



A QUICK GUIDE TO G&A RATES



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“What’s a good G&A rate?”

At ReliAscent®, we are frequently asked this question...

But what this really comes down to is an understanding of indirect rates. Indirect rates, and their “structure,” are perhaps less important for start-ups with smaller contract and grant values, but become very important as a company grows and prospers, especially in the government contracting environment. In a sense, a firm’s indirect rate approach is that firm’s financial fingerprint. This fingerprint can vary widely from firm to firm and becomes vitally important in a highly competitive pricing environment. Here are a number of factors to consider when proposing a good “G&A” rate.

Breaking Down Federal Acquisition Regulation ([FAR](#)) Part 31.203 Indirect Costs

Cost Accounting first appeared with the rise of the Industrial Era where more precise measurement of project costs and indirect costs were required. Government acquisition rules extend this practice as described in FAR 31.203.

Here’s what the FAR says, in so many words:

- 1) After direct costs (project costs) have been determined and charged directly to a contract, indirect costs are those remaining to be allocated (using math) to final cost objectives (i.e. contracts).
- 2) The firm shall accumulate indirect costs by logical cost groupings (i.e. fringe, facility costs, overhead, G&A, among others).
- 3) The firm shall determine each cost grouping so as to permit use of an allocation base that is common to all cost objectives to which the grouping is to be allocated.
- 4) The base selected shall allocate the grouping on the basis of the benefits accruing to the contracts/grants.

In practice, at the very least you should:

- 1) Understand the difference between direct and indirect costs.
- 2) Have an accounting or pricing method that supports a desired indirect rate structure.
- 3) Calculate indirect rates in a manner that is consistent and provides an equitable allocation of indirect costs to all jobs.

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Calculating Rates

The mathematical relationship between your direct or project costs and indirect costs is what defines your indirect rate.

The simplest indirect rate structure is indirect costs divided by direct costs. Direct costs include project labor, materials, subcontractors, travel, and anything directly budgeted for all revenue-generating projects over a period of time. Indirect costs are what's left over as expenses for running the business over that same period of time. In this case, all your fringe, facilities, overhead, and G&A (indirect) costs are all considered part of your "G&A" rate.

Example 1:

FY2024 estimates					
Direct (Project) Costs		Indirect Expenses		Indirect Rate	
Labor	150,000	Labor	25,000	Direct Costs	280,000
Material	50,000	Fringe Benefits	31,000	Indirect Costs	96,000
Subcontractors	50,000	Other business expenses	40,000	"Single G&A" rate	34.29%
Travel	5,000	Total Indirect Costs FY2024	96,000		
Consultants	25,000				
Total Direct Costs FY 2024	280,000				

Variations on the theme

While the example above is the simplest form of an indirect rate, firms may encounter government agencies that restrict or prohibit the application of a G&A rate on a particular element of direct cost. The most common targets are material and subcontractors.

In this case, the example used above would be calculated differently as Example 2, below:

Example 2:

FY2024 estimates					
Direct (Project) Costs		Indirect Expenses		Indirect Rate	
Labor	150,000	Labor	25,000	Direct Costs (less Mat'l, Subs)	180,000
Material	50,000	Fringe Benefits	31,000	Indirect Costs	96,000
Subcontractors	50,000	Other business expenses	40,000	"Single G&A" rate, modified G&A base	53.33%
Travel	5,000	Total Indirect Costs FY2024	96,000		
Consultants	25,000				
Total Direct Costs FY 2024	280,000				

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Multiple Rate Structures

If you propose more than a single G&A rate, you have what's called an indirect rate structure design along with a different mathematical model for calculating these rates. The simplest example of this is a single G&A rate with Fringe as a Direct Cost. This is the customary indirect rate structure for many of the grant agencies.

Example 3:

FY2024 estimates			
Direct (Project) Costs		Indirect Expenses	
Labor	150,000	Labor	25,000
Material	50,000	Fringe Benefits	31,000
Subcontractors	50,000	Other business expenses	40,000
Travel	5,000	Total Indirect Costs FY2024	96,000
Consultants	25,000		
Total Direct Costs FY 2024	280,000		
Fringe costs	31,000		
All labor (except PTO)	175,000		
Fringe Rate FY 2024	17.71%		
G&A Rate			
Direct Costs	280,000		
Fringe on Direct Labor	26,571		
Indirect Costs	69,429		
G&A Rate, Fringe as Direct	22.65%		

Curiously, all three indirect rate structures above using one year's worth of identical company expense data are equivalent when applying those rates to all jobs costs. However, the main objective of developing an indirect rate is having a mathematical method of allocating indirect costs to each job being performed. Given the indirect rates calculated above as applied to a single hypothetical job, you derive different total amounts for that job.

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Example 4:

Project costs for Job #1			
Labor	\$10,000		
Material	\$5,000		
Subcontractors	\$5,000		
Total	\$20,000		
		Rate Structures	
Project Costs	Single G&A	G&A (less Mat'l/Subs)	G&A/Fringe as Direct
Labor	\$10,000	\$10,000	\$10,000
Material	\$5,000	\$5,000	\$5,000
Subcontractors	\$5,000	\$5,000	\$5,000
Fringe as Direct	\$0	\$0	\$1,771
G&A	\$6,858	\$5,333	\$4,931
Total Project Costs	\$26,858	\$25,333	\$26,702

What this demonstrates is that you can have different outcomes for total project costs depending on the job costs and the indirect rate approach being used.

Beyond these relatively simple calculations of indirect rates lies more complex indirect rate structures, such as the introduction of a labor Overhead rate, Material Handling rates, and others designed to allocate indirect costs equitably and precisely to individual project costs.

Factors for Indirect Rate Selection

- 1) Company size – In general, a small startup would have a much simpler indirect rate structure and lower indirect rates than a major government contractor (but see Industry).
- 2) Industry – Product companies tend to have higher support costs for manufacturing their products. Services firms, such as in IT, may land on the other end of the spectrum having perhaps a distributed workforce and little outsourcing (lower “overhead”). Research and Development (R&D) firms may land somewhere in the middle between the two depending on their technology.
- 3) **Ratio of project labor to non-labor costs** – The level of outsourcing a firm employs will inform a savvy CFO how much burden (G&A and overhead) to allocate to project labor.
- 4) **Competitive environment** – If price is the major competitive factor, the design of an indirect rate structure is crucial for profitability.
- 5) Regulatory environment – Certain government grant agencies offer very restrictive approaches to indirect rates.

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Examples of Indirect Rate Structures

Single G&A Indirect Rate – See Example 1. Useful for startups with medium to low outsourcing of project costs.

Single G&A + Fringe as Direct – See Example 3. Typical rate structure for grant agencies.

Overhead and G&A Rates – This is classic DoD type of rate structure. In this case, some indirect costs are isolated and allocated to project labor to capture what that labor theoretically “absorbs” as a benefit of the indirect expenses. Overhead examples would be fringe and other indirect fixed costs that can be mathematically allocated to direct labor.

Example 5:

Total Company Indirect		
Fringe costs - ER taxes, PTO, benefits	31,000	
Other business expenses (less labor)	40,000	
Overhead Pool (Numerator)		
Fringe allocation at 17.71% of labor	4,428	
Other expenses at 22.86% of labor	5,715	
Total Overhead Pool	10,143	
Overhead Base (Denominator)		
Project labor	150,000	
Overhead Rate	6.76%	

Fringe as Direct, Overhead, G&A Rates – A much more complex calculation of rates that has the advantage of projecting a lower Overhead rate.

Material Handling Rate – All the indirect rate structures above could also include a material handling rate that isolates the costs for managing a large supply chain. This is particularly advantageous if there is little value added to products in the form of labor or overhead support.

G&A Base Adjustments – As shown in Example 2, the G&A base for all indirect rate structures can be adjusted to consistently pass through some or all of the non-labor project costs.

Given the options above not counting Material Handling, you have your choice of 12 different indirect rate structures, as shown in Example 6 (using different starting data than above).

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Example 6:

Single Rate System		Pass-thru Mat'l/Subs	G&A on labor only
Direct Labor	20,192.31	20,192.31	20,192.31
ODC	53,800.00	53,800.00	53,800.00
G&A	49,978.64	52,168.28	44,532.54
Total Cost	123,970.95	126,160.59	118,524.85
Single Rate System (Fringe as Direct)		Pass-thru Mat'l/Subs	G&A on labor only
Direct Labor	20,192.31	20,192.31	20,192.31
Fringe as Direct	6,054.17	6,054.17	6,054.17
ODC	53,800.00	53,800.00	53,800.00
G&A	42,788.30	43,779.29	38,478.36
Total Cost	122,834.78	123,825.77	118,524.85
Two Rate System		Pass-thru Mat'l/Subs	G&A on labor only
Direct Labor	20,192.31	20,192.31	20,192.31
Overhead	12,920.12	12,920.12	12,920.12
ODC	53,800.00	53,800.00	53,800.00
G&A	34,844.97	18,305.16	31,612.42
Total Cost	121,757.40	105,217.58	118,524.85
Two Rate System W Fringe		Pass-thru Mat'l/Subs	G&A on labor only
Direct Labor	20,192.31	20,192.31	20,192.31
Fringe as Direct	6,054.17	6,054.17	6,054.17
Overhead	6,865.95	6,865.95	6,865.95
ODC	53,800.00	53,800.00	53,800.00
G&A	34,844.97	18,305.16	31,612.42
Total Cost	121,757.40	105,217.58	118,524.85

Safe Rates, Capped Rates, and Other Limitations

Speaking of restrictions, some government agencies offer “Safe Rates” where indirect rates proposed under an arbitrary threshold requires no disclosure on how indirect rates are derived. Capped Rates, in a similar sense, sets arbitrary limits on the levels of indirect rates. A firm should be on the lookout within each and every solicitation it responds to for similar limitations on indirect rates.

The Accounting System

Calculating indirect rates and designing an indirect rates structure depends on accurate accounting data to do so. The more that expenses are segregated within the accounting data, the quicker and more accurately indirect rates can be calculated. Labor, for example, should

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be allocated properly to a project, paid time-off, or as an indirect expense activity. This may require the use of a timekeeping system and labor distribution approach. The ultimate design of an accounting system deemed adequate for the most rigorous government contract can be found in a checklist called the [SF1408 form](#) (you can also download [ReliAscent®'s Quick Guide to the DCAA Compliant Accounting System: Understanding the SF1408](#)).

Compliance

The SF1408 checklist incorporates many of the cost principles found in FAR Part 31. One might conclude that only contracts or grants which are cost reimbursable have to follow FAR Part 31 requirements. This is true during the post-award phase. However, during the proposal and budget evaluation phase, a firm is expected to follow those same FAR Part 31 rules when it comes to pricing project cost and developing indirect rates. Negotiations for fixed-price contracts have gone sideways when a firm can't explain to the government how their indirect rates were derived when offering a price that is "fair and reasonable".

Other compliance traps include understanding unallowable costs, addressing uncompensated overtime, and being exposed to countless audits.

Conclusion

The answer to "What's a good G&A rate" depends on many factors that define the financial and regulatory environment a firm finds itself in. Calculating indirect rates requires a deep understanding of FAR 31.2 cost principles as well as mathematical modeling skills.

ReliAscent®, having clients operating grants and contracts across a broad spectrum of the federal government environment, has the knowledge and skill to design and implement an indirect rate structure appropriate for any business. If your business needs indirect rates support, or general government contract accounting, contract & grant management, or fractional CFO services, [contact us today](#) to learn how we can position your business for success.