



U.S. SMALL BUSINESS ADMINISTRATION

**VBOC**

VETERANS BUSINESS OUTREACH CENTERS

# Surviving to Thriving - A Deep Dive into Proposal Pricing and Accounting Strategy

Presented by:

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# Donna Dominguez

*Government Contract Compliance Leader & Advisory Partner, Aprio LLP*

Donna has more than 20 years of experience providing a wide range of financial compliance advisory services to government contractors. She is experienced in matters related to FAR, CAS, ICS, DCAA cognizant audit support, provisional billing rates, establishing or revising indirect rate structures, and cost proposal support.

Donna works with government contractors to help them grow their businesses while keeping their accounting systems adequate and their billing systems current and relevant. She is also involved in supporting the government contracting community as a frequent guest speaker and author on a variety of compliance topics.



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# Tram Vo

*Senior Manager, Government Contracting, Aprio LLP*

Tram Vo is a Senior Manager in Aprio LLP's Government Contracting Services Group with 20 years of experience and knowledge of Federal Acquisition Regulations (FAR). Tram began her career with the Defense Contract Audit Agency (DCAA) working with contractors on Incurred Cost Submission audits, Forward Pricing Proposals, Defective Pricing, Cost Accounting Standard Review, Floor checks, and more.

She also has experience with both small and large contractors and understands the critical compliance issues and needs of each. She has extensive experience with monthly accounting & billings, provisional bill rates, adequate accounting systems, estimating systems, and contract administration.



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# Discussion Agenda

- **Top 5 Reasons for Budgeted Indirect Rates**
- **Pricing Strategies**
- **How to Budget**
- **Q&A**





**Don't  
Make Me  
Budget!**

# The 5 W's of Budget Rates & Rate Structures

**Who** should prepare budgeted rates and evaluate their rate structures? – All Government Contractors whether required by contract or not.

**Why** do I need to prepare my budgeted rates? – In order to establish your provisional billing rates for invoicing and for cost build up on cost proposals.

**Why** do I care about my indirect rate structure? – So that you can ensure your business is staying competitive in the market.

**What** is the purpose of establishing provisional billing rates? – It allows you to invoice on flexibly priced contracts at budget rates before you true up to actuals. It also helps to measure performance and profitability on Fixed Price (FP) and Fixed Labor Hour (FLH) contracts.

**When** do I need to prepare my budget and evaluate my rate structure? – At a minimum once a year for both.

**Where** do I submit my provisional rates? It depends whether it's for yourself, the contracting officer, or the cognizant Federal agency official. For those that have Disclosure Statements (D/S), if you revise your rate structure, you will have to submit your revised D/S to DCMA.



# Top 5 Reasons for Budgeted Indirect Rates

# Top Reasons why you Would Prepare an Indirect Rate Budget



Contractual requirements (FAR 52.216-7(e) Allowable Cost & Payment Clause & Subpart 42.7)



Evaluating your business for future goals and strategies



To be compliant with your estimating system



To budget/adjust costs for growth, acquisitions or loss



Using budget rates for proposals and invoicing





## Budgeting Indirect Rate

(while trying to stay competitive!)



Finding the right balance between existing work with future contracts, all while still being competitive and profitable is a difficult balancing act.

# Indirect Rate Strategies



How do you know what is the right rate structure for you?



How many Overheads should I have?



What is a reasonable G&A rate?



When do I need an SM&H Rate?



Is it a good time to restructure after acquisition?

# Indirect Rate Strategies

## Two Key Things to Remember

1

Your cost are  
your costs.

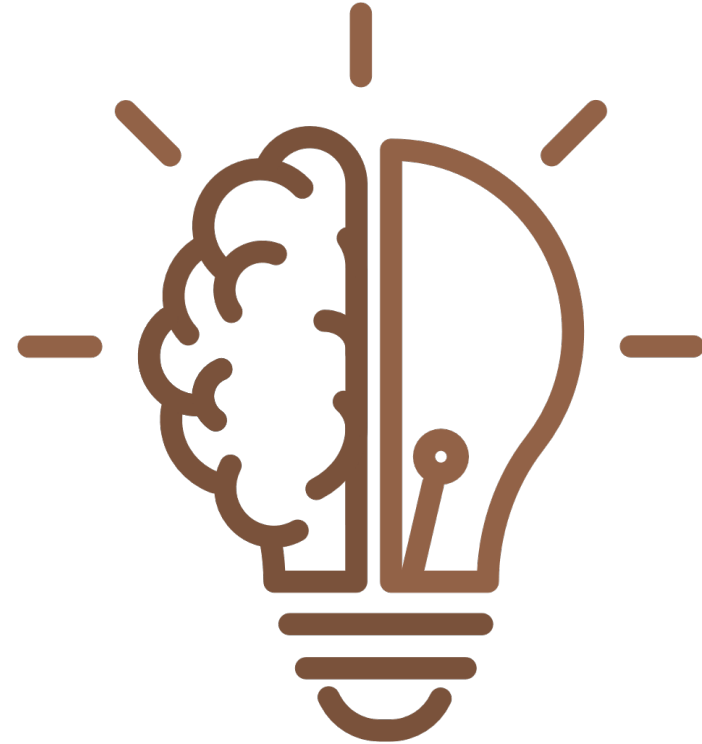
2

When one rate goes  
down, another  
will go up.

# Things to Consider When Preparing your Budget Rates

## Understand your business

- What products/services do you offer?
- How are you different from competitors?
- What are customers telling you?
- What does your win/loss history reveal?
- What is your contract and customer mix?
- How do labor limit and costs set by Prime Contractors factor into your cost structure?



## Steps to Begin the Budgeting and Rate Structure Process:

1

Once you have your historical costs and a baseline understanding of the company's strategic goals and target wrap rate, begin building your budgeted rates.

2

Review costs in each pool, service centers, allocation basis, and new items. Are the costs on a causal / beneficial relationship?

3

Do I have different lines of business or locations that require difference in cost?

4

Have we had any acquisitions that I now need to consider into our overall rate structure?



## Steps to Begin the Budgeting and Rate Structure Process:

5

Begin preparing different rate structures until you get to the one that is closest to your goals.

6

Review the impact to your existing contract mix. How does this effect our profitability on FP and T&M contracts?

7

Review internally and submit to ACO/CO & DCAA or Cognizant Audit Agency.

8

Implement new provisional billing rates into your system and begin billing.



# Pricing Strategies

*Discounts, Impacted Rates & TCI vs. Value Add G&A Base*

# What is it? When Should I provide a Discount?

- **When your budgeted G&A Rate is high and not competitive on a particular proposal, you can offer a one time self imposed capped/discounted G&A Rate**
  - It can be limited to Subcontractors/Consultants or Materials or Travel Costs only.
- **For bidding and pricing strategy would be to discount the G&A on the subs when you have a TCI (Total Cost Input) G&A base**
  - This means you are self imposing a ceiling on your G&A rate for that award when you bill your subcontractor costs
  - You can offer discounted G&A rate on any pass-through item or cost. You reduce your profits!

# Discounted Rate(s) Continued



Offering discounts does not alleviate the costs allocated to the project. Discounts reduce the overall profitability of the contract.



Calculate non-billable costs to make good business decisions.

15% Provisional G&A Rate  
5% Discounted G&A Rate

Subcontractor costs	\$ 1,000,000.00
15% G&A	\$ 150,000.00
<hr/>	
Subcontractor costs	\$ 1,000,000.00
5% G&A	\$ 50,000.00
<hr/>	
Non-Billable G&A Costs	\$ (100,000.00)
<hr/>	
If Overall Profit Margin is	\$ 500,000.00
Less Non-Billable G&A	\$ (100,000.00)
Actual Profit Margin on Subk	\$ 400,000.00

# Impacted G&A

**Begin with your original budgeted indirect rates and impact or update for this one effort/RFP. Since the original budget did not include such a large effort, we now need to impact the original budget to reflect the appropriate impacts on the business should you win this award.**

- This can be increased direct costs
- This can be increased indirect costs
- This could even include different indirect rates

**To not include would mean you are not considering all the costs that would impact your quote.**

- This often means you will have lower bidding rates!



# Value Add G&A Base vs. Total Cost Input

**Total Cost Input G&A Base  
is all direct costs before  
B&P and IR&D.**

**Value Add G&A Base is all  
direct costs before B&P,  
IR&D, Subcontractors,  
Consultants and Material  
costs.**

- Subcontract & Material Handling (SM&H)
- Subcontract Handling (SH)
- Material Handling (MH)

# TCI vs. Value Add G&A Base

<b>G&amp;A Pool</b>	<b>\$1,800,000</b>
<b>G&amp;A Base</b>	
Direct Labor	\$3,750,000
Fringe on DL	1,200,000
OH on DL	1,485,000
Travel	165,000
ODCs	256,000
Subk/Consultants	2,750,000
<b>TCI G&amp;A Base</b>	<b>\$9,606,000</b>
<b>G&amp;A Rate</b>	<b>19%</b>

<b>G&amp;A Pool</b>	<b>\$1,650,000</b>
<b>G&amp;A Base</b>	
Direct Labor	\$3,750,000
Fringe on DL	1,200,000
OH on DL	1,485,000
Travel	165,000
ODCs	256,000
<b>Value Added G&amp;A</b>	<b>\$6,856,000</b>
<b>G&amp;A Rate</b>	<b>24%</b>

<b>SM&amp;H Pool</b>	<b>\$ 80,000</b>
<b>G&amp;A Base</b>	
Subcontractors	\$2,300,000
Consultants	450,000
<b>SM&amp;H Base</b>	<b>\$2,750,000</b>
<b>SM&amp;H Rate</b>	<b>3%</b>

## Unpopulated Joint Venture (JV)

**G&A for the JV is derived from the G&A pool costs from some or all of the members of the JV.**

**Joint Venture's G&A Rate has a different rate than your entity and likely G&A pool costs coming out of your entity for the JV.**

- Typically, 2% to 4% for JVs (Common are mentor protégé).

A person is shown from the side, sitting at a desk. They are holding a pen over a calculator. In the background, there is a laptop displaying a spreadsheet or financial data. The scene is brightly lit, suggesting a window nearby. A dark blue rounded rectangle is overlaid on the right side of the image, containing the text 'How to Budget'.

# How to Budget

# Tips for Rate Structures

## Think ‘Service Centers’

### How are you allocating your service center?

For companies where people wear many hats (think **Labor Hours**), Second preference might be Labor Dollars. Costs must be allocated on a causal/beneficial relationship.

- Commons SVCs (Facility or multiple Facility, IT/MIS, Contracts, etc.)
- How do you handle working from home?
- Does it have a material impact on the allocation?
- Make a decision and **be consistent**.



# Tips for Rate Structures

## Review your Indirect Cost Pools

Look at what costs are going in the **G&A Pool** – what can be reclassified? Business Development (BD) to G&A vs. Bid & Proposal (B&P) for Overhead and Direct Personnel.

- Payroll costs is this G&A or can this go in the Fringe Pool?
- Training and education is this all for G&A?
- Human Resources, can this be allocated to everyone like IT?

**Who is charging to G&A and is that correct?**

**BD time for Overhead personnel** – where are you booking those costs?

# Tips for Rate Structures

## Review your Indirect Cost Pools

- **Performance based bonus dollars** – Follow the labor or in the fringe pool?
- **Recruiting Costs** – Follow the labor. This will likely lead to most of the cost in the Overhead Pool(s).
- **Be consistent when applying like costs.** Office supplies and Facility Service Center (CAS 401).



You have a  
great system,  
**LEVERAGE IT!**

# Tips for Rate Structures

## Review your Indirect Cost Pools

### If you are not CAS Covered (have a Disclosure Statement):

- Take your budgeted costs and play “What If” scenarios in Excel. Upload that into your accounting system to measure and track your performance against budgeted costs.
- Monitor budgeted rates to actuals. Remember if you become materially different, you should try to adjust spending to get back on track but if that will not work, you should resubmit your revised budgeted indirect rates. Then adjust cumulative year to date costs billed to the new budgeted rates.
- Run Project Cost Ledgers on a monthly basis to monitor Actuals vs. Budgeted.

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# Questions/Open Discussion



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to WIN!**

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**Thank you!**



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