The Cost Principle at 31.205-35 addresses the allowability of employee relocation costs. It defines the term “relocation” as a permanent change of assigned work location for a period of 12 months or more. The Cost Principle is a rather complex set of allowability rules, made even more so by the fact that a corporate relocation inevitably involves a string of vendor payments and reimbursements of employee expense reports that can often cross fiscal years. The duration of the expenses and the complex allowability criteria leads to the unfortunate reality that, often, contractors cannot know with certainty the allowability of the costs they are incurring until after all the expenses are paid.

And that’s assuming it is a “normal” employee relocation that is charged to overhead in accordance with standard company processes and procedures. Few relocations are “normal”. It seems that nearly every employee seeks exceptions to corporate relocation standards because they have some special circumstances they think justify an exception. For example:

- How much can I get reimbursed for lodging expense if I used frequent stay hotel points?

- Can I get reimbursed for relocating my mother-in-law along with my family?

- My temporary lodging will be with family friends. How much lodging reimbursement do I receive for that?

- In addition to transporting my family cars, I have a motor home. Will you pay for transporting it?

- I’m not moving to my new work location. I’m moving to Reno—or at least my family is. I’ll rent an apartment near work and commute home on weekends. Can we make that happen?

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I'm selling my home but I'm not buying a new one. Instead, I'll buy an RV and live in the office parking lot. How much of my RV purchase price is covered?

Et cetera.

In summary, relocations are hard to manage and they are difficult to make accurate allowability determinations for. It requires a partnership between HR, A/P, and Compliance. It requires good communications across disparate functional silos. Conversely, it's easy to get things bollixed-up, and to claim costs that are actually unallowable.

Many contractors know to check the employee termination records to see whether a relocated employee voluntarily departed within 12 months of the relocation, which triggers a credit to any previously claimed allowable relocation expenses. Fewer contractors know to add an automatic payback requirement to their employee relocation agreements, so as to ensure they are made whole from a too-quick departure. But normally that's as far as it goes. Almost no contractor performs all the checks to mitigate all the risks, because it's normally unnecessary and the costs outweigh any possible benefit.

The risks go up when relocations are direct-charged to a contract, and when there are specific contract terms that govern employee travel, long-term assignments, and permanent relocations. In such cases, the customer is paying dollar-for-dollar and expects the contractor to comply *exactly* with contract requirements. Remember, the cost allowability criteria at 31.201-2 clearly state that a cost is allowable only when it complies with the terms of a contract. Consequently, direct-charged relocations are riskier than indirectly charged ones. In such circumstances, the normal corporate relocation compliance checks simply won't cut it, because getting the allowability wrong could lead to allegations that False Claims were submitted.

That's not good, as Parsons Government Services, Inc. (a subsidiary of the Parsons Corporation) learned recently.

The Department of Justice recently **announced** that Parsons had agreed to pay $3.8 million to settle allegations that it violated the False Claims Act by billing the Department of Energy "for ineligible or inflated short-term and long-term employee relocation costs in connection with its contract on the DOE Salt Waste Processing Facility Project (SWPF) at the DOE Savannah River Site in Aiken, South Carolina."

According to the DOJ press release—

Since Sept. 1, 2002, Parsons has been the primary construction contractor on the DOE's SWPF project at the Savannah River Site. Pursuant to the terms of the SWPF contract, Parsons was entitled to be reimbursed for the payments it made to eligible employees for moving, meals, lodging and transportation expenses incurred when the employees were relocated or transferred by Parsons to work on the SWPF project in Aiken. In order to be entitled to reimbursement by the DOE, however, Parsons was required to take steps to ensure that the employees met certain contractual requirements of eligibility, such as maintaining a permanent residence at the location from which they were transferred. The United States alleged that Parsons sought and obtained reimbursement for these relocation expenses under the SWPF contract even for employees it knew did not qualify for these payments under the terms of the contract.

As we interpret the foregoing paragraph, it seems that Parson's DOE contract contemplated that employees would be transferred to South Carolina on a long-term basis. That transfer would be something short of a full relocation, since the employees would be expected to maintain their original homes. Those transfers were not temporary duty business travel, but neither were they traditional relocations in the sense that an entire family would literally relocate to South Carolina—though we note that the transfers would meet the FAR definition of "relocation" if they involved a permanent change of assigned work location for a period of 12 months or more. We've seen them called "long-term assignments" in the past.

Regardless of what was going on, the DOE contract permitted Parsons to direct-bill some or all of those relocation/transfer costs, so long as certain eligibility criteria were met. Allegedly, Parsons billed costs to DOE for employees who had not met all the eligibility criteria. That was a problem that cost Parsons $3.8 million to fix.

Parsons denied all wrongdoing, but stated it was making a business decision to settle instead of racking up attorney fees in a protracted defense. If so, there must have been a lot of money at stake, because $3.8 million could have paid for a lot of attorney hours.

The lesson here is simply that getting the allowability of relocation-related expenses right is a hard thing to do, and when those costs are direct-charged to a contract with stringent eligibility criteria, the risk goes up. Appropriate compliance checks should be deployed to mitigate the risk associated with this type of cost. As Parsons would likely tell you, those additional compliance checks might well pay for themselves.