visibility of the Mayor's Budget Office and the Controller's Office into actual spending in the case of a particular question, issue, or funding modification request.

No Easy Way to Add IDS Identifier to Existing Budget Platforms

One module in PeopleSoft, the Contracts Module, has the potential to improve tracking for certain IDS. Following the transition to PeopleSoft, the Controller's Office requested that the Department of Technology (TIS) pilot a module in PeopleSoft called the Contracts Module, which

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[1] The department that submitted 12 spreadsheets stated that those were only some of its internal trackers, indicating there were over 12.

facilitates automatic IDS billing. According to the Controller's Office, staff saw an opportunity to test out automated IDS tracking through the Contracts Module. TIS, when it is the performing department, often has stable billing, because it bills requesting departments to budget. For this reason, TIS was chosen to test the Contracts Module.

TIS has used this module for the past three years to bill certain IDS. Once TIS and the requesting department sign an MOU agreeing on the budget, TIS inputs the budgeted amount into the Contracts Module, and the module automatically bills the requesting department 25 percent of the annual budget every quarter. The requesting department does not approve the billing each quarter, although it can run the General Ledger report at any time.

Despite the advantages that it provides for TIS billing, the Contracts Module does not appear to be a Citywide solution to identifying IDS spending. Specifically, the module does not work for IDS that are not billed to budget, as it does not have a way to account for varying costs in an IDS. IDS that are billed to actuals tend to account for time and materials, of which there is no way to account for in the Contracts Module because those are varying costs.

To address the issues described in this finding, the Controller's Office should initiate a process to either acquire or develop a way to automate the tracking of IDS spending. This could involve acquiring an existing product or developing a customized in-house solution. Given the complexities involved, this process would begin with a scoping phase through which the Controller's Office could compare the costs and benefits of alternative solutions. It would then require an implementation process that includes transferring data to the new system.

Conclusion

The lack of a unique identifier to track IDS spending makes it difficult for City departments, the Controller's Office, and the Mayor's Budget Office to track IDS spending in real time. The process to track IDS spending is time-consuming, manual, and is the reason City departments use their own internal trackers. Creating and maintaining these trackers adds administrative burden on department staff and is ripe for human error. Administrative burden may lead to delays in updating the trackers, making it difficult for departments to see their spending in real time and adjust the scope of an IDS if they wish. Errors in IDS data entry could also lead to billing disputes.

By automating tracking of IDS spending in the City's financial system, the Controller's Office can ensure that financial staff Citywide will be able to track IDS spending accurately and in real time. In addition to helping department staff, this can help facilitate a more efficient and detailed budget review of IDS by the Controller's Office and Mayor's Budget Office.

Recommendations

To reduce the administrative burden on departments involved in a work order, the San Francisco Controller should:

3.1   Add to the Controller's Office Performance Goals for FY 2025-26 and/or FY 2026-27 the scoping of a project to streamline the tracking of IDS spending to enable the Controller's Office, the Mayor's Budget Office, and City departments to see IDS spending in real time without the need for workarounds.

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

3.2   Allocate staff time to scope out a project to streamline the tracking of IDS spending, whether through the existing PeopleSoft system or with other software.

3.3   Once the scoping period is complete (see Recommendation 3.2), request the funding necessary to implement the proposed streamlining, which may include internal AOSD staff time, Systems' team time, and outside consultants. This would also include accounting data cleanup and transitioning IDS data from the current system to the new module.

Benefits and Costs

Controller's Office staff estimate it would take three to six months to scope out a project to automate IDS tracking, including capturing all requirements necessary and conduct project design. Staff estimate implementation would then take between nine and 24 months. Staff report they are not able to provide a cost estimate due to the need to scope out the project fully to come up with a cost estimate.

Without the automation of tracking IDS spending, departmental budget staff must track IDS manually. This creates an administrative burden, increased potential for human error in data entry, and missed opportunities by requesting departments to adjust the scope of the work order based on current IDS spending. Automated tracking of IDS spending would help City departments address these issues. It would also facilitate a more efficient and detailed budget review of IDS by the Controller's Office, Mayor's Budget Office, and Budget and Legislative Analyst's Office. Together, these improvements could help address the high amounts of carryforwards, discussed in Section 2 of this report, and underspending, discussed in Section 1 of this report.

4. MOUs, Performance Monitoring, and Dispute Resolution

Many interdepartmental services (IDS) across the City do not have Memorandum of Understanding agreements (MOUs) between the requesting and performing departments. Others have an MOU that does not describe a process for performance monitoring or resolving a dispute between the departments. Out of a sample of 48 non-centrally loaded IDS reviewed by our audit team, departments only provided MOUs for half. Because some IDS cover multiple transactions, these 24 IDS were documented in 49 MOUs provided to the audit team; of these, none had a section dedicated to performance monitoring by the requesting department, and 18 (37 percent) lacked a clause describing a specific process for dispute resolution. Further, the MOUs were in 15 distinct formats.

Without a written agreement – or with one that lacks performance monitoring or dispute resolution processes – requesting departments may experience difficulties holding a performing department accountable for delivering satisfactory services. Although the Controller's Office's Accounting Policies & Procedures manual recommends that departments use an MOU for IDS and provides a template, this practice generally remains up to department discretion. By updating its policy manual to require usage of an MOU with performance monitoring and dispute resolution clauses, the Controller's Office can further promote the delivery of satisfactory interdepartmental services.

Existing Guidelines for Interdepartmental Service Agreements

The Controller's Office Accounting Policies & Procedures manual "strongly" recommends that departments develop a Memorandum of Understanding (MOU) for all Interdepartmental Services (IDS), and it notes that "in some cases, [an MOU] may be a regulatory requirement."[1] The manual provides a recommended MOU template, which includes the following fields: the IDS budget, description of services, signatures of department heads, and the individual responsible for resolving any billing disputes.[2] Despite its recommendation and template, the manual does not *require* that departments develop an MOU for all IDS. Further, the provided template does not include a performance monitoring clause.

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[1] "Although an MOU or [interdepartmental service agreement] is not required if the IDS budget is established during the Annual Appropriation Ordinance (AAO) process, development of a written agreement is strongly encouraged as a best practice and, in some instances, may be a regulatory requirement." (Accounting Policies and Procedures, Updated August 2023, p. 377).

[2] Accounting Policies and Procedures, Updated August 2023, p. 381-382.

Similar to the Controller's Office manual, the most recent seven Mayor's Budget Instructions recommend, but do not require, an MOU for IDS agreements. This appears to represent a change from prior practice: in the first year of the scope of the audit, the Mayor's Budget Instructions for FY 2018-20 required an IDS Certification Form, for which a template was provided, as a requirement for both requesting and performing departments before the departments submitted their budgets to the Controller (p. 53-54). The IDS Certification Form template functioned as an MOU between the performing and requesting departments. However, in the Mayor's Budget Instructions for FY 2019-20 and FY 2020-21 and each year since for the scope of the audit (FY 2017-18 to FY 2022-23) up to through most recent Mayoral Budget Instructions (for FY 2025-27), the IDS Certification Form is neither mentioned nor provided. The instructions instead state that departments should retain documentation of IDS agreements, such as – but not necessarily – a Memorandum of Understanding: "Departments should retain documentation of IDS agreements, such as an MOU signed by both departments, in the event issues arise during the budget process or budget year."[3]

Following an Administrative Code amendment enacted in March of 2024, departments that contract with an outside nonprofit entity are required to conduct performance monitoring of the contracted entity. [4] However, the Administrative Code has no similar requirement for departments that receive services from another department through IDS. The Controller's Office recommends that IDS agreement MOUs require the performing department to document its service delivery. According to its Accounting Policies and Procedures, an MOU should include: "the level of detail for any documentation the Requesting Department requires from the Performing Department as proof that services were provided (such documentation shall be discussed with the Performing Department)" (p 379). While this wording implies that requesting departments should monitor service delivery, it does not describe a specific process through which the requesting department should review this documentation, let alone conduct its own performance monitoring. Further, as noted above, use of an MOU is a recommendation, not a requirement, from the Controller's Office.

Interdepartmental Services (IDS) Sample

To better understand how departments document IDS, the audit team selected a sample of 48 IDS agreements from 33 City departments for FY 2022-23. Rather than selecting IDS agreements at random, the audit team selected IDS agreements with a particular emphasis on potential risk

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[3] Mayor's Budget Instructions for FY 2025-27 and FY 2023-24, p. 55.
[4] See Administrative Code Sec 10.6-1 Monitoring of Nonprofits Contracting with the City. https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_admin/0-0-0-3778

areas that emerged from survey interviews. For each IDS, the audit team asked both the requesting and performing department to provide the following information for the specific IDS for FY 2022-23:

- MOU (or an in-lieu description of the service/good being provided)
- Billing and invoices related to the IDS
- Performance monitoring reports
- Date of inception
- Billing method type (internal billing, direct charge, delegated authority)
- Whether there was a billing dispute, and if so, a summary of the dispute
- Whether the IDS is related to a Board of Supervisors addback
- Whether the IDS involved contracting out any services to a third party

MOUs Not Always Utilized in Interdepartmental Services

For half of the 48 IDS that we reviewed, one or both departments provided a Memorandum of Understanding; for the remaining half, neither department shared an MOU. For the IDS for which departments did not provide an MOU, the audit team concluded that no MOUs had been developed, as no department reported that it was unable to locate or provide an MOU that had previously been in its possession. Exhibit 4.1 below summarizes the results of the audit team's review.

Exhibit 4.1: IDS for Which Departments Provided MOUs to the Audit Team

MOU Provided	Number of IDS
No	24
Yes	24
Total	**48**

Source: BLA analysis of IDS sample

In some cases, a single IDS agreement entails multiple transactions because the performing department is providing multiple services for the requesting department. Departments that provided an MOU for an IDS did not always have MOUs for each transaction of the IDS. For the 24 sampled IDS, for which at least one MOU was provided, 11 involved multiple transactions; in two of these, departments did not provide an MOU for at least one transaction. Exhibit 4.2 below shows IDS that the audit team determined to cover multiple transactions, comparing the number for which MOUs were and were not provided for all transactions.

Exhibit 4.2: IDS That Include Multiple Transactions

MOU Provided for All Transactions	Number of IDS
No	2
Yes	9
Total	**11**

Source: BLA analysis of IDS sample

Note: For the 24 IDS that did not have a documented MOU, it was unclear if the IDS involved multiple transactions.

Formats of MOUs Differ

Many City departments typically use their own template for IDS MOUs. For the 24 IDS that had MOUs in our sample, there were a total of 49 IDS MOUs; the number is higher than 24 because some of the 24 IDS involved multiple transactions. As noted above, there is no requirement that departments use a specific MOU template, and in practice, many departments use their own IDS MOU templates. The audit team found 15 distinct formats of MOUs. The MOUs included some similar details, including the budgeted amount, a description of services, and a contact name for the performing and requesting departments. However, the MOUs varied in certain aspects, including the format (heading, section titles, and section order), length, and level of detail for the description of services. As discussed below, the presence and specificity of a dispute resolution clause also varied. To reduce the risks that a particular MOU will lack an important clause, the Controller's Office should require departments to use its template when creating MOUs for IDS, with exceptions for departments that require a different format for a specific reason.

Lack of Performance Monitoring Processes

None of the MOUs provided in response to our request have a section dedicated to performance monitoring of the performing department by the requesting department, as shown in Exhibit 4.3 below. Some MOUs contain language regarding the deliverables and documents the performing department is expected to provide to the requesting department, such as a semi-annual or annual report, labor reports, progress reports, or other data. However, any such language was included under a description of services clause or another clause. No MOU in our sample contained a specific clause for performance monitoring by the requesting department.

Exhibit 4.3: Performance Monitoring Clause in MOU

Performance Monitoring Clause in MOU	Number of MOUs
No	49
Yes	0
Total	**49**

Source: BLA analysis of IDS sample

Note: For some IDS in our sample, the performing department contracted with an outside entity, and the contract between the performing department and contracted entity includes performance monitoring. Because our interest is in performance monitoring by the requesting department, we recorded these agreements as "No" in the analysis described above.

The lack of a performance monitoring process creates multiple risks. Requesting departments may not be sufficiently monitoring delivery of the agreed-upon service; they may also experience difficulties addressing unsatisfactory services with the performing department. Ultimately, introducing performance monitoring for interdepartmental services can help ensure that requesting departments receive the agreed-upon services at a satisfactory level, in terms of units of service and/or quality.

Fortunately, models exist for performance monitoring that could be readily adapted for use by requesting departments. Under an Administrative Code amendment enacted in March of 2024,[5] departments that contract with an outside nonprofit entity are required to conduct performance monitoring of the contracted entity. As a result of the Mayor's directive to the Controller's Office to implement these Citywide standards for performance monitoring of nonprofits effective immediately, the Controller's Office released Citywide guidance on December 9, 2024 to that effect.[6] In addition, departments already conduct a range of performing monitoring activities for construction, professional services, and nonprofit contracts. Drawing on these processes, the Controller's Office should develop template language to include in MOUs about performance monitoring for IDS, as well as a template performance monitoring report for requesting departments to complete.[7]

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[5] See Administrative Code Sec 10.6-1 Monitoring of Nonprofits Contracting with the City. https://codelibrary.amlegal.com/codes/san_francisco/latest/sf_admin/0-0-0-3778

[6] Memorandum, "Summary of Controller's Office Policies and Tools for Nonprofit Oversight", 09 December 2024. https://www.sf.gov/sites/default/files/2024-12/Policy%20Suite%20Publication%20Cover%20Memo%2012.9.24%20-%20Final.pdf

[7] For some IDS in the audit team's sample, the performing department contracts with an outside entity, and the contract between the performing department and contracted entity already includes performance monitoring. While the performance monitoring conducted by such a performing department could factor into the requesting

Inconsistent Documentation of Dispute Resolution Processes

Not all IDS MOUs contain a dispute resolution clause. A dispute resolution clause states the party responsible for resolving billing disputes between the performing and requesting departments. Out of the 49 MOUs in our sample (covering 24 IDS), 32 (65 percent) contained a dispute resolution procedure, two (4 percent) contained a dispute resolution clause but did not specify the person who would be involved in resolving the billing dispute, and 15 (31 percent) did not include a dispute resolution clause at all, as shown in Exhibit 4.4 below.

Exhibit 4.4: Dispute Resolution Clause in MOU

Dispute Resolution Clause in MOU	Number of MOUs	Percent of MOUs
No	15	30.6%
Yes	32	65.3%
Yes, but no specifics	2	4.1%
Total	**49**	**100.0%**

Source: BLA analysis of IDS sample

The 31 MOUs with a dispute resolution procedure had clear language indicating the position (e.g. Finance Director) who would be responsible in the case of a billing dispute. The two MOUs with vague billing dispute language simply stated any billing dispute would be promptly resolved by the performing and requesting departments. The other 16 MOUs contained no information about what would happen should a billing dispute arise.

Not having a dispute resolution clause increases the risk that departments may have difficulties resolving a billing disagreement. Such disputes occasionally arise. For example, for one IDS in our sample, the requesting and performing departments disagreed on the funding source for the IDS. Although the departments had an MOU outlining their agreement, the document did not have a dispute resolution clause. In this instance, the Controller's Office and Mayor's Budget Office facilitated a resolution, according to requesting department staff. To facilitate the resolution of future billing disputes, the Controller's Office should require that MOUs for IDS include a billing dispute clause that indicates the staff position responsible for resolving such a disagreement.

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department's monitoring, the requesting department could still complete its own performance monitoring, and is most incentivized to ensure its budgeted funds are being effectively utilized.

Conclusion

Although the Controller's Office Polices & Procedures manual states it is a best practice to have a documented MOU for an IDS and provides an MOU template, it does not require an MOU for all IDS. In the absence of a requirement, departments have highly varied MOU practices.

In a review of 48 non-centrally loaded IDS across 33 City departments, we found that half (24) of the IDS have at least one documented MOU while half (24) do not. Some IDS involve multiple transactions, and some of those were missing MOUs for some of the transactions. Out of 49 MOUs provided to us, we found 15 distinct MOU formats. The MOUs varied in format, length, description of services, and whether they have a dispute resolution clause. None had a section describing performance monitoring by the requesting department.

Not having a documented MOU can make it more difficult for a requesting department to hold a performing department accountable for a service. Not having a dispute resolution clause can prolong or otherwise complicate the dispute resolution process and not having a performance monitoring clause increases the risk the requesting department may not receive satisfactory services. The Controller's Office should address these risks by requiring departments to develop MOUs for each transaction in an IDS, with performance monitoring and dispute resolution sections.

Recommendations

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should update its Accounting Policies and Procedures to:

4.1   Require that departments utilizing a non-centrally loaded IDS develop a Memorandum of Understanding, and that the MOU is developed based on individual work orders between the requesting and performing departments.

4.2   Require, if Recommendation 4.1 is adopted, that departments complete the recommended MOU template in the Controller's Office Policies & Procedures (p. 381-382), with the update described in Recommendation 4.3 should that recommendation be adopted. Departments may also choose to complete an MOU in a different format, whether for legal reasons or because they choose to include more detail. All MOUs at a minimum must include the required MOU elements as described in the Policies & Procedures.

4.3   Add to the MOU template (p. 381-382 of the Controller's Policies & Procedures) a performance monitoring section that describes how the requesting department will

monitor the work of the performing department. Input from other City departments should be sought in developing this section.

4.4   Include a customizable template performance monitoring report, developed with input from other City departments, that requesting departments can utilize to assess the services provided by performing departments.

Benefits and Costs

By requiring Memorandum of Understanding agreements for interdepartmental services, the Controller's Office can help facilitate sufficient delivery of these services. Requiring departments to use the Controller's Office template for most agreements will ensure essential information is included. For example, the current MOU template includes a dispute resolution clause, which can help requesting and performing departments efficiently resolve disputes. Adding a performance monitoring requirement, similar to the processes that departments use to monitor performance by nonprofit service providers, can further ensure service quality.

Implementing these recommendations will require one-time staff effort by the Controller's Office to edit and recirculate the Policies & Procedures manual. This process will also require input from department staff. Some additional ongoing staff time across multiple departments will also be required to conduct the periodic performance monitoring of IDS.

5. Centrally Loaded Interdepartmental Services

Certain City departments perform interdepartmental services (IDS) for most or all other departments, such as providing utilities service, maintenance of City vehicles, or technology infrastructure. For these services, referred to as "centrally loaded IDS," requesting departments generally do not play a role in determining their budgeted expenditures. This leaves the Mayor's Budget Office (MBO) as the entity best positioned to constrain costs. However, MBO lacks a documented process for its staff to review these budgeted costs. In addition, some centrally loaded IDS are calculated as a function of a department's prior-year usage; because neither the requesting nor the performing department has a clear incentive to identify cost-saving efficiencies, an additional layer of review could help produce budget savings. Performing departments also record their cost models in varying ways, complicating MBO review.

The Mayor's Budget Director can address these issues by documenting a process to scrutinize centrally loaded IDS budgets and requiring performing departments to use a standardized template for sharing cost model information. The Controller's Office can further strengthen internal controls through periodic reviews by the City Services Auditor or the City Performance Unit of selected centrally loaded IDS for opportunities for cost savings.

Centrally Loaded IDS

Certain City departments perform services for most or all other departments, such as providing utilities service, maintenance of City vehicles, or technology infrastructure. Rather than having such performing departments negotiate these budgets with every requesting department,[1] the Mayor's Budget Office and Controller's Office load these budgets into the City's financial system during the Mayor's phase of budget development. These interdepartmental services (IDS) are therefore referred to as "centrally loaded."

Exhibit 5.1 below lists centrally loaded IDS categories for FY 2024-25, as described in the Mayor's Budget Instructions to finance staff in each department. Some of these categories include multiple IDS. For example, although the Mayor's Budget Instructions lists auto maintenance and fuel under one "Fleet" category, there are separate IDS for auto maintenance and for fuel.

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[1] "Requesting department" refers to a department that receives a service from another department.

**Exhibit 5.1: Centrally Loaded IDS Categories, FY 2024-25**

Department	Summary	Details
ADM	Fleet	Auto maintenance, fuel
ADM	Real Estate	Rent, Permit Center, facilities management, special services
ADM	Contract Monitoring	Human Rights Commission
ADM	Risk Management	Risk management services, HRC Surety Bond
ADM	Reprographics	Reproduction services
ADM	Contract Administration	Purchasing Services
PUC	Public Utilities Commission Rates	Sewer, Water, Light, Heat, Power
DHR	Human Resources	Equal Employment Opportunities, workers' compensation, recruitment, employee relations, HR modernization, DEI
TIS	Department of Technology	Technology infrastructure, Telecommunications services, SFGovTV, Enterprise Technology
CON	Controller's Office	Internal Audits, Information System Operations, HR Benefits Administration Systems

Source: Mayor's Budget Instructions for FY 2024-25 and FY 2025-26

Note: ADM represents Department of Administrative Services

Between FY 2022-23 and FY 2023-24, the proposed budget for centrally loaded IDS increased by approximately $55.1 million (7.5 percent), from approximately $730.5 million in FY 2022-23 to approximately $785.6 million in FY 2023-24. Among the seven departments that performed these services, all except the Controller's Office were budgeted to generate more revenue for these work orders in FY 2023-24 than the prior year. Exhibit 5.2 below shows total budgeted revenue for centrally loaded work orders by performing department for FY 2022-23 and FY 2023-24.[2]

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[2] IDS budget reports provided by the Controller's Office, known as IDS Balancing Reports, do not isolate centrally loaded IDS for FY 2018-19 through FY 2021-22.

Exhibit 5.2: Total Budgeted Revenue for Centrally Loaded IDS by Performing Department
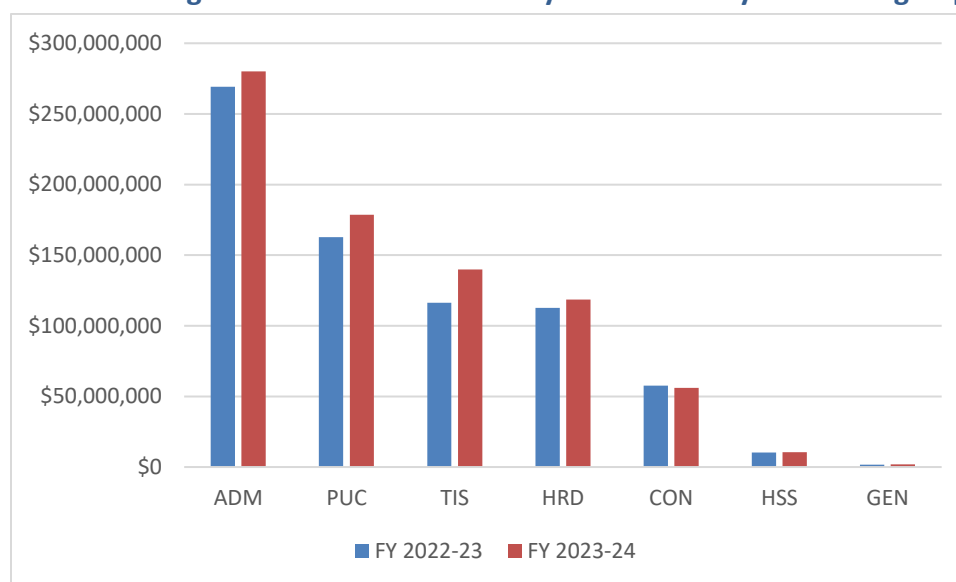
Source: BLA Analysis of IDS Balancing Reports provided by the San Francisco Controller's Office.

Note: ADM represents Department of Administrative Services; HSS represents Health Service System; GEN represents General City Responsibility

Requesting & Performing Departments Lack Clear Incentives to Identify Cost Efficiencies

For non-centrally loaded IDS, the requesting department must ultimately agree with the performing department on a budget. This process provides at least the possibility for requesting departments to negotiate costs and service levels with the performing department.

For centrally loaded IDS, requesting departments do not play a direct role in budget development. According to the Mayor's Budget Instructions for FY 2024-26, centrally loaded IDS budgets "should not be changed during the department stage of the budget process, as they will be centrally loaded by the Mayor's Budget Office and/or the Controller's Office."

In addition, requesting departments have little incentive to scrutinize their expenditures on centrally loaded IDS. Although the Mayor's Budget Office sets budget targets for departments to meet, it generally excludes increases in centrally loaded IDS from these calculations.[3] In other words, the MBO will generally consider a department as having met its budget target if it would have met this target in the absence of increased spending on centrally loaded IDS. MBO and department staff refer to this as holding departments "harmless" for these increases.

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[3] Correspondence from Mayor's Budget Director, Oct. 21, 2024.

For performing departments, centrally loaded IDS – like all IDS -- generate revenue to cover the costs of service provision. Through a range of methods, discussed later in this section, performing departments calculate their projected costs and maintain models for how to recover them. Because IDS represent revenue for performing departments, not expenditures, internal controls are needed to ensure that the revenue that performing departments propose recovering is sufficiently justified. This is particularly important given that requesting departments do not individually agree to these IDS budgets.

As noted above, the two offices that load proposed centrally loaded work order budgets into the budget system are the Controller's Office and the Mayor's Budget Office. The Controller's Office focuses on ensuring that the performing and requesting budget amounts balance, rather than whether the budgeted amounts are appropriate. Therefore, the Mayor's Budget Office is the entity best positioned to review the appropriateness of centrally loaded IDS budgets proposed by performing departments.

Mayor's Budget Office Has Not Documented a Process for Scrutinizing Cost Justification

During the Mayor's phase of the budget development process, the Mayor's Budget Office reviews base budgets for centrally loaded IDS and makes modifications. The base budgets adjusted during this phase are the second-year budget of the prior year's adopted two-year budget, with modifications such as unused funds that are carried forward.

To better understand the Mayor's Budget Office's (MBO's) review process, we assessed a training presentation updated in 2023 titled "Analyzing & Balancing Work Orders." Under a slide titled "Work Order Basics," the presentation provided two bullets about centrally loaded IDS. Neither point provided guidance about how to analyze the cost justification for these IDS; nor did any other slide in the presentation. Although one slide listed "Questions to Ask," it appeared to apply to non-centrally loaded work orders only, and none of its questions would assist an analyst in assessing whether base costs in a centrally loaded IDS were justified.

We also reviewed the section of MBO's Analyst Manual dedicated to IDS. This section lists Citywide IDS and explains process details, such as the fact that departments should not adjust centrally loaded IDS and that MBO holds General Fund departments "harmless" for certain cost increases. However, it does not detail an analytical approach for analysts that could help assess whether departments had justified costs.

According to the Government Finance Officers Association, a thorough budget review requires an established process for analyzing "options for program and service levels and projected

funding amounts."[4] In correspondence and interviews, MBO staff relayed the Office's interest in constraining IDS costs. To codify specific procedures to further this aim, the Mayor's Budget Director should update MBO's training materials and analyst manual to include a framework for reviewing the justification for centrally loaded IDS costs. This could include seeking to answer questions such as:

- How does proposed overall spending for this service (i.e., across all departments) relate to prior year actual expenditures?
- Are these changes driven by changes in unit costs or service levels?
- Are these changes supported with appropriate documentation?
- Are prior-year unit costs and service levels supported with appropriate documentation?

Certain Budgeting Methods Suggest Need for Cost-Efficiency Review

Performing departments develop budgets for centrally loaded IDS in multiple ways. In some cases, total costs are based on contractual obligations, and therefore relatively fixed. For example, the Real Estate Division of the City Administrator's Office pays rent for City facilities and then bills tenant departments for their share of rent – through a centrally loaded work order -- based on the tenant departments' square footage. In other cases, such as for fuel or maintenance, total costs depend on service levels that may vary. For these IDS, it is in the City's best interest to have a process that can identify potential efficiencies.

Performing departments' cost allocation models show that for certain IDS, cost levels are budgeted as a simple, or relatively simple, function of a department's prior-year spending. Exhibit 5.3 below shows the services provided through these IDS.

Exhibit 5.3: Centrally Loaded IDS Budgets Based on Departments' Prior-Year Costs

WO Identifier	Performing Department	Service
ADM-AUTOMAINT	ADM	Maintenance of city vehicles
ADM-FUEL	ADM	Fuel for city vehicles
ADM-REPRO	ADM	Reproduction services
TIS-TELECOMSVCS	TIS	Telecommunications services

Source: Department responses

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[4] Recommended Budget Practices: A Framework For Improved State and Local Government Budgeting. Government Finance Officers Association. Section 9.5: Evaluate Revenue and Expenditure Options.

Although prior-year service usage may lead to accurate projection of needs, it does not *necessarily* do so. For example, prior usage may have been inflated due to temporary needs that will not continue. Further, performing departments have little incentive to scrutinize whether there are opportunities for the requesting department to reduce usage, such as through more efficient processes. Requesting departments, meanwhile, do not play a direct role in development of centrally loaded budgets and are generally not held responsible for cost increases, as described above. These conditions underscore the potential efficiencies that could be identified through a third-party review.

To provide oversight into whether there are opportunities for efficiencies and savings in centrally loaded IDS, the Controller should consider directing either the City Services Auditor or the City Performance Unit to periodically review high-risk centrally loaded IDS for opportunities for cost savings.

Cost Model Documentation Varies, Complicating Mayor's Budget Office Review

As described above, performing departments use a variety of methods to develop budgets for centrally loaded IDS. They also document these models in various formats: the cost model spreadsheets shared with our team varied widely across departments and between individual IDS.

In its instructions to departments, the MBO does not request specific submissions from performing departments detailing the basis for centrally loaded IDS base budgets.[5] MBO analysts may therefore lack important information that could assist in their review, requiring additional follow-up or limiting the completeness of their review. To address this issue, the Mayor's Budget Director should develop a template for performing departments to complete detailing the foundation on which centrally loaded budgets have been developed. This template could include a standardized format for showing a cost model, as well as a cover sheet summarizing information about prior-year actual spending, projected changes, and efforts to constrain costs. The Mayor's Budget Director should then update the Mayor's Budget Instructions for the subsequent budget cycle to require completion of this template.

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[5] Correspondence from Mayor's Budget Director, Oct. 21, 2024.

Conclusion

For centrally loaded IDS, requesting departments do not play a direct role in budget development and are generally not held responsible for cost increases. This leaves the Mayor's Budget Office (MBO) primarily responsible for reviewing base budgets. However, the MBO lacks a documented method for analysts to use in reviewing centrally loaded IDS budgets for cost justification. Several centrally loaded IDS are budgeted based on prior year usage levels, demonstrating that there may be opportunities to reduce expenditures through operational efficiencies. The MBO also does not require performing departments to share cost model information in a consistent format, complicating its review process.

The Mayor's Budget Director can address these issues by directing staff to (a) document a cost justification review process, and (b) develop a cost model template for performing departments to submit. Through periodic reviews or audits of high-risk centrally loaded IDS, the Controller's Office could also identify potential savings.

Recommendations

The Mayor's Budget Director should:

5.1   Update the MBO training materials and Analyst Manual to include a framework for reviewing the justification for centrally loaded IDS costs.

5.2   Include in future Mayor's Budget Instructions a template that performing departments must complete with cost model information about centrally loaded IDS. If Recommendation 5.1 is adopted, the template proposed in Recommendation 5.2 should provide MBO staff with the information needed to conduct the review described in Recommendation 5.1.

The Controller should:

5.3   Consider directing either the City Services Auditor or the City Performance Unit to periodically review high-risk centrally loaded IDS for opportunities for cost savings.

Benefits and Costs

Implementation of Recommendation 5.1 would require a one-time effort from Mayor's Budget Office staff to update their training materials and Analyst Manual, and the chosen frameworks could require staff to spend additional time reviewing centrally loaded IDS during the Mayor's phase of budget development. Implementation of Recommendation 5.2 would require one-time effort by MBO staff to create a cost model submission template, as well as annual efforts by

performing departments' staff to complete the required submission. However, these steps would ultimately streamline an MBO review of centrally loaded IDS. Together, Recommendations 5.1 and 5.2 could help MBO identify significant cost efficiencies, producing budget savings.

Implementation of Recommendation 5.3 would require periodic staff effort by either the City Services Auditor or the City Performance Unit. The reviews by either team could produce budget savings.

6. Billing Lags and Other Administrative Issues

Certain billing practices limit requesting departments' visibility into their spending to date for an interdepartmental service (IDS), hindering their ability to budget for the future. Although the Controller's Office describes monthly billing as a best practice, performing departments typically bill on a quarterly basis for IDS. For 96 percent (46 out of 48) of IDS in our sample, performing departments billed the requesting department quarterly in FY 2022-23. In addition, the delegated authority billing method, in which a performing department charges requesting departments and can bypass standard approval procedures, limits the visibility of requesting departments. According to Controller's Office staff, their Office has stopped allowing the use of delegated authority for any new projects, but this change has not been codified in its Accounting Policies and Procedures manual.

By making and codifying changes to improve the visibility of requesting departments into actual spending, the Controller's Office can make it easier for these departments to alter the scope and services of an IDS if they wish to do so based on actual spending and/or prepare for cost overruns. By requiring departments that use IDS to fund contracts to approve renewal of these arrangements on an annual basis, the Controller's Office can also reduce inefficiencies.

Many Citywide Interdepartmental Services Use Quarterly Billing

The Controller's Office is the primary source of Citywide guidance for IDS billing practices. According to the Controller's Office Accounting Policies and Procedures manual, billing monthly for an IDS is a best practice but not required. The manual states that for internal billing, "Performing Departments should bill quarterly, and preferably monthly, to be assured of revenue recovery and/or to avoid any last-minute rushes at year-end." (p. 389).

Based on our sample, performing departments typically bill requesting departments quarterly. For 96 percent (or 46 out of 48) of IDS in our sample, performing departments billed the requesting department quarterly in FY 2022-23. One IDS was billed annually, and one was billed monthly after the first quarter of the fiscal year, as shown in Exhibit 6.1 below.

Exhibit 6.1: IDS Billing Frequency

Billing Frequency	Number of IDS
Quarterly	46
Monthly After Q1	1
Annually	1
Total	**48**

Source: BLA analysis of billing documentation provided by departments
Note: "Monthly After Q1" refers to an IDS for which the performing department bills the requesting department monthly with the exception of July through September, a period for which it submits a quarterly bill. See below.

The IDS in our sample that was billed annually was a property lease. The City Administrator's Grants for the Arts Office (the requesting department) rents office space in a building operated by the War Memorial (the performing department), with a fixed monthly lease. The War Memorial collected $20,091 in lease fees from the City Administrator's Office at the end of FY 2022-23. Budget staff for both the requesting and performing departments stated to our audit team that they have no issues with annual billing, as the payment is consistent and to budget.

The IDS in our sample that was billed monthly after the first quarter involved the Public Library (the requesting department) arranging for Public Works (DPW), the performing department, to perform sidewalk cleaning and as-needed cleaning services, at a FY 2022-23 budget of $249,461. Budget staff at DPW stated to our audit team that the Department bills monthly or quarterly depending on its arrangement with the requesting department. When DPW bills monthly, its general practice is to bill July to September as quarterly and monthly thereafter. (During the first quarter of the fiscal year, DPW is still working to close out the prior fiscal year.) DPW budget staff stated the Department prefers monthly billing, as it allows DPW to recover expenses faster and creates a built-in review of IDS to catch any adjustments that need to be made. Library budget staff stated to our audit team that monthly billing with DPW for this particular IDS allows for more direct accountability for monthly deliverables.

Compared to monthly billing, quarterly billing provides fewer opportunities for the requesting department to monitor the charges they incur and adjust the scope of work as needed. It may be appropriate to bill certain IDS with fixed costs on a quarterly basis, especially if the IDS is billed to budget. However, for IDS that have variable costs and are billed to actual costs, monthly billings would provide the requesting department more frequent reviews of expenditures and facilitate more timely analysis of spending patterns. While some requesting departments may prefer to have quarterly billing, there is no internal control to ensure that quarterly billing is only used when needed or preferred.

To address this, the Controller's Office should establish in its IDS Memorandum of Understanding template (discussed in Section 4 of this report) checkboxes for monthly, quarterly, and annual billing where the requesting department can indicate its preferred billing frequency.

Controller's Office Has Not Codified Gradual Phase-Out of Delegated Authority Billing

Delegated authority is one of the three billing methods used in IDS.[1] With delegated authority, the requesting department transfers budgeted funds to the performing department's project code prior to incurring costs. As the performing department performs work, it can transfer the charged funds to a new project code, or codes, without review or approval from the requesting department.

DPW appears to be the only department that bills through delegated authority. For DPW, the flexibility of this billing method is helpful in managing reporting for projects with multiple funding sources and programs. However, with delegated authority requesting departments lack the ability to review and approve expenditure details, and they may experience difficulties tracking spending and reconciling the costs of the project. This can lead to delays in project closeout and cost overruns.

As part of a multi-year engagement with the consulting firm Deloitte, the Controller's Office tasked a project team from the firm with proposing changes to the use of delegated authority to address the risks associated with its use, namely the lack of the requesting department's visibility into spending. Starting in 2021, the project team began collecting department feedback, conducting fieldwork, and developing recommendations. Deloitte initially recommended replacing the use of delegated authority as a billing method. However, after extensive testing of Deloitte's proposed replacement solution, the Controller's Office determined – and the Deloitte team agreed – that it was too challenging to implement. The Controller's Office then asked the project team to evaluate four alternative options.

Following the Deloitte project team's review, the Controller's Office updated its Accounting Policies and Procedures manual in August 2024 to restrict the use of delegated authority to only projects that meet *all* of the following criteria:

- Funding source is Authority-controlled
- Funding source is not debt

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[1] The other two are internal billing and direct charge.

- Requesting department is not an enterprise department (MTA, AIR, PUC, and PRT)

According to Controller's Office staff, the Department has also stopped allowing the use of delegated authority for any new projects, with the goal of phasing it out entirely as ongoing projects with delegated authority wound down in the next several years. In the meantime, only ongoing projects that meet the updated criteria described above can continue using delegated authority. However, the Controller's Office has not codified this prohibition on new uses of delegated authority in its Accounting Policies and Procedures manual.

To implement this intention to phase out the use of delegated authority, the Controller's Office should further update its Accounting Policies and Procedures manual to document that delegated authority can no longer be used for new projects.

Conclusion

Although the Controller's Office Accounting Polices & Procedures manual cites monthly billing as a best practice, monthly billing is not a required City practice. In the absence of a requirement, many departments bill quarterly. In our review of 48 non-centrally loaded IDS across 33 City departments, we found that the majority (96 percent) bill quarterly. Billing quarterly provides fewer opportunities for the requesting department to monitor the charges they incur and adjust the scope of work as needed. This may also contribute to the high volume of carryforward funds within IDS, which is discussed in Section 2 of this report. To address this, the Controller's Office can provide requesting departments the option, during the annual budget process, of requesting monthly billing from the performing department.

Although the Controller's Office has announced restrictions on the use of delegated authority in ongoing projects, it has not yet codified its decision to prohibit the use of this billing method for new projects in its Accounting Policies and Procedures manual. In the coming years, this prohibition – assuming it is enforced – will wind down all use of delegating authority. This will address the drawbacks for requesting departments of delegated authority – specifically, the lack of ability to review and approve expenditures, which can lead to delays in project closeout and cost overruns. Codifying the prohibition on the use of delegated authority in new projects would help ensure that delegated authority is phased out, as the Controller's Office intends.

Recommendations

The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should:

6.1   Establish checkboxes for monthly, quarterly, and annual billing in its IDS Memorandum of Understanding (MOU) template, through which the requesting department can request its preferred frequency of billing for an IDS.

6.2   Codify in the Controller's Accounting Policies and Procedures manual the prohibition on the use of delegated authority for new projects.

Benefits and Costs

By allowing the requesting department to request its preferred billing frequency for an IDS, whether that is annually, quarterly, or monthly, the Controller's Office can facilitate more efficient tracking of IDS for the requesting and performing departments. A requesting department that prefers more frequent review of its expenditures can do so and adjust the scope of its IDS as needed in a timely manner. Adding checkboxes for monthly, quarterly, and annual billing to the IDS MOU template will require Controller's Office staff to update the IDS MOU template in the Controller's Accounting Policies & Procedures Manual.

In phasing out delegated authority as an IDS billing method, the Controller's Office can eliminate a form of billing by which the requesting department is unable to review and approve expenditures related to their IDS, which can cause difficulties in tracking spending and delays in project closeout and cost overruns. According to Controller's Office staff, the Department has stopped allowing the use of delegated authority for new IDS projects, but it is not yet formalized in the Accounting Policies & Procedures manual. Codifying the prohibition on the use of delegated authority for new projects will require Controller's Office staff to update the Accounting Policies & Procedures manual.

These changes will require one-time staff effort to develop the IDS MOU template and *Chapter* 7 of the Interdepartmental Services of the Controller's Office Accounting Policies and Procedures manual, and to provide notification and education to all City staff of the changes.

7. Review of Non-Centrally Loaded Interdepartmental Services

Neither the Administrative Code nor the Mayor's Budget Office (MBO) require City departments to justify delivering a service through an Interdepartmental Service (IDS). Although MBO and Controller's Office staff analyze proposed IDS during the budget review, they generally do not analyze whether an IDS is the best delivery method or whether ongoing costs are justified. This increases the risk of an IDS continuing in perpetuity despite the expiration of the need for it. Our sample review found an apparent example: Due to a temporary funding restriction, the Department of Early Childhood (DEC) entered into an IDS through which the Department of Children, Youth and Their Families funded a childcare subsidy distributed by DEC. This IDS remains in place today, despite the lifting of the funding restriction. To strengthen controls around the use of IDS, we recommend that MBO require departments to justify the need for an IDS on an annual basis and that MBO staff review these justifications during the annual budget process.

At least two interdepartmental service agreements in our sample had hourly rates that exceeded at least some private-sector rates for similar services. The costs of these IDS may have been well-justified, due to higher service quality, civil service worker protections, cost allocation of Citywide services, or for other reasons. However, no process existed to ensure this was the case. As an additional control, we recommend the City Performance Unit consider reviewing the unit costs and service levels of IDS it determines to be high risk and working with the involved departments, where appropriate, to improve cost efficiency.

Departments Are Not Required to Document the Rationale for an Interdepartmental Service

City departments generally deliver services in one of three ways: directly, through a third-party contractor, or through another City department via an Interdepartmental Service (IDS). In order to utilize a third-party contractor, departments generally have to document the basis for this decision and verify that services are less expensive than if provided in-house under Charter Section 10.104.15. On an annual basis, the Controller's Office conducts cost comparisons for contracted services and certifies that the services can be performed by private contractors for lower costs than similar work performed by City employees (known as the "Proposition J analysis"). However, no such requirement exists to document the basis for utilizing an IDS to deliver services.

Under Administrative Code Section 2.17, adopted in 2004, departments must submit documentation about contracted services during the submission of their proposed annual

budgets. Under current Mayor's Budget Office guidance, departments submit such requests to the Controller's Budget and Analysis Division, including completing four templates:

- A **description**, in which the department provides information including its rationale for contracting out the service and a description of circumstances under which the department could provide the relevant services using City staff;
- A **summary** comparing cost estimates for contracting out the service and using City staff; and
- **Cost templates** detailing the basis for estimated costs of contracting out the service and using City staff, including Full-Time Equivalent positions (FTE) and salary by position.

The processes described above relate to Proposition J, a 1976 ballot initiative that allowed many City services to be performed by private parties through contracts. Specifically, they relate to compliance with Proposition J's requirement that services only be contracted out if doing so costs less than using City staff.[1] Proposition J does not specifically address IDS as these services are mostly still considered in-house (i.e., provided by City staff), and neither Administrative Code Section 2.17 nor the Mayor's Budget Office require departments to submit supplementary information about IDS during the budget submission process.

In addition to submitting the requests described above during the annual budget process, departments that seek to contract out services must also request permission from the Civil Service Commission. To undergo this review, departments submit requests to the Civil Service Commission using a platform called ServiceNow. The request template in ServiceNow includes questions such as "Why are these services required and what are the consequences of denial?," as well as entire section dedicated to "Justification." This process represents another control on the use of contracted services that does not exist for interdepartmental services.

No Systematic Oversight of IDS Between Departments

Neither the MBO nor the Controller's Office systematically review the necessity or cost reasonableness of non-centrally loaded IDS. According to Controller's Office staff, IDS review by the Controller's Office focuses on ensuring that sources and uses are balanced. Although MBO staff analyze proposed IDS during the budget review, MBO staff informed us that their review generally does not include an analysis of whether an IDS is the best delivery method or whether

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[1] Under San Francisco Charter Sec. 10.104-15, established by Proposition J, positions can only be contracted out if "positions where the work or services can be practically performed under private contract at a lesser cost than similar work performed by employees of the City and County." (Some positions are also ineligible for being contracted out under the City Charter or other laws.)

ongoing costs are justified. Staff might review the justification for significant cost increases on a case-by-case basis, but in general the Office defers to performing and requesting departments on the justification for, and cost reasonableness of, interdepartmental services.

One IDS in Our Sample Continues to Exist Despite Administrative Inefficiency

Eight IDS in our sample were specifically created for the performing department to contract with an outside entity. To understand whether any of these arrangements added unnecessary complexity, the audit team asked each department involved in these IDS whether removing one department from the transaction would be feasible or would reduce administrative burden. For most of these IDS, departments responded that removing one department from the transaction would be infeasible or would not reduce administrative burden. However, for one IDS, the departments' responses suggested that ending the requesting department's involvement might reduce the administrative burden on both departments. Exhibit 7.1 below summarizes the rationales provided by the performing and requesting departments of the eight sampled IDS that were created for the purpose of contracting with an outside entity.

Exhibit 7.1: IDS in which the Performing Department Contracts Out a Service

Rationale	Number of IDS
Performing department has a better capacity to oversee service delivery	2
Performing department is better equipped to undergo the contract procurement process	2
The requesting department must receive the state funds	3
Historically how it is done	1
Total	8

Source: Department responses to BLA inquiry

One IDS we reviewed in our sample involves a requesting department contracting out a service through the performing department because, according to the requesting department budget staff, that is how it has always been done. The IDS exists to assist the Department of Early Childhood (DEC) (the performing department) in funding early childhood education for infants and toddlers who are unhoused and low-income, primarily through childcare subsidy reimbursements to a provider. DEC contracts with the community-based organizations Wu Yee Children's Services and Compass Family Services to deliver these services. According to Department of Children, Youth and their Families (CHF) staff, the need for an IDS arrangement arose because a certain division of DEC, the First 5 Children and Families Commission, could not initially receive General Fund allocations directly. However, this restriction is no longer in effect. Budget staff from both the requesting and performing departments stated it would reduce

administrative burden if DEC was allocated the funding directly, instead of the funding being appropriated to CHF and provided to DEC through an IDS. Budget staff from CHF stated this IDS adds administrative burden for CHF specifically due to negotiations during budget season and reviewing and approving billings at year-end.

As described above, departments are not currently required to justify an IDS on an annual basis. In situations such as the DEC – CHF arrangement described above, creating such a requirement could prompt one or both involved departments to explore options for ending a no-longer-needed IDS.

Labor Rates Can Exceed Private-Sector Rates for Similar Services

Direct provision of City services, including for interdepartmental services, can carry a higher hourly rate than private-sector rates for similar services. Several factors contribute to this issue, including (a) City policies designed to protect workers and/or implement policy choices; and (b) costs incurred by departments for Citywide services (i.e., centrally-loaded work orders).

For at least two IDS in our sample, for Library adjacent sidewalk cleaning and Moscone Center security described in more detail below, services were provided at rates that appear to have exceeded market rates for similar, though not identical, services. We analyzed these IDS in detail after reviewing our IDS sample for examples that could demonstrate such rate differences; these were not selected at random and are not representative of the sample or IDS in general.

Library Sidewalk Cleaning

In one IDS in our sample, the Department of Public Works (DPW) provided sidewalk and other cleaning services for the San Francisco Public Library (SFPL). To approximate market rates for similar services, we reviewed five DPW agreements signed in June of 2023 with third-party contractors providing power-washing and steam cleaning services for the City. As shown in Exhibit 7.2 below, the total rate charged by DPW exceeded the total rate charged by four of the five contracted firms. All rates included overhead.[2]

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[2] In addition to salary and benefits rates, the DPW rate model includes overhead to offset the Department's administrative costs.

Exhibit 7.2: DPW Rate for Library Sidewalk Cleaning and

Contractors' Rates for Similar Services

Provider	Average Hourly Rate, Laborer
Contractor 1	$78.75
Contractor 2	$84.84
Contractor 3	$95.95
Contractor 4	$110.14
DPW	**$135.72**
Contractor 5	$144.79

Source: BLA Review of DPW contracts with five vendors providing power washing and steam cleaning services.

Notes: Where rates included both laborers and supervisors, we considered the laborer rates only, for consistency with DPW's invoice, which listed only one job class (General Laborer). Where firms included one rate for power washing and a separate rate for steam cleaning, we took the average of the two rates. An invoice from DPW for April 2023 details a total cost of $13,572.52 for 100 hours of labor, resulting in an effective hourly pay rate of $135.73.

Security Services at Moscone Center

Through another work order in our sample, the Police Department (SFPD) provides security for the City Administrator's Office at the Moscone Center. To approximate market rates for similar services, we reviewed a separate work order in our sample that funds privately contracted security services. Through this agreement, Child Support Services (CSS) funds security services at a site at 617 Mission Street. Rather than manage this contract directly, CSS provides funding to the Human Services Agency, which has a larger administrative staff, to administer the contract. Exhibit 7.3 below shows the hourly rates for SFPD security at the Moscone Center and contracted security at 617 Mission through these interdepartmental agreements.

Exhibit 7.3: Hourly Rates in Two IDS for Security Services

Requesting	Performing	Service or Good	Total Hourly Rate
ADM	POL	Security at Moscone Center	$112.45
CSS	HSA (via contractor)	Security at 617 Mission	$33.36

Source: BLA Review of DPW contracts with five vendors providing power washing and steam cleaning services.

Contributing Factors for Labor Rates that Exceed Private Sector Rates

The cost comparisons shown above do not necessarily reflect inefficiencies or indicate that these services should be contracted out. As described above, City departments face costs that third-party contractors do not, such as cost allocation of centrally loaded IDS and costs associated with civil service protections for City staff. City staff may also be able to provide higher-quality services. Each requesting department also provided our team with additional context for these specific services:

- For the Library sidewalk cleaning, Library staff told us performing these services with Library staff would have required staff to work overnight shifts outdoors without security.

Library staff also reported that contracting out in the past seemed inefficient, given the relatively small scope of needed services. The cost variance between DPW rates and contractors may overstate the savings available to the City from contracting out: According to Public Works staff, contracting out services such as Library cleaning would not create the level of savings suggested by hourly rates, as the decrease in DPW utilization would increase overhead rates for other DPW services.

- For security at the Moscone Center, the City Administrator's Office uses uniformed SFPD officers in response to requests from convention planners, according to City Administrator's Office staff. While the City Administrator's Office utilizes private security for checking badges at convention entries, convention planners can request uniformed security as well to meet specific needs and attendee expectations.

For the reasons described above, the costs of these IDS may have been well-justified. However, no process exists to ensure this was the case. We recommend the City Performance Unit of the Controller's Office consider periodically reviewing the unit costs and service levels of IDS it determines to be high risk and working with the involved departments, where appropriate, to improve cost efficiency.

Conclusion

City departments are not required to justify the need for an interdepartmental service. This stands in contrast to the processes that departments must follow when contracting out services to the private sector, including demonstrating cost comparisons through template reporting forms and annual certification from the Controller's Office that a service can be performed by a private contractor for a lower cost than similar work performed by City employees. Further, the Mayor's Budget Office and the Controller's Office do not generally review the cost efficiency of interdepartmental services during the budget development process.

Our review identified an IDS that has continued despite the expiration of the funding restriction that prompted it. Separately, two interdepartmental services in our sample were provided at labor rates that appear to have exceeded market rates for similar, though not identical, services. Although this does not indicate that City staff should not perform these services, it demonstrates the potential value of creating stronger oversight.

To address these issues, we recommend that MBO require departments to justify the need for an IDS on an annual basis and that MBO staff review these justifications during the annual budget process. We also recommend that the Controller's City Performance Unit consider periodically reviewing the unit costs and service levels of IDS it determines to be high risk.

These recommendations would create three opportunities to identify possible opportunities for cost savings: (a) as the department prepares to justify the IDS; (b) as the Mayor's Budget Office reviews the department's justification; and (c) as the City Performance Unit reviews selected IDS. At any of these points, potential strategies for cost savings could include:

- Reducing the scope or making operational changes to improve cost efficiency;
- Funding staffing in the requesting department to eliminate the need for an IDS and associated costs; and,
- Appropriating funds to the performing department directly to eliminate the need for an IDS.

As an additional option in certain cases, requesting departments could utilize a competitive solicitation and consider contracting out the services if bids represent sufficient cost savings. However, careful consideration should be exercised prior to pursuing this strategy, as replacing an IDS with contracted services may not be in the public's best interest and could result in layoffs of City staff.

Recommendations

The Mayor's Budget Director should:

7.1   Develop an Interdepartmental Service Justification template, for departments to justify on an annual basis the need for a specific IDS; and require through future Mayor's Budget Instructions that departments submit this form during the annual budget process.

7.2   If Recommendation 7.1 is adopted, update the MBO analyst manual and training materials to direct staff to (a) review the justification submitted by departments during the annual budget process; and (b) at staff discretion, ask departments to justify unit costs or service levels for a specific IDS.

The Controller's City Performance Unit should:

7.3   Consider periodically reviewing the cost of certain interdepartmental services it determines to be high-risk and, as appropriate, recommending steps the requesting and performing departments can take to improve cost efficiency. This review should consider at least: (a) the justification provided by departments if Recommendation 7.1 is adopted; (b) private-sector cost estimates for similar services; and/or, (c) estimated rates if the requesting department performed the service with their own staff. This review would be separate from the Controller's Office annual review and certification of Proposition J contracted services.

Benefits and Costs

Implementation of Recommendation 7.1 would require a one-time effort from Mayor's Budget Office staff to develop an Interdepartmental Service Justification template and to include in the Mayor's Budget Instructions in the fall of 2025 (for FY 2026-28) to include a submittal process. Implementation of Recommendation 7.1 would also require City department staff to document the justification for an IDS.

Implementation of Recommendation 7.2 would require Mayor's Budget Office staff to spend time during their budget review assessing the justifications provided by departments, as well as a one-time effort to update MBO's analyst manual and training materials.

Implementation of Recommendation 7.3 would require additional effort from the Controller's City Performance Unit to review the cost efficiency of selected IDS.

Together, these recommendations could produce cost savings both directly and indirectly. As a result of their respective reviews, the Mayor's Budget Office and Controller's Office staff could ask performing departments to create efficiencies in certain IDS, reserving the option of asking the requesting department to utilize a competitive solicitation if costs are not sufficiently reduced. These processes would also exert pressure on departments to proactively constrain the use and costs of IDS.

8. Positions Funded Through IDS

Some interdepartmental services (IDS) are specifically created for a requesting department to pay the salary of one or more employees working in a different department. Although we did not find evidence of any conflict with rules and regulations, such arrangements can raise questions about cost eligibility, the need for such positions and funding structures, and budget transparency. For one IDS we reviewed, in which a department used special revenue monies to fund 15.54 full time equivalent positions (FTEs) in another department, staff initially questioned whether this was an allowable use of the funding source. For another IDS, in which five departments shared the cost of a director-level position, none of the departments were able to provide our team with documentation showing the need for the position or rationale for the funding arrangement. A third IDS we reviewed involved one department reimbursing another for a position functionally based in the second department but authorized and funded in the first.

To ensure that such arrangements are sufficiently justified, we recommend that the Mayor's Budget Office (MBO) require documentation of the justification for IDS that fund positions and provide this annually to the Controller's Office and the Board of Supervisors' Budget and Legislative Analyst's Office. The Mayor's Budget Office could implement this recommendation by requiring performing and requesting departments to provide this justification in their department phase budget submissions to the Mayor's Budget Office, which would then be publicly available during subsequent phases of the budget development process.

Some IDS Fund Personnel in a Separate Department

Some interdepartmental services (IDS) are specifically created for a requesting department to pay the salary of one or more employees working in a different department. Of the 48 IDS we reviewed in our sample, six were specifically created for a requesting department to pay for staff time of specific employees working in a different department. Exhibit 8.1 below lists the six IDS in our sample of 48 IDS that were created for the purpose of paying for staff time of one or more employees in another department and the one IDS we reviewed outside of our sample.

Exhibit 8.1: Reviewed IDS in Which One Department Funds Staffing for Another Department

Department(s) Providing Funds	Position Located In	Position	FTE
Department of Building Inspection	Office of the Assessor-Recorder	Property Appraisers	15.54
Planning Department and Department of Building Inspection	Office of Economic and Workforce Development	Community Development Specialist	1
San Francisco Police Department	Department of Public Health	Industrial Hygienist	1
Recreation and Parks Department	Municipal Transit Agency	Planner III	0.5
Department of Building Inspection	Department of Public Works	Director of Housing Delivery	0.5
Department of Public Health	Department of Police Accountability	Attorney (a few hours/month)	<0.5
Human Rights Commission*	Planning Department	Planner IV	1.0

Source: BLA analysis of IDS sample and department responses.

*This IDS was reviewed during the BLA's review of the proposed FY 2024-26 budget.

Note: Remaining portion (0.5 FTE) of Director of Housing Delivery cost was funded by the San Francisco Public Utilities Commission, the San Francisco Municipal Transit Agency, the Planning Department, and the Department of Public Works.

Funding a position through an IDS can help departments provide a service they would otherwise need to contract out or hire because the expertise or qualifications needed for the work do not exist in the requesting department. For example, the San Francisco Police Department (SFPD) pays the Department of Public Health for a full-time Industrial Hygienist to review Occupational Safety and Health Administration (OSHA) regulations in relation to hazardous waste remediation projects performed by the U.S. Navy and its contractors at Hunters Point Naval Shipyard Building 606 that may impact SFPD personnel housed there.

Nexus Between Funding Source(s) & Job Duties Can Be Complex, Tenuous

Three IDS that we reviewed stood out as entailing particularly complex, and arguably tenuous, relationships between the funding source or sources and the job duties performed by the funded position. These IDS are summarized below.

Department of Building Inspection funded Property Appraisers in the Assessor-Recorder's Office

One sampled IDS involved the Department of Building Inspection (DBI) paying the Office of the Assessor-Recorder (ASR) $2,331,464 for 15.54 Full-Time Equivalent (FTE) positions in FY 2022-23. Through this IDS, DBI funded 15.54 Property Appraiser positions working in ASR to review new construction permits and appraise the property for taxation, using monies in the Building Inspection Fund. The Building Inspection Fund, established by Sec. 10.100-45 of the Administrative Code, is supported by fees and other DBI revenues and can only be used for certain types of expenditures.[1] The IDS was in effect for nine years from FY 2014-15 to FY 2022-23.

Five Departments funded a Director of Housing Delivery Stationed in Department of Public Works

The Department of Public Works (DPW) held an IDS in FY 2022-23 with four other departments (DBI, the San Francisco Public Utilities Commission, the Municipal Transportation Agency, and the Planning Department) to fund the salary of an appointed Director of Housing Delivery.[2] Each of the four departments, along with DPW, contributed between 10 and 50 percent of the individual's salary for a total of $330,651 in FY 2022-23, as shown in Exhibit 8.2 below. According to the IDS Memorandum of Understanding, the Director of Housing Delivery was responsible for moving projects through the City's pipeline faster and streamlining the City's permitting process.[3]

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[1] Sec. 10.100-45 of the Administrative Code states: "This fund shall be used by the Department of Building Inspection, subject to the approval of the Building Inspection Commission exclusively to defray the costs of the Bureau of Building Inspection in processing and reviewing permit applications and plans, field inspections, code enforcement and reproduction of documents."

[2] The Director of Housing Delivery was a 0942 Project Manager IV position, who was appointed by the Mayor in December 2018. This position no longer exists.

[3] According to DPW staff, the Director of Housing Delivery position focused on working with key developers in the City to streamline the permitting process and mediate with City departments who have to review and approve documents related to new construction, to move housing projects forward faster.

Exhibit 8.2: IDS funding Director of Housing Delivery FY 2023-24

Departments Providing Funds	Department Allocation	Department Subtotal
Department of Building Inspection	50%	$165,325
Public Utilities Commission	13.3%	44,087
Municipal Transportation Agency	13.3%	44,087
Planning Department	13.3%	44,0787
Department of Public Works	10%	33,065
Total	**100%**	**$330,651**

Source: IDS MOU

Planning Department funds an ongoing Departmental Liaison at the Human Rights Commission

During the Budget and Legislative Analyst's review of the proposed FY 2024-26 budget in June 2024, the BLA reviewed a position that was budgeted in the Planning Department (CPC) but was effectively based in the Human Rights Commission (HRC). During FY 2023-24, a 5293 Planner IV in CPC was promoted into a 0931 Manager III position[4] in CPC and began to work in HRC conducting Citywide racial equity programming. In FY 2023-24, CPC recovered the position's salary of $213,754 via an IDS. HRC leadership requested a new 0931 Manager III position in its proposed budget to the Mayor's Office in February 2024, which would have made the position permanent and eliminated the need for the IDS. The Mayor's proposed FY 2024-25 budget did not include this requested position in HRC. Subsequently, the Board of Supervisors did not approve the IDS in the City's FY 2024-25 budget. In the current year, the role continues to be effectively based in HRC and CPC currently funds the position without reimbursement.[5]

Funding Arrangements Can Raise Cost Eligibility Concerns

Rules and regulations specifying how monies in specific City funds can be spent are codified in Chapter 10 Article XIII of the City's Administrative Code. Among other provisions, this article establishes more than 150 special funds and describes what each fund is to be used for. If an IDS results in a requesting department paying for the IDS out of a special revenue fund (non-General

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[4] The individual in this position in CPC was a Planner IV job classification. The temporary Manager position is a Temporary Exempt (TEX) category 18 (appointments for special projects for up to three years) 0931 Manager III job classification.

[5] HRC's proposed FY 2024-25 budget included a work order for $260,651 to pay CPC for the 0931 Manager III.

Fund), to comply with the Administrative Code it must meet Article XIII's requirements for how money from that specific fund can be spent.

For the IDS between DBI and ASR described above, the Controller's Office asked ASR staff in 2016 to provide justification for using Building Inspection Fund monies as the funding source for this IDS, according to correspondence shared with the audit team. After reviewing information shared by ASR staff, the Controller's Office approved the arrangement, and the City Attorney's Office and the Mayor's Budget Office provided approval as well, according to ASR staff. According to staff at the Controller's Office, the question about allowable uses of the Building Inspection Fund was asked frequently enough that in FY 2003-04, language clarifying the use of "permit revenue funds from the Department of Building Inspection that are transferred to other departments" was added to the Administrative Provisions of the City's Annual Appropriation Ordinance (*Section 24. Use of Permit Revenues from the Department of Building Inspection*), and the Controller's Office and City Attorney's Office would confer to ensure both departments were on the same page.

No System for Documenting Rationale

In the absence of specific concerns raised by department staff, MBO staff expect departments to ensure compliance with hiring and funding source regulations. These regulations include Administrative Code restrictions on special funds, as described above. They also include Civil Service Commission rules for hiring, which are laid out in the Civil Service Rule Series. Rule 113 states that (a) selection of employees from eligible lists shall be based on merit and fitness; and (b) any appointing officer's selection procedures must establish non-discriminatory process. These rules promote fair and open recruitment, competition, and employment practices free from influence in hiring.

According to MBO staff, MBO expects that performing departments manage their staffing needs in accordance with Civil Service Commission rules and that requesting departments verify compliance with fund restrictions when deciding on a funding source for the IDS. Similarly, the Controller's Office generally defers to the involved departments to determine cost eligibility.

Because neither the MBO nor the Controller's Office systematically review positions funded through IDS, there is no centralized documentation of the rationale for such positions and the associated funding arrangements. For the Director of Housing Delivery position, department staff from the five funding departments confirmed with the audit team that the IDS was included in each department's budget; however, no department was able to provide to the audit team documentation of the justification or rationale for their department's spending for this position.

Potential for Reduced Budget Transparency

We did not find evidence that any of the IDS-funded positions we reviewed were noncompliant with either Administrative Code or Civil Service Commission rules. However, arrangements in which one or more departments fund a position that is functionally based in another department, particularly when they are initiated mid-year outside of the annual budget process such as the Director of Housing Delivery position, have the potential to reduce budget transparency about the positions and expenditures of City departments.

The IDS between the Planning Department (CPC) and the Human Rights Commission (HRC) above illustrates this potential risk. Through this FY 2023-24 IDS, HRC reimbursed CPC for the salary of a position created by CPC that year but effectively based within HRC.[6] The Mayor's Office did not approve a request for a permanent 0931 Manager III position to be created for this IDS-funded position and the Board of Supervisors subsequently did not approve the proposed workorder for FY 2024-25. The position has not returned to its initial authorization under the Annual Salary Ordinance (5293 Planner IV) and CPC currently funds the position, without reimbursement, despite the position continuing to be effectively, if temporarily, based within HRC.

The IDS described above may be justified by unique circumstances and department or City needs. We also found no evidence that this is a widespread use of IDS. Nonetheless, this IDS results in a position that is budgeted and funded by one department while being functionally based in another, with only an indirect nexus between the work performed and the mission of the funding department and a questionable use of budgeted funds given mayoral and Board budgetary decisions.

Conclusion

When interdepartmental services fund positions, the relationship between the funding source(s) and the position's work can be indirect or complex. Among the IDS of this type that we reviewed, we found no evidence that any violated rules or regulations, such as the Administrative Code's requirements for special funds or Civil Service Commission rules. Still, these arrangements can raise potential risks related to cost eligibility and budget transparency.

IDS can raise cost eligibility concerns, as was initially the case with DBI funding 15.54 Property Appraiser positions working in ASR, through a special revenue fund. There is no systematic requirement to document the rationale for creating a position funded through IDS; as a result,

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[6] According to CPC staff, in the spring of 2023, CPC created and filled (with approval from the Department of Human Resources) a Temporary Exempt 0931 Manager III position whose outlined duties are specifically to work as a departmental liaison at the Office of Racial Equity, a division of the HRC.

none of the five departments funding the Director of Housing Delivery position were able to provide such documentation. IDS-funded positions can also inhibit budget transparency. For example, the IDS between the Planning Department and the Human Rights Commission resulted in a position that is currently budgeted and funded in one department but effectively based in another, with only an indirect nexus to the work of the funding department.

To address these issues, the Mayor's Budget Office should require documentation of the justification for all IDS that fund specific full-time positions, and it should provide that justification to the Controller's Office and the Budget and Legislative Analyst's Office during the annual budget process. The Mayor's Budget Office could implement this recommendation by requiring performing and requesting departments to provide this justification in their department phase budget submissions to the Mayor's Budget Office, which would then be publicly available during subsequent phases of the budget development process. To help the MBO confirm the list for such positions, the Controller's Office should update the Memorandum of Understanding template for IDS, discussed in Section 4 of this report, to require that departments indicate when an IDS funds one or more positions.

Recommendations

The Controller should:

8.1   Add to the IDS Memorandum of Understanding template in its Accounting Policies & Procedures Manual a checkbox in which the requesting department must check if the IDS funds one or more positions.

The Mayor's Budget Office should:

8.2   Provide to the Controller's Office and the Budget and Legislative Analyst's Office, as part of the annual budget process, a list of IDS that fund positions, including the start date and funding sources for each, along with the rationale for creating the position and funding it in this way.

Benefits and Costs

Modifying its IDS Memorandum of Understanding template will require minimal one-time staff effort by the Controller's Office. This could be conducted in conjunction with Recommendations 4.3, 6.1, and 6.2, which recommend separate updates to the MOU template. Providing justification for IDS that fund positions to the Controller's Office and Budget and Legislative Analyst's Office will require staff to write such justifications, and an annual effort by Mayor's Budget Office staff to compile and share them. By implementing these recommendations, the

Mayor's Budget Office and Controller's Office can provide additional visibility into this use of interdepartmental services thereby reducing the risk of inappropriate use of IDS to skirt the restrictions of special revenue funds and increasing transparency around the use of IDS to fund positions.

9. As-Needed Legal Services and Facilities Maintenance

The City Attorney's Office (CAT) routinely bills departments for legal services months after the end of a quarterly billing period. We reviewed invoices that CAT sent to five departments for the quarter ending Sept. 30, 2022; the invoices had been uploaded to the City's financial system between Dec. 15, 2022 and Jan. 3, 2023. City Attorney's Office management informed us that they hope to reduce the amount of time it takes to review and upload invoices for interdepartmental services, and doing so would provide requesting departments more time to identify additional funds when expenditures are on pace to exceed the budgeted amount.

During the department phase of the budget process (approximately December to February), Department of Public Works (DPW) staff pursue agreement with requesting departments on a budget for facilities maintenance and other services for the upcoming year. However, DPW staff do not consistently provide requesting departments with detailed breakdowns showing the basis for their cost estimates. Although it is impossible to project the exact maintenance services a department will need, providing a more specific breakdown of estimated costs for planned work would let requesting departments conduct a more thorough review. This would decrease the likelihood of significantly overbudgeting such services, which ties up funding that could be utilized elsewhere, or underbudgeting, which requires departments to identify alternative funding sources mid-year.

Departments Often Wait Months to Receive Quarterly Invoices from City Attorney's Office

In addition to filing lawsuits that advance the City's interests, the City Attorney's Office (CAT) provides City departments with legal guidance and defends City departments when lawsuits are filed over their policies, decisions, or other actions. The City Attorney's Office charges departments for the time its attorneys and other staff spend on this work, generally through one interdepartmental service per requesting department, encompassing the full range of legal services provided.

The City Attorney's Office bills client departments on a quarterly basis for the legal services it provides. Using the Office's internal database, CAT accountants prepare billing reports for each department, reflecting the hours worked by staff across the office. These reports are then reviewed internally for accuracy before being shared with the requesting department for its review and approval.

For the interdepartmental agreements in our sample, the City Attorney's Office consistently entered invoices months after the end of the quarter during which the work was performed. Our sample included interdepartmental agreements with five requesting departments: the City Administrator's Office, the Department of Early Childhood, the Department of Public Health, the Department of the Environment, and the Department of Technology. At our request, the City Attorney's Office and these requesting departments provided invoices for these agreements. Exhibit 9.1 below shows the date entered for invoices for the quarter shown.

Exhibit 9.1: Billing Date for Selected Invoices from City Attorney's Office

Requesting Department	FY Q1 (Ending Sept 30)	FY Q2 (Ending Dec 31)	FY Q3* (Ending Mar 31)	FY Q4 (Ending Jun 30)
ADM - Treasure Island	December 15, 2022	March 3, 2023	May 18, 2023	August 4, 2023
DEC	December 29, 2022	March 6, 2023	May 26, 2023	August 4, 2023
DPH - Central	December 30, 2022	April 10, 2023	June 6, 2023	August 2, 2023
ENV	January 3, 2023	March 6, 2023	*No bill provided*	August 8, 2023
TIS	January 3, 2023	March 6, 2023	May 23, 2023	August 4, 2023

Source: BLA Analysis of billings provided by the City Attorney's Office.

Notes: Billing dates above reflect "Entered On" field of General Ledger covered sheet. CAT separately billed six divisions of ADM and six divisions of DPH; the information above reflects the bills for the division named. For most of these departments, the "Date" field for the first, second and fourth bills showed the date of the last day of that quarter. The third bill appeared to be quarterly bills as well, but practices varied for the "Date" field: Some were dated Jan. 1, and others were dated with the same date as the "Entered On" date. For DPH, both the second and third bills used same date for the "Date" field and the "Entered On" field.

For the sampled invoices, the longest average lag between the end of the fiscal year quarter and the date entered was for Quarter 1, at nearly three months. Quarter 4 had the shortest average lag, at just over one month. Although there were slight variations across departments, invoices for a given quarter were generally sent within a few days of each other.

According to City Attorney's Office staff, multiple factors contribute to lags in billing departments. To prevent errors, the Office conducts internal reviews of hours submitted by attorneys and professional staff, which lengthens the submittal process. The CAT accounting team then must enter this information to create invoices, and, according to the CAT Chief Financial Officer, limited staffing on this team contributes to billing delays; as of February 2024, three positions reporting to the CFO were vacant and subject to a hiring freeze. Reducing the time that these processes take is an Office goal, according to the CAT Chief Financial Officer.

Delayed billings can limit a requesting department's ability to prepare for cost overruns, such as by adjusting expenditures or identifying alternative sources of funds. Billing delays are discussed in Section 6 of this report, and they can contribute to high volumes of carryforwards, which are discussed in Section 2 of this report.

To address these risks, the Chief Financial Officer for the City Attorney's Office should (a) make process adjustments to expedite the process of billing interdepartmental services, once vacant positions are filled to an extent that makes this feasible; and (b) report to the Board of Supervisors by June 30, 2026 on whether the timeliness of invoices has improved as a result of these changes.

Proposed Budgets for Maintenance and Repair Work Lack Detailed Breakdowns

The Department of Public Works (DPW) provides maintenance and repair work for requesting departments. This includes both reactive work (e.g., repairing a sewage leak) and planned work (e.g., scheduled maintenance, routine inspections, and larger service orders as described below). Due to the unpredictable nature of this work, annual expenditures sometimes exceed budgeted funds, requiring requesting departments to identify additional funding sources. This was the case for both maintenance and repair interdepartmental services in our sample, which consisted of:

- • A building repair work order with the Fire Department, for which $48,469 was budgeted in FY 2022-23; actual billings totaled $968,948.
- • An urban forestry work order with SFPUC, for which $351,349 was budgeted in FY 2022-23; actual billings totaled $938,955.

According to DPW staff, discrepancies between original budgets and actual expenditures are often driven by a requesting department requesting additional work. Requesting departments also have the opportunity to review cost estimates for larger maintenance and repair projects. For such projects, which are requested by client departments, DPW staff develop a cost estimate and obtain requesting department approval before proceeding. (DPW distinguishes between these larger projects and corrective service work, which DPW building repair staff can authorize and schedule work up to a set amount – generally $10,000, unless the department has authorized a different threshold.)

Improved communication during budget development can improve the accuracy of budget projections and thus reduce the likelihood of the requesting department needing to identify additional funds. For each of the interdepartmental services in our sample for maintenance and repair work, DPW prepared a Memorandum of Understanding that broke the proposed budget down into labor and materials estimates. However, it did not provide detailed breakdowns during the budget development process to show requesting departments the basis of these estimates. In response to our request for an example or a template of what it provides requesting departments during the budget development process, the DPW staff provided an MOU with the Fire Department showing a proposed FY 2025-26 budget for as-needed building repair,

maintenance, and improvements.[1] The only breakdown provided in the agreement was between labor and materials. Exhibit 9.2 below shows this breakdown.

Exhibit 9.2: Sample Maintenance Budget Breakdown Provided by DPW

Budget Estimate: *(Actual amounts may vary from those estimated below)*

Labor

Classification	Job Title	Hours	Hourly Rate	Overhead Rate	Cost
					25,593
				Labor Subtotal $	25,593

Non-Labor

Account	Description				Cost
540000	Materials & Supplies				1,347
				Non-Labor Subtotal $	1,347

San Francisco Public Works Contact

Source: Excerpt from Memorandum of Understanding provided by Department of Public Works.

Since much of the work around facilities maintenance is unplanned and reactive, providing a detailed forward-looking breakdown of labor and materials estimates before the beginning of the fiscal year is challenging. Adding to the challenge, requesting departments ultimately determine the work planned. However, to the extent possible, providing additional detail during the budget development process would allow the requesting department to review DPW's projections with more granularity. For example, if DPW provided a list of projected maintenance needs, the requesting department could determine whether any major needs were omitted. We recommend that DPW work with client departments during the budget development process to identify planned work and provide a more detailed breakdown of estimated associated costs.

Conclusion

The City Attorney's Office regularly bills requesting departments months after the end of a quarterly billing period, in part due to internal review processes and limited staffing. Department management has set a goal of reducing such delays, which would give client departments more time to identify additional funding sources in the case of overspending. Separately, although the Department of Public Works outlines proposed maintenance and repair budgets for client departments through Memoranda of Understanding, these budgets generally include only

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[1] This seems to represent an improvement over FY 2022-23, when there does not appear to have been an MOU in place describing these services based on DPW's response to our initial Request for Information.

summary detail (i.e., a labor estimate and a materials estimate). To enhance the accuracy of budget estimates, we recommend DPW staff work with departments during the budget development process to identify and estimate costs in a more detailed manner for planned work.

Recommendations

The City Attorney's Office Chief Financial Officer should:

9.1   (a) Once vacant positions are filled, make adjustments to expedite the process of billing interdepartmental services, and (b) report to the Board of Supervisors by June 30, 2026 on progress towards increasing the timeliness of billing these services.

The Department of Public Works' Chief Financial Officer should:

9.2   Work with client departments during the budget development process to identify planned work (e.g. scheduled maintenance, routine inspections, etc.) and, to the extent possible, provide a more detailed breakdown of estimated associated costs, prior to finalizing a Memorandum of Understanding for maintenance and repair work during the upcoming fiscal year.

Benefits and Costs

Implementing Recommendation 9.1, regarding the timeliness of City Attorney's Office billing, would give requesting departments more time to respond in the case of underbudgeting. Implementing Recommendations 9.2, related to maintenance and repair budget breakdowns, would result in more precise interdepartmental services budgets for facilities maintenance and repair. This would reduce the volume of overbudgeting, which ties up resources that could be used for other services; it would also reduce the volume of underbudgeting, which requires departments to identify alternative funds or forego certain services.

Appendix A: Civil Service Commission Criteria Used to Review Requests for Contracting Out

	Could the Service Be Performed by An Existing Job Class?	
	Yes	No
Criteria	Departments must demonstrate a compelling basis to contract out.	The Commission may authorize contracting out if it determines that it is not advisable to establish a new classification of City employees to perform the needed work.
Examples	• Immediately needed services to address unanticipated or transitional situations, or services needed to address urgent situations that do not rise to the level of an "emergency"; • Short-term or capital projects requiring diverse skills, expertise, and/or knowledge; • Services required on an as-needed, intermittent, or periodic basis (e.g., peaks in workload); or • Circumstances where there is a demonstrable potential conflict of interest (e.g., independent appraisals, audits, inspections, third party reviews and evaluations).	• Whether the services are short-term, non-repetitive, or so specialized and unique that they could not be appropriately performed by City personnel; • Whether the services require resources the City lacks, such as facilities or equipment that must be run by a specially trained operator; • Whether regulatory or legal requirements preclude the use of an existing classification of City employees to perform the work; or • Whether future funding is so uncertain that creating a new class to complete the necessary work is not advisable.

Source: Adapted from Policy of the Civil Service Commission on Personal Service Contracts

Note: Nearly all wording comes directly from the Civil Service Commission's policy.

Appendix B: Written Responses from Departments

Written responses from:

- City Attorney's Office
- Controller's Office
- Department of Public Works
- Mayor's Budget Office

CITY AND COUNTY OF SAN FRANCISCO

DAVID CHIU
City Attorney

OFFICE OF THE CITY ATTORNEY

DORA OKAI
Chief Financial Officer

Direct Dial: (415) 554-4271
Email: Dora.Okai@sfcityatty.org

March 27, 2025

Dan Goncher, Principal
Budget and Legislative Analyst's Office
San Francisco Board of Supervisors

     Re: Budget and Legislative Analyst's Office (BLA)
             Audit of Management of Interdepartmental Services

Dear Mr. Goncher:

Thank you for the opportunity to review the BLA's draft audit of our management of interdepartmental services and to provide feedback on the report's recommendations.

The City Attorney's Office agrees with Recommendation 9.1 of the audit, specifically:

The City Attorney's Office Chief Financial Officer should:

9.1   (a) Once vacant positions are filled, make adjustments to expedite the process of billing interdepartmental services, and (b) report to the Board of Supervisors by June 30, 2026 on progress towards increasing the timeliness of billing these services.

We appreciate the time your staff dedicated to this audit and commit to incorporating this recommendation in support of increased timeliness of billing services.

Should you have any questions, please do not hesitate to contact me at (415) 554-4271.

Very truly yours,

DAVID CHIU
City Attorney

DORA OKAI
Chief Financial Officer

OFFICE OF THE CONTROLLER

CITY AND COUNTY OF SAN FRANCISCO

Greg Wagner
Controller

ChiaYu Ma
Deputy Controller

TO: Adam Sege
San Francisco Board of Supervisors
Budget & Legislative Analyst's Office

DATE: March 28, 2025

SUBJECT: **Re: Performance Audit of Management of Interdepartmental Services**

Dear Mr. Sege,

The Controller's Office recognizes and appreciates the work of the Budget and Legislative Analyst's Office in conducting the Performance Audit of Management of Interdepartmental Services as directed by the Board of Supervisors through Motion M23-149 passed on November 28, 2023.

We also thank you for the opportunity to review the Performance Audit and your willingness to consider our feedback and remarks. CON concurs with thirteen of the recommendations and partially concurs with one of the recommendations.

As the chief financial officer and auditor for the City, our office continuously promotes efficient, effective, and accountable government. We look forward to implementing these recommendations and are committed to improving the overall interdepartmental service process.

Sincerely,

ChiaYu Ma, Deputy Controller

Recommendations	CON Response	Comments
The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should: **Recommendation 2.1**: Modify their carryforward request template to require departments to clearly indicate, for each interdepartmental services carryforward request: (a) whether the interdepartmental services work has been performed or is yet to be performed, and (b) the prior year manual carryforward request and reason, if applicable, and consider this information when approving or denying manual carryforward requests. **Recommendation 2.2**: Incorporate a review of manual carryforwards into future post audit and continuous monitoring evaluations to monitor departments' use of manual carryforwards and accounting and internal control practices.	**Concur**	
To reduce the administrative burden on departments involved in a work order, the San Francisco Controller should: **Recommendation 3.1:** Add to the Controller's Office Performance Goals for FY 2025-26 and/or FY 2026-27 the scoping of a project to streamline the tracking of IDS spending to enable the Controller's Office, the Mayor's Budget Office, and City departments to see IDS spending in real time without the need for workarounds.	**Concur**	
The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should: **Recommendation 3.2:** Allocate staff time to scope out a project to streamline the tracking of IDS spending, whether through the existing PeopleSoft system or with other software. **Recommendation 3.3:** Once the scoping period is complete (see Recommendation 3.2), request the funding necessary to implement the proposed streamlining, which may include internal AOSD staff time, Systems' team time, and outside consultants. This would also include accounting data cleanup and transitioning IDS data from the current system to the new module.	**Concur**	

Recommendations	CON Response	Comments
The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office should update its Accounting Policies and Procedures to: **Recommendation 4.1:** Require that departments utilizing a non-centrally loaded IDS develop a Memorandum of Understanding, and that the MOU is developed based on individual work orders between the requesting and performing departments. **Recommendation 4.2:** Require, if Recommendation 4.1 is adopted, that departments complete the recommended MOU template in the Controller's Office Policies & Procedures (p. 381-382), with the update described in Recommendation 4.3 should that recommendation be adopted. Departments may also choose to complete an MOU in a different format, whether for legal reasons or because they choose to include more detail. All MOUs at a minimum must include the required MOU elements as described in the Policies & Procedures. **Recommendation 4.3:** Add to the MOU template (p. 381-382 of the Controller's Policies & Procedures) a performance monitoring section that describes how the requesting department will monitor the work of the performing department. Input from other City departments should be sought in developing this section. **Recommendation 4.4**: Include a customizable template performance monitoring report, developed with input from other City departments, that requesting departments can utilize to assess the services provided by performing departments	**Concur**	Although CON agrees to provide an MOU and performance monitoring template per Recommendations 4.2, 4.3, and 4.4, it cannot necessarily monitor and/or enforce department usage.
The Controller should: **Recommendation 5.3:** Consider directing either the City Services Auditor or the City Performance Unit to periodically review high-risk centrally loaded IDS for opportunities for cost savings	**Concur**	
The Chief Accounting Officer & Director of the Accounting Operations and Supplier Division at the Controller's Office: **Recommendation 6.1:** Establish checkboxes for monthly, quarterly, and annual billing in its IDS Memorandum of Understanding (MOU) template, through which the requesting department can request its preferred frequency of billing for an IDS.	**Concur**	

Recommendations	CON Response	Comments
Recommendation 6.2: Codify in the Controller's Accounting Policies and Procedures manual the prohibition on the use of delegated authority for new projects.	**Concur**	
The Controller's City Performance Unit should: **Recommendation 7.3:** Consider periodically reviewing the cost of certain interdepartmental services it determines to be high-risk and, as appropriate, recommending steps the requesting and performing departments can take to improve cost efficiency. This review should consider at least: (a) the justification provided by departments if Recommendation 7.1 is adopted; (b) private-sector cost estimates for similar services; and/or, (c) estimated rates if the requesting department performed the service with their own staff. This review would be separate from the Controller's Office annual review and certification of Proposition J contracted services.	**Partially Concur**	City Performance will consider periodic reviews of some interdepartmental services, as appropriate. These reviews, however, will likely not consider private-sector cost estimates due to significant differences in labor job responsibilities, benefits packages, and the City's overall compliance requirements and cost environment.
The Controller should: **Recommendation 8.1:** Add to the IDS Memorandum of Understanding template in its Accounting Policies & Procedures Manual a checkbox in which the requesting department must check if the IDS funds one or more positions	**Concur**	

March 27, 2025

Dan Goncher
San Francisco Budget and Legislative Analyst's Office
Board of Supervisors,
City and County of San Francisco

Subject: Performance Audit of Interdepartmental Services

Dear Mr. Goncher,

Thank you for providing us the opportunity to review portions of the Performance Audit of Management of Interdepartmental Services for the City and County of San Francisco prepared by the Board of Supervisors' Budget and Legislative Analyst.

We appreciate the time your staff dedicated to this audit and concur with the recommendation in Chapter 9, As-Needed Legal Services and Facilities Maintenance. We are committed to incorporating this recommendation into our business practices and continually strengthening collaboration and budgeting with other city departments.

If there are any questions or additional information is needed, please do not hesitate to contact Bruce Robertson, Public Works Chief Financial Officer, at (628) 271-3128.

Sincerely,

Carla Short
Director, San Francisco Public Works

CC: Bruce Robertson, Deputy Director of Financial Management/CFO

TO: Budget & Legislative Analyst

FROM: Sophia Kittler, Mayor's Budget Director

DATE: March 28, 2025

RE: BLA Audit Report on Interdepartmental Services

Thank you for your thoughtful review of interdepartmental services. We appreciate the time your team spent on this report, as well as the constructive suggestions for areas for improvement. The report offers a useful blueprint for potential savings and oversight projects for the Budget Office to consider during Summer 2025 workplan, our office looks forward to collaborating with the Budget and Legislative Analyst on these issues.

Below is the Mayor's Budget Office response to each section of your report and your recommendations.

Section 1: Overbudgeting for Interdepartmental Services

As highlighted later your report, many IDS expenditures are comprised partially or entirely of City staff costs. During the period of your review, many City departments experienced higher than normal vacancy rates. If IDS budgets assumed full staffing, any vacancies would result in both fewer services provided to the requesting department and expenditures below budgeted amounts. We expect that the six percent "overbudgeting" identified will trend lower as the City's vacancy rate stabilizes.

As part of the FY25-27 Mayor's Proposed Budget, all areas of spending (including IDS) will be closely reviewed. In addition, we plan to include an in-depth review of both centrally loaded and discretionary workorders as an MBO team project for summer 2025.

MBO partially agrees with Recommendation 1.1. These IDS reports are informally reviewed on a department-by-department basis. While the intent of the recommendation is worthwhile, we do not believe the BLA or the Board should direct the Mayor's Office on what steps to take in preparing the Mayor's Proposed Budget. As noted in Recommendation 1.2, the BLA could generate summaries of City departments' interdepartmental services spending using prior year and year-to-date budget versus actual reports and could provide those reports to the Board for consideration during Board phase of the budget.

Section 2: Oversight of Interdepartmental Services Carryforwards

Both the Mayor's Budget Office and Controller's Office closely review manual carryforward requests, and MBO agrees with Recommendation 2.1 that gathering additional information on the

carryforward request template regarding IDS carryforwards would be helpful to our review. As noted in Section 2, "beginning in 2024, the Controller's Office began reviewing manual carryforwards (including carryforwards for IDS) as part of its post audit and continuous monitoring program". We believe that this change will bring greater awareness to departments regarding appropriate requests for manual carryforwards.

As part of the FY25-27 Mayor's Proposed Budget, all areas of spending (including IDS) will be closely reviewed. In addition, we agree with Recommendation 2.3 and plan to include an in-depth review of workorders as an MBO team project for summer 2025. We will partner with the Controller's Office to include IDS carryforwards in this summer 2025 review.

Section 3: Methods for tracking IDS Expenditures

Mayor's Budget Office agrees that system improvements for tracking workorder spending and billing would be beneficial. However, a cost-benefit analysis of the system improvements should be conducted to determine the overall value of investing both staff and consultant time in this effort. The opportunity cost should also be balanced with other priorities of the Controller's Systems team.

Section 4: MOUs, Performance Monitoring, and Dispute Resolution

While an excellent best practice in many circumstances, a written MOU with a performance monitoring clause may not be necessary for every IDS agreement, and may add additional cost for review and monitoring on each side of the IDS. Non-centrally loaded IDS which do not necessarily lend themselves to such MOUs may include certain IT costs (such as for software licensing), services of the City Attorney, and movement of CBO grantmaking budget from one department to another.

Section 5: Centrally Loaded Interdepartmental Services

As part of the FY25-27 Mayor's Proposed Budget, all areas of spending (including IDS) will be closely reviewed, including centrally loaded IDS costs. Mayor's Budget Office agrees that additional review and understanding of centrally loaded IDS is worthwhile and might lead to additional efficiencies and cost savings. We will determine specific next steps, including consideration of a standardized template for centrally loaded IDS submitted as part of Department Phase, as part of our Summer 2025 workorder review project.

Section 6: Billing Lags and Other Administrative Issues

While minimizing billing lags is a worthwhile goal, establishing checkboxes on the IDS template may not make a difference in billing lags. Billing lags are often the result of multiple demands on accounting staff time or other similar issues.

Section 7: Review of Non-Centrally Loaded Interdepartmental Services

MBO partially agrees with Recommendation 7.1. While the intent of the recommendation is worthwhile, we do not believe the BLA or the Board should direct the Mayor's Office on what steps to take in preparing the Mayor's Proposed Budget. Requiring departments to justify each IDS on an annual basis would create an undue administrative burden on departments and would likely become a proforma/rote exercise for many such IDS. We will determine specific next steps, including consideration of a standardized template for non-centrally loaded IDS which could be submitted as part of Department Phase, as part of our Summer 2025 workorder review project.

Section 8: Positions Funded Through IDS

MBO partially agrees with Recommendation 8.2. While the intent of the recommendation is worthwhile, we do not believe the BLA or the Board should direct the Mayor's Office on what steps to take in preparing the Mayor's Proposed Budget. Regarding positions funded through IDS, criteria for what counts as a "position funded through IDS" need to be established, as many IDS fund staff costs in other departments. We will determine specific next steps, including consideration of a standardized template for IDS directly supporting positions which could be submitted as part of Department Phase, as part of our Summer 2025 workorder review project.

Section 9: As-Needed Legal Services and Facilities Maintenance

The City Attorney's Office has consistently billed departments late over the course of many years. Vacancies in positions reporting to the CFO did not originate with the January 2025 Citywide hiring freeze and may be related to other choices or factors. While staffing changes may partially contribute to a solution to late billing, process changes and prioritization of timely IDS billing will likely have a larger impact.