



200 NE Moe Street  
Poulsbo, WA 98370

# City of Poulsbo

## Indirect Cost Allocation Plan



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**Indirect Cost Allocation Plan**

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# The City of Poulsbo

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## *City Services Cost Allocation Plan*

### **Introduction**

The City of Poulsbo (the City) provides a wide variety of services to the citizens of Poulsbo. The City operates under a Strong Mayor form of government, and under its charter has all powers granted by the constitution and laws of the state. The City provides the full range of services contemplated by statute or charter. These include police, public works, parks, planning and development, and general administrative and support services.

The City is a local government, established as a subdivision of the State of Washington. It is funded mostly from local taxing sources, but specific projects may be funded from some federal award and pass-through awards from the State of Washington. The City administers various federal and state funded programs. While the federal portion of the City's total funding is important, it is not a major source of funding for the City.

The City used historical data, upon which to build the plan. However, the City may assign transactions data or staff to specific programs based on an analysis of functions and services planned for either the budgeted year where practical, otherwise the preceding year, and those assignments are quantified and described in this plan. The allocations are monitored for actual activity at the end of the year and if the variance is material the allocation may be amended to better reflect the costs associated with the year's activities.

## Description of City Services

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### Introduction

The City provides support services to operating units (funds and departments) through the following City Departments. The functions listed below are accounted for in the General Fund. An indirect allocation formula as detailed in the following plan is being used to account for portions of the following functions supporting Public Works Functions and being charged to the appropriate funds outside the General Fund including City Street Fund and Proprietary Funds. Amounts supporting General Fund functions are not being directly allocated to the operating departments but accounted for in the servicing function.

- Legislative (City Council)
- Executive (Mayor)
- Personnel
- Finance
- Clerk
- Central Services (Legal, Data Processing, Printing, Admin/Utilities, Building Maintenance, Wellness)
- Information Services
- Public Works Administration
- Engineering
- Planning/Building Department
- Debt Service for City Hall

Operating departments may charge one another for actual services provided, but this is rare. When it does occur, the charge is typically based on actual time incurred as documented on a project item sheet or other tracking sheet. This plan does not quantify or present amounts of these interdepartmental charges as these charges are outside of the City service allocation plan.

Funds being supported and charged through the indirect allocation formula outside the General Fund:

- City Street Fund (101)
- Proprietary Funds
  - Water Fund (401)
  - Sewer Fund (403)
  - Solid Waste Fund (404)
  - Storm Drain Fund (410)
  - General Facilities Fund (501)

The City uses the SunGard Finance Plus software system for its accounting and financial reporting processes. Costs are captured at various levels of detail. In descending order, costs are captured at the fund level, department and function level, Budget Accounting and Reporting

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System for Washington (BARS) coding and project codes. As such, federal awards can be identified and excluded from receiving cost allocations for unallowable items.

The Indirect charge for the current year will be based on the prior year's budget. It is intended that basing the allocation on prior year estimates is a conservative approach since prior year projections do not include any of the cost inflators for the current year. If the actual dollars expended at year end exceed a 15% variance, an adjustment will be made to reflect the increase or decrease.

Certain City service departments use BARS and project coding to separately account for services which are allocable to benefitting functions using a different allocation base and methodology. As a result, certain departments show more than one allocation pool and how it is allocated to benefitting functions in the summary schedules of cost allocation. Another way in which the City uses department, BARS and project coding is to capture unallowable costs separately from allowable costs. For example the City's legal department, uses different BARS coding for its criminal (prosecutorial and public defense) functions, which are not allocable costs under OMB Circular A-87.

## **Cost Allocation Methodology**

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### **Introduction**

As described in the introduction to City Services, the City provides support services to operating units (fund and departments) through City Departments. Allocations are then charged to Public Works functions outside the General Fund including City Street Fund and Proprietary Funds. City departments use BARS and project coding to separately account for services which are allocable to benefitting functions and to capture unallowable costs separately from allowable costs.

### **Accounting, Financial Reporting and Cost Allocation Systems**

The City uses the SunGard Finance Plus software system for its accounting and financial reporting processes. The accounting system is able to produce cost reports for City allocation to operating units. If the costs within a City service cost center benefit operating units by varying degrees, then multiple cost groupings (pools) and multiple allocation basis' are used.

Each City service cost center grouping uses a unique method to allocate its costs to the benefitting departments. However, several City services use the same base, upon which, to allocate its costs (for example agenda item count and function activity). Other cost center groupings may use different methods for certain segments of its cost pool for allocation based on data it accumulates during the year.

### **Specific Cost Allocation Methodologies Used**

As provided in the Description of City Services Section, each City service cost center grouping uses a unique base, upon which to allocate its costs. The methodology allocation percentages will be reviewed annually for a material percentage increase or decrease. If the difference is

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material (more than 2%) the formula shall be adjusted. The City service functions allocated in this plan are grouped by the allocation base used as follows:

**Council Agenda Items** – Count of regular business agenda items are tracked. The percentage attributed to street operations and proprietary funds will be used as a cost factor. Used for:

- Legislative
- Clerk

**FTE (Full Time Equivalent)** – The budgeted count of employees is tracked jointly by Human Resources Manager and Finance. The percentage of fte's attributed to street operations and proprietary funds are used as a cost factor. Used for:

- Executive
- Personnel
- Wellness

**Function Hours** – Hours are tracked at position level based on 2088 hours for a full 1 fte. Hours are allocated to the function the position supports. These are reviewed on an annual basis and if necessary adjustments are made. Used for:

- Finance Department
- Public Works Administration
- Planning

**Operating Expenditures** – Operating budgets exclusive of transfers, capital expenditures and expenditures related to City debt as presented in the annual budget to be maintained and updated by the Finance Department. The percentage of dollars allocated to street operations and proprietary funds. Used for:

- Auditing expenditures
- Central Services Printing/ADA

**Legal Expenditures** – Finance Department uses a spreadsheet and tracks services provided to functions as allocated on the Legal bills supplied by the contracted City Attorney. Prior year general legal expenditures are reduced by items which can be directly charged to projects. The remaining legal costs are then multiplied by the percentage of operating budgets less operating transfers of public works activities. These amounts are then added together to determine the percentage of street operations and proprietary funds to be allocated for legal expenditures. (Prior Year Legal costs – (less) legal expenditures allocated to direct function) x (times) percent of public work's operating budgets less transfers). Used for:

- Legal Expenditures

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**IT Equipment** – The actual count of workstations is tracked by IT and Finance Departments. A couple figures are taken into account when calculating IT support:

Percentage of base number of computers allocated to Public Works Functions

Added to the number is the indirect figure IT equipment supported for those departments who support the street operations and proprietary funds. Used for:

- Central Services Data Processing
- Information Technology

**Square Feet** – The actual count of square footage in City Hall used by Public Works Administration is tracked by PW Administration. The percentage of square feet both directly and indirectly supporting public works functions. Used for:

- Central Services Administration (Utilities)
- Central Services (Custodial)
- City Hall Debt

**Capital Projects** – Costs for Capital projects for transportation and proprietary function is determined by the Capital Improvement Plan and project accounting. The percentage of capital projects being done to support street operations and proprietary funds is calculated. Used for:

- Engineering Services

## **Cost Basis for Allocation**

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### **City Service Functions**

Allocation Basis for certain City functions may use a combination of basis to allocate costs to benefitting operating units. The determination of the relative weight for each base may be a matter of judgment or it may be based on underlying cost data. The following provides a description of the City services and the benefitting functions.

The Finance department will allocate costs based on actual data accumulated annually. If the calculated amount of variance between prior budget figures and current actual expenditures exceeds 15% this will be deemed material and an adjustment will be made.

### **Legislative - City Council**

Costs captured in this cost center include the salaries, benefits and other costs necessary to operate the City Council. Costs are also inclusive of election costs paid to Kitsap County and the contractual cost of televising City Council meetings. The City Council engages in legislative activities and provides policy direction to the City's operations. The City Council costs are allocated to benefitting operating units based on a count of agenda items. The count of agenda

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items most closely tracks the effort of the Council in addressing the legislative and policy needs of the operating units.

- ❖ 100% of the City Council's budget is allocated using this base x percent of agenda items pertaining to street operations and proprietary funds

### **Executive – Mayor**

Costs captured in this cost center include the salaries, benefits and other costs necessary to operate the Mayor's Office. The Mayor is the Chief Administrative Officer for the City, working closely with City Council and providing executive management oversight of all operating units and staff. The Mayor's costs are allocated to benefitting operating units based on a percentage of fte allocation. The executive budget has been reduced by 10% accounting for efforts of serving on boards and commissions on behalf of governmental functions (i.e. Cencom, Kitsap Transit, Kitsap Housing)

- ❖ 100% of Executive Base – (less) 10% x (times) percent of fte

### **Human Resources/Personnel**

Costs captured in the Human Resources department include the salaries, benefits and other costs necessary to operate the Human Resources functions. These functions are accounted for separately and are allocated based on specific methods.

- ❖ 100% of Human Resources x (times) percent of fte

### **Employee Benefits/Wellness**

Costs captured in Employee Benefits/Wellness budget are expenditures supporting programs and activities aimed at preventing illness and injuries and promoting better morale, which results in reduced absenteeism and enhanced productivity.

- ❖ 100% of Employee Benefits x (times) percent of fte

### **Financial Services**

Costs captured in the Financial Services department include salaries, benefits and other costs necessary to operate the financial functions. Finance staff provides both front office functions, such as Customer Service (Utility Billing), and back office functions, such as accounts receivable, accounts payable, payroll, and financial reporting. The staff supporting the Financial Department monitors time allocated to all functions supported in the City. Hours and calculated percentages are used to create a percentage of time supporting. 100% of Finance Department costs are allocated as a percentage of function/hours allocated to street operations and proprietary funds.

- ❖ 100% of Finance x (times) percent of function hours



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## **Auditing**

Costs captured in the Auditing section support the function of auditing services. Costs captured in the cost center are payments to the State Auditor who performs the annual audit and minimal costs associated with software to track and audit companies submitting sales tax to the City.

- ❖ 100% of Audit Cost x (times) percent of Operating Expenditures

## **Legal Costs**

The City Attorney is a contracted function with an outside firm. Invoices from the City Attorney allocate charges based on the department and function for the activity. The Finance Department maintains an electronic record tracking the basis of the activity which is reconciled to monthly invoices. The legal function allocated is for City Attorney charges only, and although defined by the BARS manual to be under the same function, does not include any charges related to the City Prosecutor or Public Defender. City Attorney services include Council support code revisions, contract review, litigation, and advice to Council and staff to ensure that all Federal, State and municipal regulations are complied with. The record maintained by the Finance Department is used as a basis of allocation.

- ❖ Legal Expenditures exclusive of Public Defender and Prosecutor expenditures x (times) percent of legal costs attributed to Public Works

## **Data Processing**

Data Processing allocated as a Central Service supports the repair of tools necessary for the City software and the maintenance of the City's software to account, retain and process all financial and development transactions.

- ❖ 100% of Central Services Data processing expenditures x (times) percent of IT Equipment

## **Printing**

Printing Costs allocated as a Central Service supports central printing and the necessary tools. Printing costs include expenditures related to maintenance and operations of the City copiers and costs associated with printing and publication of the Annual Budget and Annual Financial Reports. 100% of costs are allocated based on the percentage of operating budgets supporting street operations and proprietary funds.

- ❖ 100% Printing x (times) percent of Operating Expenditures

## **ADA**

Expenditures related to ADA provide for training, site visits and educational materials to assure City facilities and staff are able to provide information and assistance in assuring ADA compliance. This supports Public Works sites and employees to be ADA Compliant. 100% of costs are allocated based on the percentage of operating budgets supporting street operations and proprietary funds.

- ❖ 100% ADA x (times) percent of Operating Expenditures

## **Administration/Utilities/Custodial**

Costs captured include expenditures related to supporting City Hall for custodial including salaries, benefits and other related costs necessary to maintain the City facilities. Also included are related utility expenses, communications and miscellaneous items for central administration i.e. bank charges, courier charges, shredding and other expenditures central in nature serving the City administration.

- ❖ 100% Administration/Utilities/Custodial x (times) percent of square feet

*Risk Insurance is not allocated per the allocation formula but is directly charged based on weighted hour's allocation.*

## **City Clerk**

Costs captured in this cost center include salaries, benefits and other costs necessary to operate the City Clerk function. The City Clerk provides Council and committee support, engages in legislative activities, manages City records and code, manages City business license program and supports a number of Citywide activities. The City Clerk function tracks agenda items by reviewing agenda items maintained electronically with council agendas. The operating budget does not include the amount supporting business license function. The count of agenda items and fund activity tracks the support provided in assisting the operating units with Council matters and code review, and management of City records.

- ❖ 100% Clerk Base and Records Management – (less) amount allocated for Business Licensing function x (times) percent of agenda items.

## **Information Technology**

Costs captured in this cost center include the salaries, benefits and other costs necessary to operate, maintain and improve the technical infrastructure of the City. The count of hardware, network, and communication systems, adjusted for unique equipment is used to identify general IT infrastructure and end user support. Fund activity most closely tracks general IT infrastructure services, and IT equipment count most closely tracks end user support services.

- ❖ 100% of IT budget x (times) percent of IT Equipment

## **Engineering**

Costs captured in this cost center include salaries, benefits and other costs necessary of engineering functions. Direct costs for projects are allocated to the specific projects and are not reflected in the General Fund engineering allocations. General Fund functions support administering of Capital Projects related to general government functions and proprietary functions. Costs have been allocated as a percentage share of capital projects attributed to proprietary functions.

- ❖ 100% of Engineering x (times) percent of proprietary capital projects

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### **PW Administration**

Costs captured in this cost center include salaries, benefits and other costs necessary to provide management and administration of Public Works (Park Maintenance, Cemetery, Library, Central Facilities, Central Mechanic, Streets, Water, Sewer, Solid Waste and Storm Drain) and Administrative staff being paid from the Public Works administrative function has allocated their hours to each of the functions they support. Percentages have been applied based on man hour allocation. Hours are reviewed and updated annually. The percentage supporting proprietary functions is used as a basis for charging all expenses related to the Public Works administration.

- ❖ 100% of Public Works Administration x (times) percent of function hours

### **Planning/Building**

Costs captured in this cost center include salaries, benefits and other costs necessary to provide planning, mapping, code enforcement, functional plan coordination with comprehensive plan, connection administration for building permits issued. Connection fees are collected at the time of permit issuance.

- ❖ 100% of Public Works Administration x (times) percent of function hours

### **City Hall Debt**

Debt for City was issued in three different bond issues. 100% of annual debt payment for City Hall is allocated based on a percentage of square feet to directly house Public Work administration functions and the percent of square feet indirectly supporting the departments who support street operations and proprietary funds.

- ❖ 100% Debt related to City Hall x (times) percent of square feet

**Appendix A:**

**Organization Chart**

