



Alliance for the Betterment of  
Citizens with Disabilities

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## Empowering People: Providers Shaping Policies

### General and Administrative Expenses in the IDD Service System

The glue that holds the agency together

In the labor-intensive industry of the I/DD service delivery system, direct labor dominates operational expenses, overshadowing General and Administrative (G & A) expenses. Additionally, G & A expenses are often undervalued due to a flawed belief that the best nonprofits and human service agencies are those that spend the least on overhead, assuming that low administrative costs equate to high program impact.

G & A expenses ensure day-to-day operations run smoothly, efficiently, and effectively, support infrastructure, ensure compliance, and enable strategic growth. Neglecting G&A investments can lead to operational inefficiencies and, ironically, lower-quality programs.

### The Expansion of G & A Functions and Activities in the IDD Service System

Agencies are more vulnerable to profits and losses

Under New Jersey's medium risk contract-based system funded by state-only dollars, agency G & A was not to exceed 22% of revenue. The transition to a FFS based system brought not only federal Medicaid dollars but new, analogous regulations requiring huge investments in documentation and billing, internal audits and inspections, corporate compliance, infrastructure, quality control, electronic medical records, and good governance. In addition, the uncertain revenue world of Medicaid FFS stretched liability out into the future.

Medicaid FFS also codified the person-centered, community-based, quality of life home and community-based service (HCBS) system. HCBS demands from staff additional skills and qualifications such as adaptability, confidence, spoken and written communication skills, competency development, innovation, knowledge, and leadership. To develop and support a more sophisticated direct care workforce, comply with Medicaid HCBS requirements, and remain viable as organizations, agencies make significant investments in education, training, technology, oversight, and labor management.

But G & A aren't solely concerned with necessary costs. In this new high-risk competitive system, G & A must also help the agency manage risks and seize new opportunities. Therefore, indiscriminate cuts to G & A could lead to decreased innovation, inability to scale during growth phases, decreased investment in infrastructure, and inability to respond to market changes.

## DDD Provider Agencies are Diverse

Arbitrary across the board percentages do not account for size and complexity of the agency. Small firms often have higher G & A rates relative to their size, whereas larger firms benefit from economies of scale; while the types of expenses are similar, the percentage of revenue dedicated to G & A is vastly different. In addition, agencies which provide multiple services have a higher G & A as a percentage of revenue due to broader management needs and potentially higher compliance overhead compared to agencies which provide single services because administrative functions are concentrated and streamlined for one primary offering.

### Conclusion

Productive overhead must be right sized by the agency while policy makers should focus on impact and transparency. As the saying goes, “no margin, no mission.”<sup>1</sup>

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<sup>1</sup> Sister Irena Klaus, Daughters of Charity National Health System