

Indirect Rate Setup Worksheet

A step-by-step guide to establishing DCAA-compliant indirect rate pools for government contractors. Covers fringe, overhead, G&A, and material handling rates with fillable calculation tables.

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WHY INDIRECT RATES MATTER

Indirect rates determine how much of your overhead, benefits, and general business costs you can recover on government contracts. Rates that are too high make you uncompetitive. Rates that are too low leave money on the table. Rates that are inconsistent or unsupported trigger DCAA audit findings. Getting this right is the difference between profit and loss on every contract.

1 Choose Your Rate Structure

Most government contractors use a three-pool structure (fringe, overhead, G&A;). Your structure depends on your size, contract mix, and how you operate. The key rule: once you choose a structure, apply it consistently (CAS 401).

Structure	Pools	Best For	Complexity
Two-Pool	Fringe + G&A	Very small firms, 1-2 contracts, <\$1M	Low
Three-Pool (Standard)	Fringe + Overhead + G&A	Most small GovCon firms, \$1-15M	Medium
Four-Pool	Fringe + Overhead + G&A + Material Handling	Firms with significant material purchases	Medium-High
Multi-Site	Site-specific overhead pools + Fringe + G&A	Multiple locations with different cost structures	High

Your selected structure:

Structure: _____

2 Fringe Benefit Rate

Fringe captures employer-paid benefits and payroll taxes on top of base salaries. This rate applies to both direct and indirect labor. Typical range: 30-45% of direct labor dollars.

Fringe Pool Components (what goes in the numerator)

- Employer FICA (Social Security 6.2% + Medicare 1.45%)
- Federal/state unemployment taxes (FUTA/SUTA)
- Health insurance (employer portion)
- Dental and vision insurance (employer portion)
- Retirement/401(k) employer match or contribution
- Life and disability insurance (employer portion)
- Workers compensation insurance
- Paid time off accrual (vacation, sick, personal days)
CAS 408: compensated absences must be accrued, not expensed when taken
- Holiday pay
- Tuition reimbursement / training (if employer-paid benefit)

Fringe Rate Calculation

- A. Total Fringe Pool Costs** (sum of all checked items above) \$ _____
- B. Total Labor Dollars (Base)** (all salaries: direct + indirect) \$ _____

FRINGE RATE FORMULA

Fringe Rate = (A) Total Fringe Pool / (B) Total Labor Base x 100 = _____% | Example: \$180,000 fringe / \$500,000 total labor = 36.0% fringe rate

Your Fringe Rate: $A / B \times 100 =$ \$ _____

3 Overhead Rate

Overhead captures costs related to the physical work environment and supervision of direct labor. These costs support contract work but cannot be charged to a single contract. Typical range: 80-150% of direct labor dollars.

Overhead Pool Components (numerator)

- Indirect labor (supervisors, managers supporting direct work)
- Fringe on indirect labor (applied at the fringe rate calculated above)
- Rent / lease for work facilities

- Utilities (electric, water, gas, internet at work site)
- Office supplies and equipment (non-capital)
- Depreciation on capital assets used for contract work
CAS 409: use straight-line or other acceptable method, applied consistently
- IT costs (hardware, software, support for contract work)
- Telephone and communications
- Repairs and maintenance (facilities and equipment)
- Small tools and consumables
- Quality assurance / quality control labor and costs

Overhead Rate Calculation

C. Total Overhead Pool Costs (sum of all overhead items) \$ _____

D. Direct Labor Dollars (Base) (direct labor only, not indirect) \$ _____

OVERHEAD RATE FORMULA

Overhead Rate = (C) Total Overhead Pool / (D) Direct Labor Base x 100 = _____% | Example: \$300,000 overhead / \$250,000 direct labor = 120.0% overhead rate

Your Overhead Rate: $C / D \times 100 =$ \$ _____

4 General & Administrative (G&A) Rate

G&A; captures costs of running the overall business that benefit all contracts and activities. CAS 410 governs G&A; allocation. Typical range: 10-25% of total cost input.

G&A Pool Components (numerator)

- Executive and management salaries (+ fringe)
- Accounting and finance staff (+ fringe)
- Human resources staff (+ fringe)
- Legal fees (allowable portions only)
FAR 31.205-33: legal costs for contract disputes may be unallowable

- Audit and tax preparation fees
- Business development and B&P costs
Bid and proposal costs are allowable under FAR 31.205-18
- Marketing costs (allowable portions only)
FAR 31.205-1: recruitment ads OK, general advertising limited
- Insurance (general liability, E&O, D&O)
CAS 416: insurance costs allocated to the periods they cover
- Corporate rent (if separate from work facilities)
- Professional memberships and subscriptions (business-related)
- Bank fees and financial service charges
- Software licenses (corporate: accounting, HR, CRM)

G&A Rate Calculation

E. Total G&A Pool Costs (sum of all G&A items) \$ _____

F. Total Cost Input (Base) (all direct + indirect costs, excl. G&A) \$ _____

G&A RATE FORMULA (Total Cost Input Method — CAS 410)

G&A Rate = (E) Total G&A Pool / (F) Total Cost Input x 100 = _____% | Total Cost Input = Direct Labor + Fringe on DL + Overhead on DL + Direct Material + Direct Subcontracts + Direct ODCs | Example: \$150,000 G&A / \$1,200,000 total cost input = 12.5% G&A rate

Your G&A Rate: $E / F \times 100 =$ \$ _____

5 Material Handling Rate (If Applicable)

Only establish this pool if you have significant material procurement costs and a purchasing/receiving function. Most professional services contractors do not need this pool. Typical range: 1-5% of direct material costs.

- Purchasing department labor (+ fringe)
- Receiving and inspection labor (+ fringe)
- Warehousing and storage costs
- Shipping and handling costs (inbound)

Material tracking system costs

G. Total Material Handling Pool \$ _____

H. Direct Material Costs (Base) \$ _____

Material Handling Rate: $G / H \times 100 =$ \$ _____

6 Your Rate Summary

Rate	Your Rate	Typical Range	Allocation Base
Fringe	_____ %	30 - 45%	Total labor (direct + indirect)
Overhead	_____ %	80 - 150%	Direct labor dollars
G&A	_____ %	10 - 25%	Total cost input
Material Handling	_____ %	1 - 5%	Direct material costs
FCCM (CAS 414)	_____ %	0.5 - 2%	Net book value of assets

7 Provisional vs. Final Rates

HOW BILLING WORKS

You bill contracts using PROVISIONAL rates (estimates approved by the contracting officer). After your fiscal year ends, you submit an Incurred Cost Submission (ICS) showing your ACTUAL costs. DCAA audits the ICS and establishes FINAL rates. The difference between provisional and final billing creates an adjustment: you either owe money back or the government owes you. Monitor monthly to minimize surprises. A 5-10% variance between provisional and actual triggers auditor attention.

Provisional Rate Monitoring (fill in monthly):

Month	Provisional Fringe	Actual Fringe	Provisional OH	Actual OH	Provisional G&A	Actual G&A
Jan						
Feb						
Mar						
Apr						
May						

Jun						
Jul						
Aug						
Sep						
Oct						
Nov						
Dec						

Common Mistakes That Trigger DCAA Findings

Rate shopping (CAS 402 violation)

Choosing different allocation bases for different contracts to minimize rates. Must use the same base for similar cost objectives consistently.

Changing allocation methods without disclosure (CAS 401)

Switching from direct labor base to total cost input mid-year without notifying the contracting officer and amending your Disclosure Statement.

Including unallowable costs in rate pools

Entertainment, alcohol, lobbying costs in overhead or G&A inflate rates and trigger penalties under FAR 52.242-3.

Not calculating rates monthly

Annual-only calculation hides variance trends. Large year-end adjustments create cash flow problems and auditor scrutiny.

Misallocating costs between pools

Executive salary in overhead instead of G&A, or IT costs split inconsistently. CAS 418 requires logical, consistent allocation.

No written methodology

DCAA expects documented rate development methodology. Without written procedures, any allocation method can be challenged.

NEED HELP SETTING UP YOUR RATE STRUCTURE?

Amerifusion Bookkeeping helps government contractors establish DCAA-compliant indirect rate structures, set provisional rates, and prepare for incurred cost submissions. CPA-managed, built for small GovCon businesses. Schedule a free consultation at amerifusionbookkeeping.com/contact

Your GovCon Bookkeeping Toolkit:

1. DCAA Accounting System Readiness Checklist
- >>> 2. Indirect Rate Setup Worksheet**
3. Unallowable Cost Quick Reference
4. ICS Preparation Checklist
5. GovCon Chart of Accounts Template

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