

FIN 2.08 Interagency agreements

Interagency service agreements are agreements between bureaus for the exchange of goods or services for payment.

The system of interagency agreements involves budgeting, billing and service description components:

- The budgeting component includes an interagency agreement document in which the service provider and receiver agree on projected levels of service and costs for the upcoming fiscal year. This estimate is based on rates developed by the provider for the upcoming year and a forecast of the number of units the receiver will receive. The estimate may be updated throughout the year during the budget monitoring process if service levels change.
- The billing component includes entries into the City's accounting system to debit expenses, credit revenues and transfer cash between bureaus based on actual service provided.
- The service description component is the Service Level Agreement (SLA) document. The SLA describes what customers can expect from the provider, identifies performance measures, describes the service and identifies ways the customer can reduce costs.

Types of interagency agreements

There are two types of interagency agreements:

Services by central service providers. These are:

- CityFleet.
- Facilities Services.
- Parking Facilities.
- Risk Management.
- Printing and Distribution.
- Technology Services.

Bureau-to-bureau interagency agreements. These are agreements between other bureaus for services or materials provided by one bureau to another.

Agreements part of City budget

Expenditures and revenues arising from interagency agreements are a component of bureau and City budgets. Budgeted amounts for revenues and expenditures must balance in the budget.

Any adjustment to an IA during the fiscal year must maintain that balance between appropriation units.

Required elements

A complete IA shall have the following elements:

- The IA will be available to both the provider and receiver, indicating quantities, rates, services and/or allocations. Providers shall furnish additional detail and documentation upon request.
- The IA will state the quantity of goods or services to be provided. The IA will also state the rate for each good and/or service, as applicable. This enables both provider and receiver bureaus to manage services and costs.
- The IA will define the service to be provided in quantitative terms. It is preferred that the IA be augmented with a Service Level Agreement (SLA) negotiated between the provider and

receiver bureaus. Service Level Agreements may take many forms, but an SLA should specify the quantity and quality of services to be provided. An SLA can vary from a general agreement on all services the provider provides, to the specific requirements of a project detailed in a memo of understanding.

Budgeting and balancing interagency agreements

- The Financial Planning Division (FPD) will accept IAs for inclusion in the budget only if they have been completed according to the above requirements. IAs must balance in all phases of budget development and in mid-year budget adjustments, except for decision packages funded through IAs. IAs can be adjusted mid-year only through an ordinance, preferably through the City's budget monitoring process.
- An ordinance adjusting an IA mid-year must contain complete budgetary and account code information (provider and receiver revenue and expense changes) for OMF to ensure the IA is balanced.

Changing interagency agreements during the fiscal year

- Either the provider or receiver may initiate a change to an interagency agreement. The bureau initiating the change will notify the other bureau in writing of the requested change in sufficient time to prepare revised interagency agreement calculations and complete budget monitoring process reports.
- In the case of a mid-year change, proper documentation of the changes must be completed and updated as part of a BuMP or other ordinance. Both provider and receiver bureaus are responsible for revising quantities, services and dollar amounts in the BuMP, and the initiating bureau in the case of a separate ordinance. Both provider and receiver bureaus will adhere to deadlines as established by Financing Planning.
- The spring budget monitoring report is the last opportunity for changing IAs.

Rate setting: elements of rates and charges

- Interagency agreement rates and charges are established under the basic principle of full cost recovery to the provider bureau of the costs incurred for services delivered to the receiver bureau. Costs are to include both direct and indirect costs. Indirect costs may include both General Fund and bureau administrative overhead.
- Rates will be developed based on a cost-of-service study for the service provided. Each service must be identified at a level of activity or detail that allows measurement of unit quantities and costs. If possible, services should be defined so that they are comparable to similar externally provided services.
- Providers may develop rates in any one of several ways including, but not limited to, unit rates, hourly rates, overhead rates and cost pool allocations. The method chosen shall be consistent with the nature of the service provided.

Rate setting: cost recovery of direct and indirect costs

There are several approved cost recovery methodologies available to interagency service providers. All such methodologies are intended to achieve full recovery of direct and indirect costs. General definitions and specific applications are as follows:

- Direct costs are specifically tied to the provision of a particular service and normally consist of labor costs and materials and services costs. They may also include debt service costs, equipment and/or capital replacement costs, or major maintenance costs. Direct costs will usually vary with the quantity of units or level of service delivered.

For example, direct costs are charged for program specific services that directly support activities or programs at the level of service requested by the receiver bureau (e.g., the number of vehicles to be purchased, the number of telephones installed, etc.). Cost recovery is accomplished by charges based on rates and units of services provided.

- Indirect costs are those that neither directly benefit the customer nor are received in the delivery of the service, but are required to support the delivery of services. Indirect costs are generally recovered by allocating a pro-rata share to direct costs.

Rate setting: development cycle

At the beginning of each budget cycle, prior to the development of bureau budgets and in conformance with the budget calendar, providers will distribute to receiver bureaus estimates of service levels and costs. This includes the following:

- A schedule of rates and charges for services to be provided in the upcoming budget year.
- An estimate of the service quantity that is to be provided in the upcoming budget year based on current year inventories and service levels, as well as any foreseen adjustments. The base budget will be derived from quantities and services identified at a specified accounting period during the current year. The base budget will be the starting point, and all quantity and service changes after that point will be adjustments.
- Providers will conduct meetings to notify receivers of any major changes in the rate methodology. Providers will provide details on the methodology of rate development and cost basis of rates; this information will be the basis of discussions between the provider and receiver to reach agreement on the level of service and associated costs. Rate development by the provider bureaus will be timed to meet the requirements of the budget calendar.

Budgeted IA amounts should reflect actual units and services that are anticipated during the budget year. Budgeted IA amounts should not be intentionally deflated or inflated for budget balancing purposes.

Rate setting: application

Regardless of the particular methodology chosen, the objective of the rate setting process is a fair allocation of the provider's direct and applicable indirect costs among all receivers of a service.

Once established, rates will be appropriately applied to all receivers of each identified service or activity. Various services or activities provided by a bureau may have different rate methodologies on the same interagency agreement.

Billing requirements: documentation of services and billings

Billings for services will be submitted in a timely manner and will clearly document the service provided.

- IA billings for fixed services are billed equally for each accounting period without supporting information required beyond the original SLA. IA billings for variable services are based on actual services received and should include references to facilitate obtaining additional information.
- References may be a description of the service provided or work order number. Additional information may come from the service provider's website or through view only access to the provider's billing system.

Billing requirements: services billed in fiscal year delivered

Billings and payments for services delivered under interagency agreements will be effective only in the fiscal year that the services were delivered.

- The Accounting Division will accept and process only billings that are billed in the same fiscal year for which the services were provided or purchases made.
- The final billing of all internal services must be complete and submitted to the Accounting Division in time to be included in the last Accounting Period of the fiscal year.
- Pre-payment of services is not allowed.
- If a receiver wants to challenge a billed amount, it must be filed and resolved prior to final transactions by the Accounting Division.

Dispute resolution: types of disputes

In all cases of disputes, parties are encouraged to resolve the dispute between themselves.

Disputes are defined as follows:

- Policy disputes: Includes rate methodology, cost allocation methodologies, fixed asset accounting policies, etc.
- Budget disputes: Involves both parties disagreeing on units and services budgeted during a fiscal year.
- Billing disputes: Involves the application of set rates, allocation of costs, calculation and/or timing of billings, etc.
- Service level disputes: Involves service and/or performance expectations and actions included in Service Level Agreements.

Dispute resolution: process

The parties involved in the dispute will attempt to resolve the dispute in an expeditious and equitable manner. The directors of the agencies involved in the dispute are encouraged to meet and come to a satisfactory resolution.

If the parties cannot resolve a dispute, either the provider or the receiver may request the assistance of the OMF Financial Planning Division Manager.

- The request for assistance shall be in writing, stating the nature of the dispute, all the pertinent facts in the dispute and a desired outcome or resolution of the dispute.
- Within 10 working days of receipt of the request for assistance, the Financial Planning Manager will interview the parties and suggest ways and means to resolve the dispute. If

such action does not result in resolution, the FPD Manager will convene a meeting of both parties and hear the issues of the dispute.

- Within five working days of the meeting, the FPD Manager will issue a decision to resolve the dispute. The parties involved in the dispute can appeal this decision to their respective Commissioner(s) in Charge. If appealed, the Commissioner(s) will render a final decision.