From time to time, we remind readers that government accounting is hard, and that consequences for getting it wrong tend to be a bit onerous. This is one of those times.

We have written about transactions with affiliated entities before. Sometimes they're called "inter-company" transactions, and sometimes they are called "inter-divisional" transactions, and sometimes they are called "affiliated transactions"—but we prefer to call them "inter-organizational" transfers (IOTs). Here's **a link** to one of our previous articles that gives background on the subject.

A key feature of such transactions is that (almost but not quite always) they are "make" and not "buy" transactions, meaning that they should not be treated as being arms-length transactions between two separate entities, but rather as being a single transaction within one entity. Treatment as being a single transaction within one entity has ramifications for things such as execution of Certificates of Current Cost or Pricing Data and contract type. (For example, you probably don't want to enter into a FFP contract with an affiliated entity.)

It also impacts how profit is calculated and billed to the government customer.

It is a fundamental precept of such transactions that profit is recognized once and once only, unless an exception applies. The performing entity should not apply profit to the transaction's costs if the requiring entity is also applying profit to the costs. When the proposal is submitted, profit should be calculated once. When the invoices are submitted, profit should be calculated once.

Even if the affiliated entities each recognize profit for their own internal reporting purposes, the official submissions to the government have to comply with the applicable government accounting rules. Compliance may require separate accounting entries or off-sheet adjustments, which is fine. That's why government accounting differs from financial accounting. Government accounting consists of knowing which adjustments to make, and why—and then being able to explain those adjustments to a government auditor.

So here comes a brief story of what happens when somebody gets it wrong, when somebody

fails to comply with applicable government accounting rules. The story comes to us—as so many do—courtesy of the **Department of Justice** . Although the story is brief, the number of entities involved can make it confusing. Please try to pay attention to the players.

A joint venture, Mission Support Alliance, LLC (MSA) was formed to manage clean-up work at the Department of Energy's Hanford nuclear weapons site. It is a huge effort, one that requires several contractors working together, to manage. Originally formed in 2008, by Lockheed Martin Integrated Technology, LLC, Jacobs Engineering, and Wackenhut Services, the entity now appears to be run by Leidos. (Apparently, MSA was transferred from LMCO to Leidos in 2016 as part of the sale of LMCO's government services business.)

A couple of months after the deal between Lockheed Martin and Leidos was consummated, the DOE Inspector General issued an **audit report** that asserted that MSA had violated the terms of its contract and, among those alleged violations, had permitted an IT support subcontract to be awarded to Lockheed Martin Services, Inc. (LMSI) in which profit was (allegedly) counted twice. The DOE IG wrote—

The Department may have paid unnecessary fee or profit when acquiring IT support services. Specifically, we identified potential unallowable profit of more than $63.5 million. We determined this amount by comparing the costs incurred by LMSI from January 2010 through December 2014 to the actual amounts reimbursed to LMSI by various Hanford site prime contractors. Even though Federal Acquisition Regulation required that all noncommercial goods and services sold or transferred between affiliates were not subject to additional fee or profit, our analysis identified that profit appeared to have been included in rates charged by LMSI. Prior to contract award, the Department's contracting officer determined that the IT services provided through the Mission Support Contract were not commercial. According to Richland Operations Office officials, paying fee or profit for subcontracted work performed by LMSI amounted to both Lockheed Martin controlled organizations (MSA and LMSI) receiving fee or profit for the same work. Federal officials also told us that paying LMSI fee or profit for such work resulted in payments that amounted to total markups on LMSI's subcontracts in excess of its costs ranging from 1 to almost 7,000 percent. MSA disagreed with the Department's findings on the LMSI subcontract. At the time this report was issued, the Department and MSA were engaged in the resolution process to address the issue.

In addition, the IG reported that the auditors "determined that several MSA executives also held senior executive positions within Lockheed Martin Corporation," which "resulted in the appearance of a conflict of interest. Our review found that contracts may have been awarded that were not in the best interest of the government and that the department may have paid

higher costs than were necessary and allowable."

That was in 2016, and we assume the corporate entities resolved their issues because we can't find any more about the situation.

But this is one of those times where individuals have been held accountable for noncompliance with Federal contracting and government accounting rules. Let's continue the story.

As the DOE press release (link above) succinctly stated—

The Justice Department announced today that Richard A. Olsen agreed to pay $124,440 to resolve claims that he violated the False Claims Act by submitting inflated prices in connection with a subcontract between Mission Support Alliance, LLC (MSA), a prime contractor at the Department of Energy (DOE) Hanford Nuclear Reservation, and Lockheed Martin Services, Inc. (LMSI), a subsidiary of Lockheed Martin Corporation (LMC). … The United States alleged that under the terms of MSA's contract with DOE, LMSI, as an affiliate of MSA, was not entitled to receive profit on the work it performed for MSA. The United States further alleged that Mr. Olsen, while he was an employee of LMC working for MSA, falsely represented to DOE that the LMSI subcontract did not include any profit. Mr. Olsen allegedly received a payment of at least $41,480 from LMC for obtaining DOE's consent to the inflated LMSI subcontract. 'This settlement requires Mr. Olsen to pay back three times the amount he received from the alleged fraud and holds Mr. Olsen accountable for his actions,' said Joseph H. Harrington, United States Attorney for the Eastern District of Washington.

The Tri-City Herald had more details. In a story authored by Annette Cary, we learned that Mr. Olsen was Finance Vice President for MSA, operating as MSA's Chief Financial Officer. According to **the story** , the DOE alleged that Mr. Olsen "received at least $41,480 in kickbacks from Lockheed Martin to improperly obtain or reward favorable treatment for the Lockheed Martin subsidiary. Olsen helped draft and submit false statement[s] to the Department of Energy regarding labor rates charged by Lockheed Martin and Lockheed Martin's anticipated profit for providing IT services at Hanford … Prosecutors alleged that Olsen was involved with submitting false and inflated claims to DOE between March 2010 and Feb. 21, 2012, and received kickbacks during that time."

Mr. Olsen agreed to pay three times the amount he allegedly received from LMCO and to cooperate with investigators. Which may mean that we were overly optimistic when we wrote, a few paragraphs above, that “we assume the corporate entities resolved their issues.”

Which brings us back full circle to the opening of this article: government accounting is hard; consequences for getting it wrong tend to be a bit onerous. Not only for contractors, but sometimes also for individual high-level employees.

We suggest that, before you *assume* you know what you are doing in the complex world of government contracting, you consider checking with somebody who *knows*, because you probably don’t want to get it wrong.