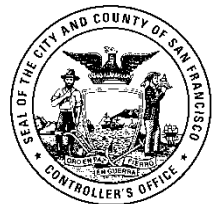


City and County of San Francisco

Office of the Controller – City Services Auditor

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY:

**A Compliance Review of the
Agency's Work Orders for
Fiscal Year 2008-09**



April 30, 2010

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City and County of San Francisco

Office of the Controller - City Services Auditor

San Francisco Municipal Transportation Agency
A Compliance Review of the Agency's Work Orders for Fiscal Year
2008-09

April 30, 2010

Purpose of the Review

The Controller's Office, City Services Auditor (CSA) reviewed the San Francisco Municipal Transportation Agency's (SFMTA) work orders with various City and County of San Francisco (City) departments. The SFMTA contracts with these departments through the work order process to obtain services that support the SFMTA's operations. The purpose of the review was to determine whether departments are accurately billing the SFMTA for the provided services, whether these billings fairly represent the costs incurred to provide those services, and whether the costs are allowable under rules governing the SFMTA and baselines generally.

Highlights

The cost of services purchased by the SFMTA from other departments has increased since the voters' initial adoption of the Municipal Transportation Fund in 1999. The majority of the overall increase in work order spending occurred between fiscal year (FY) 2005-06 and FY 2008-09, with these expenditures rising from 6.3 percent of SFMTA spending in FY 2005-06 to 7.5 percent in FY 2008-09. The majority of the growth during this period, representing approximately 85 percent of the increase, is associated with changes in five specific work orders.

This compliance review indicates the need for the SFMTA to enter into written agreements with provider departments to provide additional information on services purchased through the work order process. The Controller's Office determined that:

- SFMTA did not always have in place written work order agreements with departments to specify the specific services to be provided and the means to budget and bill for these costs.
- Provider departments did not always include sufficient supporting documentation in their billings, or adequate descriptions of the specific services provided.
- SFMTA payments were sometimes based on budgeted rather than actual costs.
- SFMTA did not request, nor did the Controller adjust, baseline allocations to account for the cost of certain services for which the City's Charter requires such an increased transfer from the General Fund. This required adjustment totals \$4.1 million for certain work order services for costs incurred in the current and prior fiscal years, and by approximately \$0.7 million annually in future years.

Recommendations

The review includes 42 recommendations for the SFMTA to improve its work order management process. Specifically, the SFMTA should:

- Enter into a written contract in the form of a work order agreement with each performing department.
- Partner with work order departments to develop consistent reports that would enable SFMTA to verify that requested services are provided and costs are billed appropriately.
- Ensure that bills are paid only after the presentation of appropriate supporting documents from provider departments. The form of this documentation should be specified in each work order agreement to avoid unneeded staff confusion or delay in the payment of appropriate and agreed-upon costs.
- Request the Controller to adjust its baseline by \$4.1 million for current and prior year costs and by approximately \$0.7 million in future years.

Copies of the full report may be obtained at:

Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500

or on the Internet at <http://www.sfgov.org/controller>

LIST OF ACRONYMS AND ABBREVIATIONS

311 Center	311 Customer Service Center
City	City and County of San Francisco
CSA	City Services Auditor
DHR	Department of Human Resources
DPW	Department of Public Works
DT	Department of Technology
FY	Fiscal Year
HRC	Human Rights Commission
HSA	Human Services Agency
OCA	Office of Contract Administration
OEWD	Office of Economic and Workforce Development
SFMTA	San Francisco Municipal Transportation Agency
SFPD	San Francisco Police Department
SPOT	Safe Paths of Travel Program

INTRODUCTION

Purpose of Review

The Mayor, Board of Supervisors, and the San Francisco Municipal Transportation Agency (SFMTA) Board of Directors requested that the Controller's Office, City Services Auditor (CSA) review the SFMTA's work orders with various City and County of San Francisco (City) departments.

The SFMTA contracts with these departments through the work order process to obtain services provided by these departments that support the SFMTA's operations. The purpose of the review was to determine whether departments are accurately billing the SFMTA for provided services, whether these billings fairly represent the costs incurred to provide those services, and whether these costs are allowable under rules governing the SFMTA and baselines generally.

Background

Municipal Transportation Fund and Baseline

The SFMTA pays for the majority of its expenses from the Municipal Transportation Fund, which was first established by the voters in November 1999, and later amended by the voters in November 2007. The fund is to be appropriated, expended, or used by the SFMTA solely and exclusively for its operations, capital improvements, management, supervision, maintenance, extension, and day-to-day operations of the SFMTA. The fund may be used for any division subsequently created or incorporated into the SFMTA that performs transportation-related functions. The SFMTA's expenditures, including work order services purchased from other departments, are paid from the Municipal Transportation Fund.

The majority of revenues attributable to the SFMTA are deposited into this fund, including public transportation fare revenues, parking meter and citation revenues, and other federal and state public transportation subventions and grants. Additionally, these Charter amendments fixed a baseline level of General Fund support for that fund. This General Fund baseline support is indexed to general fund discretionary revenues, and therefore increases or decreases each year as general discretionary revenues change. In fiscal year (FY) 2009-10, the SFMTA's budgeted baseline was \$176.4 million, representing 9.15 percent of the \$1.9 billion in general fund discretionary revenues.

The Charter authorizes the Controller to determine the initial baseline amount and to make necessary annual adjustments in certain prescribed circumstances. The Charter allows adjustments to the baseline amount related to work orders under the following conditions:

1. Work order services to the SFMTA provided in the baseline FY 1999-2000 that were not previously charged to the SFMTA. The change to the current baseline would be calculated based on what the impact would have been including the FY 1999-2000 costs of those services in the original baseline, as adjusted by the change in aggregate discretionary revenues since FY 1999-2000.
2. Work order services requiring appropriations for new services not provided in the base year, excluding appropriations for one-time expenditures. The appropriation required for these new continuing services should be added to the baseline in the first applicable year, creating a new baseline percentage of aggregate discretionary revenues that carries forward into future years.

The City's Work Order Process

City departments contract with each other to provide services in much the same way that City departments contract with outside vendors and non-profit organizations to provide needed services. For example, many City departments purchase power from the City's Public Utilities Commission, automotive maintenance services from the General Services Agency, or architectural services from the Department of Public Works. These work order relationships are considered standard governmental practice. Work order agreements allow a given City department to rely upon the core competencies of another department to support their operations, without the need to either recreate that specialization in their department or to purchase the service from an outside vendor.

In general, two departments are involved in a work order agreement: the performing department, which is the department *providing* the services, and the requesting department, which is the department *receiving* the services. While the City does not have standard adopted policies governing these interdepartmental work order relationships, general governmental practices suggest that a written agreement between the performing and requesting departments should be adopted, in much the same way that a contract would be executed if the performing agency were not a City department.

These written work order agreements, signed by the directors of both departments, should specify the scope of work to be provided, the expected timeline or service level agreed upon, the cost of that work, and the basis for reporting and billing those costs.

These work order budgets are reviewed, amended, and approved through the City's annual budget process, through the same means as other City expenditures. This typically involves review and approval of the corresponding department directors, commissions, and the Mayor and Board of Supervisors.

The SFMTA's Work Orders

In FY 2009-10, the SFMTA budgeted work orders with 18 City departments and agencies totaling \$65.8 million. This represents 8 percent of budgeted SFMTA expenditures from the fund for this fiscal year. Exhibit 1 below illustrates the general categories of services provided, and Exhibit 2 summarizes these work orders by department and function.

EXHIBIT 1 SFMTA's Work Order Services by Category

Category	Amounts in Millions	Percentage
Rent and Real Estate Services	\$6.4	18%
Phone and Technology Services	\$7.1	11%
Financial, Risk, and Human Resource Services	\$6.5	10%
Police Services	\$12.3	18%
311 Customer Service Center	\$6.4	10%
Power and Other Utilities	\$5.7	8%
Construction, Planning, Auto Fuel & Maintenance, and Other Services	\$8.4	13%
Legal Services	\$13.0	20%

EXHIBIT 2 SFMTA's Work Order Budget for FY 2009-10

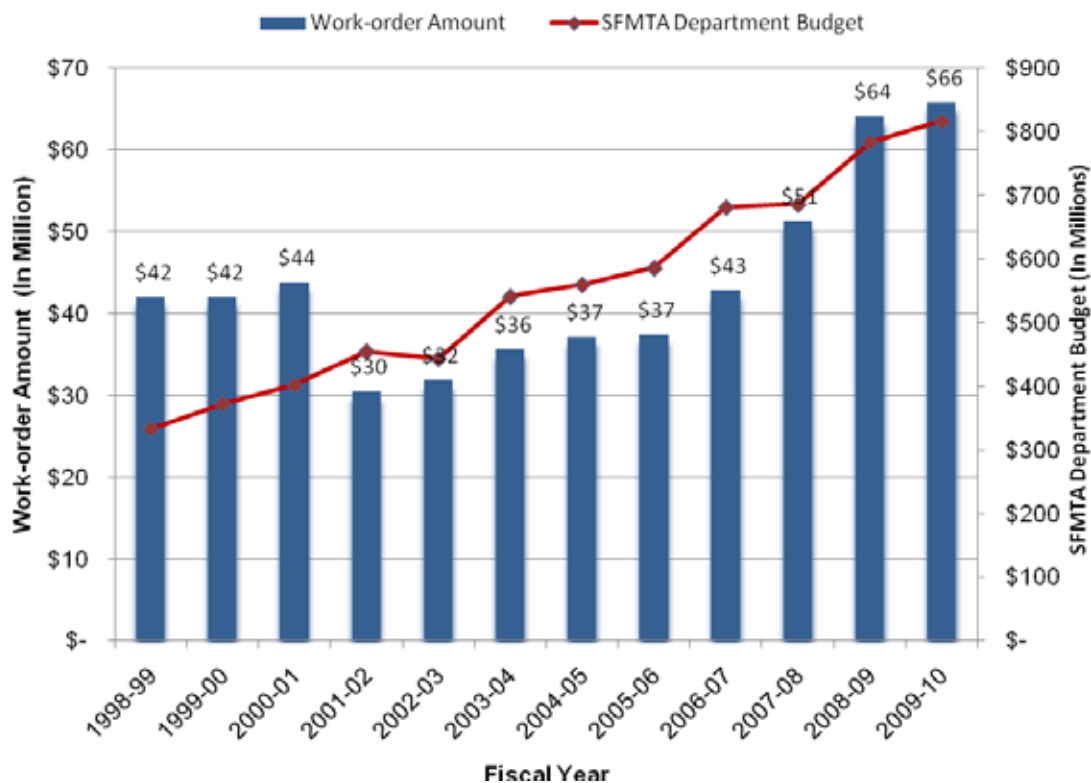
Department	Work Order Services	FY 2009-10 Original Budget
Building Inspection	Identification of Buildings Subject to the SFMTA Fees	\$43,257
City Attorney	Legal Services	13,015,727
Controller	Audit, Financial Systems, and Management Services	1,965,908
District Attorney	Graffiti Prosecution Coordinator	26,111
Economic and Workforce Development	CityBuild Program and Transit and Traffic Issues Reviews	239,956
Environment	Integrated Pest Management Program	19,308

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A Compliance Review of the Agency's Work Orders for Fiscal Year 2008-09

Department	Work Order Services	FY 2009-10 Original Budget
General Services Agency 1	311 Customer Service Center	6,387,198
General Services Agency 2	Mail and Reproduction Services	638,088
General Services Agency 3	Vehicle Leasing, Purchasing Activities, and Labor Standard Enforcement	713,748
General Services Agency 4	Auto Maintenance and Fuel Stock	2,289,100
General Services Agency 5	Property Rental and Property Management Services	6,371,028
General Services Agency 6	Risk Management and Insurance	2,093,480
Human Resources 1	Civil Service Commission and Human Resources Services (Proposition E)	375,000
Human Resources 2	Emerge and Peoplesoft Software	2,067,308
Human Rights Commission	Contract Compliance Services and Bonding and Technical Financial Assistance Program	244,140
Human Services Agency	Workfare and Lifeline Programs	821,990
Mayor	Lobbying and Greening Director Services	181,110
Planning	Environmental and Transportation Reviews	422,000
Police 1	Taxi Cab Enforcement Services	749,317
Police 2	Security and Traffic Enforcement Services	11,505,349
Public Health	Medical and Hazardous Waste Services	588,000
Public Utilities Commission	Utilities (Light, Heat and Power), Water, and Sewer Service Charges	5,713,116
Public Works	Construction Services	1,817,313
Technology	Technology and Telephone Services	7,144,610
Treasurer and Tax Collector	Administration of the SFMTA Related Sales and Collections	375,000
Total		\$65,807,162

The cost of services purchased by the SFMTA from other departments has increased since the voter's initial adoption of the Municipal Transportation Fund in 1999, as illustrated in Exhibit 3.

EXHIBIT 3 SFMTA's Work Order Growth Since 1999



Note: Budgeted work order amount is used for fiscal year 2009-10.

Source: SFMTA Budget - Annual Appropriation Ordinance

	Work-order amount in millions
1998-99	\$42
1999-00	\$42
2000-01	\$44
2001-02	\$30
2002-03	\$32
2003-04	\$36
2004-05	\$37
2005-06	\$37
2006-07	\$43
2007-08	\$51
2008-09	\$64
2009-10	\$66

[The SFMTA Budget column is not accessible. Please refer to accessibility contact.]

The majority of the overall increase in work order spending, discussed in more detail in this report, occurred between FY 2005-06 and FY 2008-09, with these

expenditures rising from 6.3 percent of overall the SFMTA spending in FY 2005-06, to 7.5 percent in FY 2008-09, resulting in a work order increase of \$26.7 million. The majority of this growth, representing 84.9 percent of the increase, during this period is associated with changes in five specific work order changes:

- The City purchased a formerly leased office facility at One South Van Ness during FY 2006-07. This change resulted in reduced rental costs for the SFMTA and a new work order payment to the General Services Agency's Real Estate Division to pay for a portion of the debt service and operating costs for the facility. While the purchase of this facility resulted in net savings to the SFMTA, it has increased work order spending by \$5.9 million in FY 2008-09 versus FY 2005-06. This increase has been offset by a decrease in rental costs paid from other line-items in the SFMTA's budget.
- The City opened the 311 Customer Service Center in FY 2007-08. The portion of the center's cost attributable to the SFMTA calls and service requests are allocated to the SFMTA through the work order process, resulting in additional work order spending of \$6.6 million in FY 2008-09 versus FY 2005-06.
- The City is in the process of replacing its human resources, payroll, and employee benefit systems through the eMerge Project. The SFMTA pays a portion of the cost of this project, based upon its proportionate share of City employees supported by the new system. This has resulted in additional work order spending of \$2.9 million in FY 2008-09 versus FY 2005-06.
- The Department of Technology revised its method for allocating and billing costs during this period. This new allocation methodology, when combined with overall expenditure increases in the department, has resulted in increased SFMTA work order spending of \$4.3 million in FY 2008-09 versus FY 2005-06.
- The SFMTA's work order for services provided by the Police Department has grown by \$3.0 million during this period. As discussed later in this review, the various services provided by the Police Department and paid for by this work order have changed during this time period.

Adjusting for these changes, remaining work orders have increased from \$29.2 million to \$33.2 million between FY 2005-06 and FY 2008-09, which amounts to an average annual growth rate of 4.1 percent. This rate of annual growth is less than the overall annual growth rate of the SFMTA's budget of 11.4 percent during this period.

The SFMTA work orders with each of the departments listed above are discussed in greater detail in the next section of this review.

Objectives

The Controller conducted a review of the SFMTA's work orders with City departments to determine whether:

- SFMTA has clear, written agreements with departments for the services provided, and any changes in work order terms are reflected in appropriate written modifications.
- Departments complied with SFMTA work order agreement terms and conditions.
- Department billings are sufficiently supported and controls over work order payments, such as required approvals, are in place.
- Services purchased through work orders are consistent with Charter rules governing the Municipal Transportation Fund and voter-adopted baselines generally.

Scope and Methodology

The review primarily focused on work orders with General Fund departments for FY 2008-09, with some review of prior periods, as necessary. It does not reflect recent efforts and improvements by the SFMTA to establish work order agreements and improve work order oversight. In consultation with the SFMTA management staff, the Controller agreed to:

- Review documentation on file at the SFMTA and obtain limited verification from departments.
- Provide assurance that supporting documentation on file appeared reasonable.
- Review only the work orders from which the reviewers were independent. The reviewers did not assess any work orders between the SFMTA and the Controller's Office.
- Review baseline data provided by the Controller's Office, Budget and Analysis Division.

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SFMTA WORK ORDER REVIEW

Section Overview

This section discusses in detail the Controller's compliance review of a sample of the SFMTA's FY 2008-09 work orders. The review is based on documentations available on file at the SFMTA and through limited verification with provider departments. This review identifies several areas in which the SFMTA needs to improve its general management of services purchased through the work order process.

General Findings

1. The SFMTA does not have formal agreements for every work order, which are usually in the form of a written work order agreement, with most of its performing departments. For many years, the majority of these work orders have been included in SFMTA's budget.
2. The SFMTA does not always document changes with performing departments when budget amounts are changed. Without documentation and approval of such changes, SFMTA cannot adequately ensure that all department charges are appropriate and accurate.
3. The SFMTA paid for some services without sufficient support. For example, SFMTA paid some billings based on budgeted amounts and did not or was unable to obtain supporting documents to ensure that actual costs equaled these budgeted work order amounts. Good accounting practices require that all costs include enough support to substantiate that they are actual costs to the SFMTA.
4. In three circumstances, the SFMTA did not request nor did the Controller adjust baseline allocations to account for the cost of certain services for which the Charter requires such an adjustment.

The SFMTA staff appears to understand the work order billing issues discussed in this section, and has worked in the past year to implement improved procedures for management of the SFMTA work orders.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with every department with which it contracts for services. To ensure all parties have a clear understanding of the work requested and the respective costs, these work order agreements should state the specific job tasks to be provided and the estimated costs of these services. The following should be included in each work order agreement:
 - a. *Type of service to be provided along with a timeframe for providing the services.* The agreement should specify the job tasks to be performed and a timeframe for the provision of these services. If the work order is for on-going services or projects, monthly or quarterly activity reports should be provided to the SFMTA as identified in the agreement.
 - b. *Cost basis for services.* Each work order agreement should indicate whether the cost allocation for services is based on a flat rate, hourly rate, or an allocation formula based on certain factors. If staff costs are based on hourly rates without overhead costs, work order agreements should include budgets of staff hours required to perform the tasks and expected staff hourly rates. If staff hourly rates include overhead costs, rates should be itemized in the agreement to show the items listed above and the allocation of overhead costs. If the service cost is based on an allocation methodology, the methodology should be stated in the work order agreement, in addition to stating any agreed-upon limit to the service cost.
 - c. *Outside vendor services.* To the extent that work order services include the use of vendors, the work order agreement should specify the nature and expected costs of these services. The agreement should also specify those circumstances where vendor invoices are required for the SFMTA review as part of the billing procedure.
 - d. *Designated contact person in each department responsible for the work order services.* A contact person helps ensure that work provided is accountable and monitored.

- e. *Signatory approval of the work order by each department in a timely manner.* Each agreement must be signed by both performing and requesting departments to validate the agreements. Ideally, these agreements should be approved by both departments by the beginning of each fiscal year, to ensure that departments have agreed on the services and costs prior to the start of work.
 - f. *Detailed billing procedures.* The SFMTA needs to state in its work order agreements the specific billing documents and procedures it requires from provider departments to approve payment. The SFMTA should indicate if it wants provider departments to submit quarterly, semi-annual or annual billings. Additionally, the work order agreement should specify the list of acceptable forms of billing documents.
- 2. At minimum, require written justification from the departments for any charges that differ from the approved services, budget, or service levels specified in the work order agreement.
 - 3. Not pay for costs without *sufficient support*. *Sufficient support* means that costs can be verified as actual costs. The SFMTA should make sure that provider departments and their contractors understand the level of detail needed to support charges appropriately. It is important that billing procedures be included in a work order agreement, so that both parties have a mutual understanding prior to the start of work.
 - 4. Ensure that the assigned liaison from the SFMTA to a given work order department monitor charges against that work order to ensure that the charges are warranted.

Specific Findings

The following findings present the results of the Controller's compliance review for a sample of the SFMTA's FY2008-09 work orders.

City Attorney's Office

The Office of the City Attorney's general responsibilities include:

- Representing the City in legal proceedings.
- Providing advice or written opinions to any officer, department head, board, and commission.
- Approving as to form all surety bonds, contracts and ordinances.
- Examining and approving title to all real property to be acquired by the City.
- Investigating, evaluating, and recommending disposition of all claims made against the City.

The following is a breakdown of the attorney labor services by type to the SFMTA:

73% Claims and Litigation:

These expenses mostly involve tort claims and litigation, which arise from Muni operations. Other litigations include labor and employment, environmental, and other business disputes matters.

27% Legal Advice and Transactional Work:

Expenses incurred for these services are mainly for the SFMTA's capital improvement projects, and include service involving labor and employment, budget and finance, regulatory compliance, environmental, and issues related to contracting and procurement.

Work Order Conditions

1. The SFMTA did not have a written agreement with the City Attorney for services provided during FY 2008-09. The SFMTA and City Attorney are currently working to establish a formal work order agreement for future years.
2. The City Attorney's Office provided quarterly billing to the SFMTA, but SFMTA paid for its services at the end of the fiscal year. More frequent review and payment of provided work order billings would allow the SFMTA to better manage the work order relationship, and provide regular review and approval of billing transactions.
3. The SFMTA has not requested, nor has the City Attorney's Office included, detailed information on non-salary expenses in their regular billings. Non-salary litigation expenses for the SFMTA's operation and non-operation cases totaled \$1.6 million during FY 2008-09. In reviewing a sample of the expenses, the Controller found that the majority of attorney expenses were for expert witnesses, document charges, transcripts, court reporters, and mediators.

4. Although the City Attorney's Office billed actual hours worked by City Attorney staff, the invoice did not indicate agreed-upon hourly rates for specific staff classifications. Verification of costs by the SFMTA staff is difficult without this information in the work order agreement or on each quarterly work order bill.

Recommendations

The SFMTA should:

1. Enter into an agreement in the form of a written work order agreement with the City Attorney's Office.
2. Ensure its work order agreement specifies that the City Attorney's Office bill on a quarterly basis so that SFMTA can easily review, verify, and approve these billing transactions in a timely manner.
3. Work with the City Attorney's Office to develop a reporting process that enables the SFMTA staff to verify the legal services provided for non-salary expenditures in addition to billed staff costs. The form of these reports should be included in the agreement. Ensure that the agreement outlines the non-salary expenses for which the SFMTA requires supporting documents and invoices. The SFMTA should not pay for any expenses without sufficient support.
4. Work with the City Attorney's Office to ensure that the revised invoices will enable it to identify work performed on projects that the SFMTA can monitor and allocate, where possible and appropriate, to Federal and State grants. The City Attorney's Office and SFMTA report that they have completed a major overhaul of their billing procedure to accommodate this and other business needs.
5. Ensure that the work order agreement with the City Attorney's Office includes the rates for various classifications of attorneys and administrative staff providing services to the SFMTA, including allowable overhead expenses.

Economic and Workforce Development

The Office of Economic and Workforce Development (OEWD) oversees activities and programs related to business attraction and retention, workforce development, international business, development planning, and neighborhood commercial revitalization.

The SFMTA's work order with OEWD supports the CityBuild program and funds staff to manage traffic and transit issues related to special events. The CityBuild program is an employment program that provides workforce training and job placement services to San Francisco residents interested in pursuing a career in the construction industry.

Work Order Conditions

1. The SFMTA did not have a written agreement with the OEWD for the services provided for services during FY 2008-09.
2. The allocation for the CityBuild program costs is determined by the proportion of placements at each city agency. In FY 2008-09, approximately 19 percent of the program's placements have been to the SFMTA projects. The SFMTA has spent approximately \$160,000 annually during the past three years on this program.
3. OEWD's staff time in managing transit and traffic issues related to citywide civic, business and other special events has been in place since the establishment of the SFMTA baseline in 1999, and was paid directly from the General Fund. However, in FY 2006-07, the SFMTA began to pay for this service through a work order. This work order was initially paid at \$116,000, and subsequently was reduced by \$35,000 to \$81,000, due to budget constraints in subsequent years. As a result, the SFMTA paid a total of \$277,660 from FY 2006-07 through FY 2008-09, and is projected to pay an additional \$81,000 for FY 2009-10, for a total cost of \$358,660. This service was not accounted for in the initial baseline calculation, as is required by the Charter.

Recommendation

The SFMTA should request that the Controller adjust the baseline allocation from the General Fund in the amount of \$358,660 for OEWD's management of transit and

traffic issues for the period from FY 2006-07 through FY 2009-10, and adjust the baseline allocation for this service in future years.

**General Services Agency:
311 Customer Service Center**

The 311 Customer Service Center (311 Center) is the City's call center for government information and non-emergency services. The 311 Center provides the public with quick and easy access to all San Francisco government services and information.

Specific SFMTA services supported at the 311 Center include:

- Muni bus route information
- Next arrival information
- General SFMTA information
- Complaint and compliment reporting
- Lost and found reporting
- Abandoned vehicle reporting
- Street sign repair and replacement requests
- Parking and traffic construction permits
- Updates on service disruptions
- Curb painting appointments and requests
- Blocked driveway complaints
- Taxi Commission information
- A "self service" portal for SFMTA services
- Other customized reporting

The SFMTA first contracted for the 311 Center's services in 2007. The initial work order in FY 2006-07 was \$1.4 million, and was increased to \$6.6 million in FY 2008-09. The SFMTA increased the work order based on two primary factors:

1. The allocation of the 311 Center's charges in prior years was far below costs attributable to the SFMTA-related calls received by the center.
2. To maintain service standards due to dramatically increasing call volumes, predominantly for the SFMTA-related matters.

Work Order Conditions

1. The SFMTA has a written work order agreement in place with the 311 Center.
2. Originally, the SFMTA agreed to pay for 311 Center services at an estimated rate of 50 percent of the 311 Center's operational costs. The final invoice submitted by the 311 Center to the SFMTA for FY 2008-09 was billed at a rate of 61.5 percent of the 311 Center's actual costs. As a result of 311 Center's analysis of its call volumes, it determined that the SFMTA's call intakes were higher than anticipated and thus the center raised the SFMTA service charges to this higher billing percentage, which was based upon actual call volumes.

Recommendations

The SFMTA should:

1. Amend the work order agreement with the 311 Center to require written justification and approval of any charges that differ from the approved services, rates, or allocation of costs in the original agreement.
2. Amend the work order agreement with the 311 Center to provide advance notice of potential billing rate changes to ensure that SFMTA adequately plans for potential budget adjustments.

General Services Agency: Contract Administration

The mission of the Purchasing Division of the Office of Contract Administration (OCA) is to support the procurement of the material, equipment, and services that are essential to providing governmental services for the citizens of San Francisco. The OCA, through its contracting and procurement services, also directly supports the operations of City departments.

SFMTA pays for the services of two full-time OCA purchasers. OCA also provides two part-time purchasers to the SFMTA for special requisitions projects. The SFMTA's work order budget for the past 10 years has been approximately \$100,000. However, in FY 2008-09, the work order amount was more than doubled to \$262,000. While OCA's service costs have increased during this period, the SFMTA

paid only the maximum budgeted amount until FY08-09 when this increased work order budget was approved.

Work Order Conditions

1. The SFMTA did not have a written work order agreement with OCA for services provided in FY 2008-09.
2. Although the purchasers assigned to the SFMTA are located in SFMTA offices and dedicated to SFMTA work, OCA's invoices did not state the actual hours related to the salary costs charged to the SFMTA for these part-time purchasers.
3. OCA used estimated hours to bill the SFMTA for the as- needed purchasers. OCA's invoice did not indicate the actual hours worked on the SFMTA procurements.
4. OCA only stated the staff names and their respective salaries and fringe benefit amounts.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with OCA for the services it provides.
2. Ensure that the work order agreement specifies appropriate documentation required to verify that billed work has been performed. This reporting requirement should be sufficient to ensure that costs billed to the SFMTA are not based upon estimated workload or staff-hours.
3. Ensure that the number of purchasers assigned to work on a full-time basis for the SFMTA is stated in the work order agreement along with the purchasers' classifications and salary ranges. In addition, the agreement should also specify the billable rates for the purchasers assigned to work for the SFMTA on a part-time or intermittent schedule.

General Services Agency: Central Shops

The General Services Agency's Central Shops Division provides fleet services to City departments and is responsible for asset management, maintenance and repairs, vehicle leasing, motor pools, fueling services, vehicle acquisitions and dispositions, equipment specifications, and an alternative fuel program. The SFMTA contracts with Central Shops to purchase fuel for the SFMTA's non-revenue vehicles, car washing services, and towing services.

The SFMTA has used Central Shops' services since FY 1998-99. At its inception, the work order amount was \$148,147, and has increased to \$941,093 in FY 2008-09. The primary reason for the increase is the escalated cost for gasoline. Gasoline prices increased over 200 percent from 1998 to 2008. In addition, in FY 2008-09 funds from this work order were used to supplement another SFMTA work order with Central Shops for auto maintenance and repair in the amount of \$83,505.

Work Order Conditions

1. The SFMTA did not have a written agreement with Central Shops for services purchased in FY 2008-09.
2. Central Shops did not consistently provide nor did the SFMTA request sufficient information to allow the SFMTA to determine if the services provided by Central Shops were accurately billed and reasonable. For example, in some of its billings, Central Shops indicated the mileage of the vehicles each time they were fueled, but in other instances it did not provide this needed information to allow the SFMTA to determine if the fuel charges were reasonable.
3. Significant changes appear from month to month on fuel charges. Fuel charges for the Municipal Railway ranged from \$26,790 to \$61,378 per month during the review period. The Controller reviewed the changes in the cost of gas prices and concluded that the variances were largely due to the fluctuation of gas prices.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with Central Shops for the services it provides.
2. Specify in the work order agreement the level of detail to adequately monitor the work order, to ensure that all charges are reasonable and accurate.

**General Services Agency:
Real Estate Division**

The Real Estate Division of the General Services Agency is responsible for the acquisition of all real property required for City purposes, the sale of surplus real property owned by the City, and the leasing of property required by various City departments. The Real Estate Division also provides custodial and engineering services for various City departments as well as full service property management services to various City-owned or leased buildings, specifically those located at 1 and 11 South Van Ness Avenue, 875 Stevenson Street, and 25 and 27 Van Ness Avenue, which are occupied by the SFMTA.

Work Order Conditions

1. The SFMTA and the Real Estate Division have a written work order agreement.
2. The Real Estate Division charges rent based on the SFMTA's leased square footage in the buildings and the rental rates are stated in the work order agreement, and bills its staff costs based on hourly rates. The hourly rates are calculated based on the staff's direct salary plus an overhead rate. These staff rates are standard rates used for all City departments. The Controller did not identify any significant billing errors in this work order.
3. Although the work order agreement requires the SFMTA to pay rent on a monthly basis, the Real Estate Division instead has billed the SFMTA on a quarterly basis.

Recommendation

The SFMTA and the Real Estate Division should amend their current work order agreement to require quarterly billings.

Human Resources - Project eMerge

The Department of Human Resources (DHR) administers the City's civil service system, ensures payment of workers' compensation benefits to injured employees, negotiates and administers labor agreements with the City's labor unions, ensures equal employment opportunities for employees and applicants, and trains, develops and manages the City's workforce. DHR also conducts examinations that identify qualified applicants for City employment.

The SFMTA's work order with DHR is primarily used to pay for the testing and implementation of the new hardware and software systems, Project eMerge and PeopleSoft, to be used by all City departments. Project eMerge will provide improved human resources, benefits administration, and payroll services to the active, retired, and future workforce of the City through the implementation of a new integrated Human Capital Management system. Existing, centralized processes and tools will be replaced with one, consolidated, City-wide system, PeopleSoft 9.0. This system will be used by all City departments, including the SFMTA.

The budget for this work order was established by the Controller's Office and the Mayor's Office and allocated to each City department based on the employee count in each department's budget. The expenditures for these projects began in FY 2008-09 and SFMTA's allocated share of the projects' costs was \$2.9 million for that year.

Work Order Conditions

1. The SFMTA did not have a written agreement with DHR to pay SFMTA's allocated share of the project's costs for FY 2008-09.
2. DHR's invoices were based on the budgeted amount rather than actual amounts incurred for the eMerge and PeopleSoft projects. The SFMTA's share of the eMerge/PeopleSoft project was allocated using the SFMTA's proportion of the City's full-time equivalent position counts, a reasonable allocation methodology for project costs. A final true-up of actual versus budgeted costs is anticipated upon completion of the project.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement for costs associated with Project eMerge.
2. Request periodic updates on current projected expenditures versus the original project budget, to allow for advance notification of any changes in anticipated project costs.

Human Resources

The SFMTA has a second work order with DHR for its personnel services. At the onset of the work order in FY 2002-03, the work order amount was \$225,836, and the amount has remained consistently at this level. In the last three years, The SFMTA has maintained the work order amount at \$235,000. DHR calculates its work order cost by determining its total cost for providing these services, and allocates these total costs to each City department based upon each department's number of full-time equivalent positions, a reasonable allocation methodology for these costs.

Work Order Conditions

1. The SFMTA did not have an updated written agreement with DHR for its personnel services for services provided in FY 2008-09.
2. DHR did not provide supporting documents to the SFMTA that described the specific services DHR provided or the number of hours worked by DHR staff in providing those services.
3. While the allocation of costs using each department's share of citywide full-time equivalent positions is a reasonable allocation methodology, invoices need to be based on actual citywide costs, and not budgeted costs. DHR billed on a budgeted amount rather than on the actual costs incurred to provide these services. Each quarterly billing was \$58,750, totaling \$235,000 for the year.

Recommendations

The SFMTA should:

1. Enter into an annual written work order agreement with DHR for requested personnel services.
2. Ensure that the work order includes the requirement that invoices are based upon the allocation of actual costs, rather than budgeted costs. Documentation required to verify these costs should be specified in the work order agreement.
3. Withhold payments for billed amounts that are based on budgeted charges. As a good business practice, it should only pay for actual services rendered based on sufficient information to justify the charges.

Human Rights Commission

The Human Rights Commission's (HRC) Surety Bond & Financing Assistance Program is designed to help contractors hired by City departments obtain or increase bonding and financing for City/Redevelopment Construction projects and

increase the bidding pool for such projects. The program is for certified Small or Micro Local Business Enterprise contractors who are participating in City construction contracts.

The SFMTA's work order with HRC funds SFMTA's share of the costs for the administration of the program by HRC and an insurance company's fee. The SFMTA contracted with HRC for its services in FY 1999-2000, and the work order amount has ranged from \$42,459 to \$71,986 during the past 10 years. In FY 2008-09, the work order amount was \$48,573.

Work Order Conditions

1. The SFMTA did not have a written agreement with HRC.
2. HRC did not provide the insurance company's invoice documenting the vendor's fee to the SFMTA. Additionally, the invoice for the insurance premium invoice was not provided.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with HRC for the services it provides.
2. Request that the HRC provide supporting documents for its non-salary costs to verify that the charges are for SFMTA specific services or reasonably allocated citywide costs.

Human Services Agency

The Human Services Agency (HSA) is the central resource for public assistance in the City. HSA's mission is to promote well-being and self-sufficiency among individuals, families, and communities in San Francisco. One of HSA's responsibilities is to provide employment services for San Francisco public assistance recipients, as well as offering services to the general public.

The SFMTA has two work orders with HSA to pay for Workfare participants performing work at the SFMTA locations and to provide services for the administration of the Lifeline Fast Pass program.

Workfare Program Work Order

In FY 2004-05, the SFMTA began contracting with HSA to use its Workfare clients to provide cleaning services at SFMTA facilities. The services rendered by the participants included vehicle cleaning, maintenance yard sweeping, and general entry-level cleaning tasks. The SFMTA has used this service continuously since its inception and has not exceeded its \$571,990 annual budget. Actual annual costs for this work order have varied from \$251,930 to \$488,784.

Lifeline Fast Pass Work Order

In FY 2005-06, the SFMTA offered a new Lifeline Fast Pass in an effort to expand low-income residents' access to public transit. The Lifeline Fast Pass is a discounted Muni Fast Pass for residents with incomes at or below 200 percent of the poverty line. HSA administers the program and determines the eligibility and distribution of the Lifeline Fast Pass. HSA provides the staff, technology, and other support to provide eligible clients with the discounted Muni fast passes. The work order for this program has been budgeted at \$250,000 annually since FY 2005-06.

Work Order Conditions

1. The SFMTA did not have a written agreement with HSA on file for either the Workfare or the Lifeline Fast Pass programs.

Workfare Program Work Order

2. The SFMTA did not have any documentation showing that it agreed to the hourly rates HSA charged to reimburse workfare clients working at SFMTA facilities.
3. The SFMTA staff did not maintain files containing detailed billings for the first and second quarter invoices for FY 2008-09.

Lifeline Fast Pass Program Work Order

4. HSA billings and SFMTA payments were made quarterly and were calculated by allocating the annual work order amount of \$250,000 into four quarterly payments of \$62,500 each quarter. According to the work order agreement, the work order is to pay for information technology support, staff salaries, and other support for the lifeline program. It would appear that no reconciliation of actual costs to the estimated budget has occurred.

Recommendations

The SFMTA should:

1. Maintain a written work order agreement each year with the HSA for work order services.
2. Include hourly rates for reimbursement of Workfare clients in the work order agreement.
3. Obtain written justifications for any billings that significantly vary from usual billings.
4. Collect additional support from the HSA to allow billing for the lifeline program work order based upon actual expenses and not budget estimates.

Mayor's Office

The Mayor's Office of Government Affairs oversees the relationship between the Mayor's Office and other local elected and appointed officials. It is also charged with ensuring that the Mayor's governmental agenda is communicated to community stakeholders and constituents. These costs are allocated to various departments through the annual budget based upon each department's budgeted expenditures.

The SFMTA's work order with the Mayor's Office pays for external lobbyists' services provided through the Mayor's Office of Government Affairs. In FY 2008-09, the lobbyists' services totaled \$140,890. The work order was also used to pay part of the salary of the City's Greening Director. The SFMTA paid 28 percent of the director's salary, or \$35,869. The Greening Director serves as the Mayor's staff lead for policy initiatives, capital improvements, and community programs related to greening the City's streets, parks, and plazas. The Greening Director is responsible for issues related to the physical character and quality of public space in the City, in contrast to environmentally focused programs. The SFMTA began paying for a portion of the Greening Director's salary in FY 2005-06. This position was previously budgeted in the City Planning Department's work order with the SFMTA, but the adopted budget shifted the position into the Mayor's Office in FY 2008-09.

Work Order Conditions

1. The SFMTA did not have a written work order agreement with the Mayor's Office for FY 2008-09.
2. The Mayor's Office billed and the SFMTA paid work order payments for governmental affairs based upon budgeted allocated costs, rather than actual allocated costs. While summary information showing the SFMTA's proportion of overall costs was provided, these billings did not include summary information and supporting documentation for salary and non-salary costs. Work order billings did not include detailed information on the classifications, billed rates and hours, or non-salary contract costs allocated to the SFMTA.
3. While allocation-based billings can be appropriate, adequate documentation is not on file with the SFMTA detailing the derivation of the proportion of work of the Greening Director attributed to the SFMTA's mission. The allocation methodology should be documented and agreed upon by both departments involved in a work order relationship.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with the Mayor's Office for the services it provides.
2. Ensure that the work order agreement details the means of allocating costs to the SFMTA, including details of any allocation methodology used to allocate costs to various departments. These descriptions should include details on billing rates and the allocation methodologies for both governmental affairs and the Greening Director charged to the SFMTA.
3. Detail supporting documentation required in support of each billing in the work order agreement. This could include means of verifying total actual costs incurred in the provision of these allocated costs, and supporting documentation of salary and non-salary expenditures. The SFMTA should not pay invoices that are not adequately supported by predetermined documentation.

Planning Department

The Planning Department guides the orderly and prudent use of land, in both natural and built environments, with the purpose of improving the quality of life and embracing the diverse perspectives of those who live in, work in, and visit San Francisco.

A few of the Planning Department's principal activities include, reviewing proposed development projects for consistency with the Planning Code and conformity with the City's General Plan to formulating planning controls, policies, and standards to ensure the highest quality living and working environment for San Francisco neighborhoods and districts, analyzing development trends to help the City understand changes to the City's housing stock and commercial uses, and implementing the Planning Code and applying the Administrative Code to permit applications.

The SFMTA pays the Planning Department to perform application reviews of environmental and transportation studies related to SFMTA projects. The project review fees are based on a city-wide approved fee schedule. The Planning Department began providing services to the SFMTA through a work order in FY 2004-05. The work order amount in FY 2008-09 was \$195,515.

Work Order Conditions

1. The SFMTA does not have a written work order agreement with the Planning Department. The Planning Department reports that it has not previously entered into a written work order agreement because the work order amount is to pay development application fees based on the size and scope of projects the SFMTA submits for review.
2. Although Planning Department invoices to the SFMTA identified staff by name and the actual hours worked by staff, the invoices did not indicate the specific tasks or services provided to the SFMTA. The invoices only identified a project name.
3. Approved staff hourly rates are not indicated for the different employee classifications in any of the invoices or related documents reviewed by the

Controller. The Planning Department billed employees at different rates, ranging from \$82 to \$146 per hour. No explanation of attributed overhead costs was included in the sample of documents reviewed by the Controller's Office.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with the Planning Department for anticipated work order services.
2. Require the Planning Department to state in its invoices the specific work tasks or reviews the planners perform.
3. Ensure that the work order agreement with the Planning Department includes the rates for the various employee classifications of planners. The overhead rate calculation should also be separately identified in the agreement.

Police Department

The San Francisco Police Department (SFPD) provides security and law enforcement services to the SFMTA. The SFMTA contracts for these services to enhance public safety, prevent crime, detect criminal activity, and assist in the prosecution of offenses occurring on the public transit system. The SFPD also provides enforcement of parking regulations and restrictions and enforces laws related to taxi services. These services are funded through two work orders between the SFMTA and the SFPD.

Security Services Work Order

The SFPD's security services work order includes costs for the salary of the Security Director, Muni Response Team, K-9 Officers, the Third Street Security Staff, SFPD Traffic Company, night enforcement of parking regulations and police "passbys" of parking lots and garages, and parking enforcement for the Safe Path of Travel (SPOT) Program.

Taxi Law Enforcement Work Order

SFMTA first contracted with SFPD for taxi law enforcement in FY 2002-03, when the Taxi Commission was reorganized and placed under the jurisdiction of the SFMTA. This initial work order amount was \$757,000 and the work order was \$386,032 in FY 2008-09.

Work Order Conditions

1. The SFPD documents the cost of providing security services to the SFMTA in a spreadsheet that lists payrolls costs of officer salaries, but the SFPD does not specify the services provided by the officers. As a result, the SFMTA does not have complete information to ensure that it is receiving the security and enforcement services for which it has contracted.

The SFMTA has a work order agreement with the SFPD. While this agreement has improved administration of this work order, it has not been uniformly adhered to. For example, the SFPD did not submit to the SFMTA any quarterly activity

reports for FY 2008-09, although it has begun to submit these required reports for activities in FY 2009-10.

2. The SFPD is not adhering to the work order agreement requirement to provide explanations for overtime pay. During FY 2008-09, the SFPD billed the SFMTA for overtime pay totaling \$60,402 related to enforcement services provided by the SFPD's Muni Response Team. While this amount was less than four percent of the total salary costs for the team, the SFPD did not provide any reasons for the need for overtime in its billings to SFMTA. In addition, security services provided on the Third Street Light Rail were all staffed by officers on overtime pay, totaling \$901,835. The work order agreement does not address the use of overtime for this service and no explanations were stated in the invoices.
3. The SFMTA needs to improve the budgetary information in its work order agreement with the SFPD. The agreement does not provide a detailed budget breakdown for each SFPD service. Only a summary budget is provided. For example, enforcement services provided for the SFMTA's Third Street Light Rail and the Muni Response Team have a budget of \$3,152,858. According to the work order agreement, this budget covers 13 full-time officers' salaries, and the salary of the Security and Enforcement Director. However, ultimately the bills paid for this period included an additional \$901,835 for staff costs for the Third Street Light Rail security. These costs were not included in the work order agreement.
4. The security services work order has been in place since the inception of the SFMTA's baseline, and has increased by approximately \$9.8 million in the past 11 years, from \$1.7 million in fiscal year 1998-99 to \$10.9 million in FY 2008-09. It is budgeted at \$11.5 million for FY 2009-10. The first significant budget increase occurred in FY 2003-04, with a \$6.7 million increase from the budgeted work order amount of \$1.4 million for FY 2002-03. The primary reason for the increase in services was the addition of the SFPD Traffic Company officers to services paid by the SFMTA in FY 2003-04. The SFMTA currently pays for 62 percent of these services.
5. The second significant budget increase transpired in FY 2007-08, an increase of \$2 million from the prior fiscal year. In FY 2007-08, the SFMTA requested additional security services to support the newly completed Third Street Light Rail project, K-9 officers, night-time security enforcement, and incurred additional costs for the SPOT Program. The cost for the light rail service was an additional \$1 million, K-9 officers \$365,929, night-time security enforcement \$268,689 and SPOT \$281,874, for a total of \$1.9 million. Subsequently, in FY 2008-09, the

SFMTA incurred a \$1.3 million cost for Third Street Light Rail and night-time security enforcement (\$901,835 and \$424,962, respectively). As a result, the SFMTA paid \$1.9 million from FY 2007-08 through FY 2008-09 for the Third Street Light Rail security and is projected to pay an additional \$210,317 for FY 2009-10, a total cost of \$2.1 million. These costs were not accounted for in the adjusted baseline transfers from the General Fund in these years intended to cover the cost of this new continuing transit service, as required by the Charter.

Recommendations

The SFMTA should:

1. Require SFPD to promptly submit quarterly reports to the SFMTA as required by the work order agreement. Without such reports, the SFMTA cannot verify the services provided by the SFPD. The payroll spreadsheet shows the salaries of officers, but it does not indicate to the SFMTA the type of services provided. Accompanying activity reports would provide SFMTA assurance that it is paying for the services included in the work order agreement.
2. Amend the work order agreement to include detailed salary budgets for each service category and request that the SFPD provide the officer salary budgets. For example, in the Police Security service, the salary of the chief, one sergeant, eight officers, and four K-9 officers should each be itemized. Absent these rate details in the work order agreement, the SFMTA cannot determine whether billed salary costs are accurate.
3. Request that the Controller's Office adjust the baseline allocation in the amount of \$2.1 million for the police services for the Third Street Light Rail (which were not included in the initial baseline adjustment calculation for the Third Street Light Rail line), and adjust future year's baseline amounts appropriately.

Public Works

The Department of Public Works (DPW) designs, builds, operates, maintains, greens, and improves the City's infrastructure, public rights-of-way, and facilities.

For FY 2009-10, the SFMTA has seven budgeted work orders with DPW totaling \$1.8 million. The SFMTA contracts for the following services from DPW:

- Street Cleaning
- Graffiti Removal

- Street Paving
- Building Repair
- Hazardous Material Abatement
- Architectural Services

The actual cost of the billed services fluctuates because the services are project-related and are requested by the SFMTA on an as-needed basis. The DPW's primary work order with the SFMTA is for graffiti abatement services, cleaning of Municipal Railway islands on Market Street and Third Street, and maintenance of the Third Street Light Rail Corridor.

Work Order Conditions

1. The SFMTA did not have a written work order agreement with DPW for services provided in FY 2008-09.
2. The SFMTA first contracted with DPW for graffiti removal services in FY 2006-07. DPW's invoices list labor costs and supply costs for graffiti removal. The calculation of the labor cost is unclear and the basis for the labor costs is not described in the invoices. The labor costs vary from \$11.42 to \$60.36 to paint over graffiti with no further explanation to justify the variance in costs. The Controller's Office identified a number of potential duplicate charges for which the location, costs, and descriptions of the graffiti were the same.
3. The operation of the Third Street Light Rail began in FY 2006-07. At that time, the SFMTA requested cleaning services related to this new transit line, totaling \$226,187. In FY 2007-08 and FY 2008-09, the SFMTA incurred costs of \$452,373 and \$444,416, respectively for cleaning services on the Third Street Light Rail Corridor. In FY 2009-10, the budgeted service cost for the Third Street Light Rail Corridor remained at \$452,373. These costs were not accounted for in the adjusted baseline transfers from the General Fund in these years intended to cover the cost of this new continuing transit service, as required by the Charter.

Recommendations

The SFMTA should:

1. Enter into a written work order agreement with DPW for the services it provides.

2. Specify in the work order agreement the labor and supply costs and reporting requirements for graffiti abatement services, so that the SFMTA staff can verify that charges are reasonable and appropriate.
3. Request that the Controller's Office adjust the baseline allocation in the amount of \$1.6 million for DPW services provided in support of the Third Street Light Rail (which were not included in the initial baseline adjustment calculation for the Third Street Light Rail line), and adjust future year's baseline amounts appropriately.

Technology

The Department of Technology (DT) provides a variety of technology services to City client departments to enhance the level of service they provide to the public and to support productivity increases in these departments. DT's core technology services include operations and infrastructure, technology consulting, and communications.

In FY 2007-08 DT began charging client departments on a full cost-recovery basis for services provided to City client departments. Cost recovery is currently accomplished using work orders and transfers to bill for charges such as telephone usage, client-specific projects, and enterprise services. As a result, the SFMTA's share for the costs of these services in FY 2008-09 increased significantly and totaled \$4.3 million.

Enterprise services are services provided to every client department, and the costs are allocated based on a percentage share of services provided relative to a common measurement driver, such as the number of email accounts or number of personnel in the departments. These services include: email, wide area network, network planning, e-services, and geographic information systems.

In FY 2008-09, the SFMTA's share for the costs of enterprise technology services was \$4.3 million. The SFMTA's cost for these services increased significantly because, in FY 2007-08, DT restructured its cost-driver allocation methodology for billing. Prior to FY 2007-08, DT did not bill for these costs in full and primarily billed clients based on estimates by DT project managers of the amount of services provided. During that period, DT usually did not fully recover for its services.

Work Order Conditions

DT bills the SFMTA monthly electronically through an interface in the City's FAMIS accounting system from its own web-based client billings system, CIMS Server. Interfaced billings in FAMIS do not require SFMTA approval; the system automatically processes payments. DT client departments have access to CIMS and are responsible for reviewing their invoices and billing details online; it does not provide any hardcopy invoices to departments for review. However, a SFMTA representative indicated that SFMTA staff cannot easily determine the services provided from the CIMS.

Recommendation

The SFMTA should work with DT to obtain sufficient training and instruction to access the CIMS to allow SFMTA to review DT invoices in CIMS monthly, and ensure that DT is accurately charging SFMTA its share for technology services.