There is no Department of Energy site about which we have written more than the Hanford site. Once critical to the nation’s security, home of the plutonium that was used in the bomb that ended World War II, the nearly 600-mile site in southeastern Washington now seems to breed more corruption than isotopes.

A few months ago (August, 2018) we **wrote about** a reported settlement between the US Government and the former Vice President of Finance for Mission Support Alliance (MSA), which was a joint venture between Lockheed Martin Integrated Technology, LLC, Jacobs Engineering, and Wackenhut Services—though the entity now appears to be run by Leidos.

The issues go back to a 2016 audit report by the DOE Office of Inspector General. If you want to understand the history and players, click on the link in the paragraph above.

In that 2018 article, we wrote “we assume the corporate entities resolved their issues because we can’t find any more about the situation.”

Well, that may have been a trifle optimistic.

Now comes **word** that the corporate entities likely did not resolve their issues, because the Department of Justice has filed a suit under the False Claims Act, alleging that MSA, Lockheed Martin Corporation (LMC), Lockheed Martin Services Inc. (LMSI), and Jorge Francisco Armijo (current Vice President of LMC, who served as a President of MSA during the time period in which the wrongdoing is alleged to have taken place) conspired to make false statements, submit invoices containing inflated costs associated with inter-organizational transfers between affiliated entities under a common control, and to violate the Anti-Kickback Act by making large payments to MSA executives “in order to obtain improper favorable treatment from MSA with respect to the award of the LMSI subcontract at the inflated rates.”

Yeah, that’s going to be expensive.

So here's the thing:

Companies that treat inter-organizational transactions between affiliated entities under a common control as if they are arms-length transactions are making a big mistake. *Huge*.

If you are dealing with affiliated entities, and you are billing the inter-organizational transfer costs to a government contract, then you've got to get this right. FAR 31.205-26(e) establishes the rules for how the cost accounting is to be done. With only one exception, such costs must be transferred on the basis of actual, allowable, costs. (We've written about the exception on our blog, if you're interested.)

People are going to try to tell you that their CPSR rules require inter-organizational transfers to be treated as if they are arms-length transactions, in terms of contract type, or prime contract flowdowns, or whatnot. Don't let them persuade you. Don't let them award anything other than cost-plus-no-fee subcontracts (unless the sole exception applies).

Better yet, don't award a subcontract. *Period*. Instead, create a separate vehicle for transferring work tasks, budgets, and associated costs, between the two organizations under common control.

We've seen this too many times now. If you haven't gotten the message then you are not competently performing your job. Follow FAR 31.205-26(e) or risk the same fate as has befallen these Hanford site contractors.