



Invoicing the Government: Or in Other Words – Show me the Money! Part 1

No matter where you find yourself in the government acquisition environment, for any business, cash is king. At ReliAscent, while we are experts at proposal pricing, contract compliance, and government contract accounting, we don't lose sight of the importance of billing the government or prime contractors accurately, in a timely manner, and collecting what's due. Since invoicing is the critical first step in the revenue process, misunderstanding or misapplying the process can result in serious problems with cash flow. The goal of this series of whitepapers is to bring to light the important issues and intricacies that are associated with Federal Government contracts and grants. This important, and somewhat complex, process can often be overlooked by government awardees.

Accrual vs Cash Accounting

The government requires contractors having an approved accounting system to operate it on an accrual basis. While this distinction can be a bit academic to explain, other than reconciling billings to the accounting system, it doesn't affect the billing process in a material way. While accrual accounting rules may permit what can be billed, the billings and collection process occurs after the accounting crank is turned.

Grants/Contract Type Specifies Billing Process

Your prime of subcontract should articulate in some detail the processes used to bill your prime contractor or the government. In government contracts this is usually explained in a great deal of detail. In subcontracts, you may have to dig around for a general contract provision in a referenced section of the subcontract. Many large subcontractors refer you to these clauses on their websites.

Government grants, depending on the agency, have specific methods for billing or using a drawdown system where needed funds can be immediately accessed. Subgrantees usually request funding directly from the prime grantee with methods articulated in the subgrant document.

Firm Fixed-Price (FFP) Contracts

It's been our experience that with most short term FFP contracts or subcontracts (i.e. lump-sum contracts), billing milestones are established of equal value over any number of milestones. This is particularly true for Phase 1 Small Business Innovation Research (SBIR) contracts. This can be a risk to cashflow if your costs, primarily payroll, outpace the frequency of getting paid on the milestone schedules.

Non-SBIR contracts and subcontracts (and some SBIR contracts, if you're clever) may offer an opportunity to "front-load" your milestone payments in a way that helps you remain "cashflow positive" throughout the contract.



For government contracts, the billing schedule is in Section F of the contract with detailed billing instructions in section G. Billing usually involves submitting online using the government's Wide Area WorkFlow website (more about WAWF later).

Time and Material Contracts

For a number of years the Federal Acquisition Regulations have stated that Time and Material (T&M) contracts are the least desirable. Very few government contracts use this method and if they do, the invoicing process is likely articulated in the contract. Billing typically is based on labor hours times a pre-negotiated rate per individual or labor category. "Material" meaning all non-labor costs where an administrative burden can be charged, usually in the form of G&A.

Prime contractors are still allowed to use T&M subcontracts, the billing details of which are typically similar but not identical for all prime contractors. Billing terms may allow you to bill as frequently as weekly. You may also be directed to use the prime contractor's timekeeping system as a way to streamline the billing process.

Cost-Plus Contracts

Cost-plus or cost-reimbursement contracts can be billed as frequently as weekly if you are a small business (see FAR 52.216-7(c)). Billing is based on actual costs of direct work, plus the application of pre-approved indirect billing rates, plus fee.

The government expects cumulative billing amounts to be adjusted annually to account for annually approved indirect billing rates (Provisional Billing Rates per FAR 42.704) actual indirect rates incurred for prior annual periods (FAR 52.216-7(d)).

The government prefers the form SF1034/SF1035 be used which reflects a contract's billing by cost element for the current period plus the cumulative billed amount to date.

Each bill may be subject to review and approval by the Defense Contract Audit Agency (DCAA). The contractor is also expected to adjust billings in accordance with additional clauses such as the limitation of fee FAR 52.216-8, and cost and funding limitations at FAR 52.232-20 and -22.

Forming a cost-plus type contract between a prime contractor and a subcontractor is unusual due to the prime contractor's responsibility to scrutinize a subcontractor's sensitive financial information. This area of contracting and billing, while not insurmountable, is fraught with complications.

The best way to understand the billing process is to read the contract.

Contract Checklist

Government contracts –

Section B – Contract Type. How much to bill per milestone/Contract Line Item (CLIN)?

Section F – When it is due?

Section G – Describes the billing process (WAWF)

Commercial Contracts -

See general or special terms and conditions



Instructions may be on the Prime contractor's website

Let us know if you have any questions regarding any specific billing issues you may have.

Next time: Invoicing Services Part 2. WAWF, grants, tracking accounts receivables, other financing methods

ReliAscent, LLC is your one-stop source for all of your government-compliant accounting, timekeeping, contract management, proposal support and government invoicing needs. **Call today at 303-999-3802 to schedule one of our qualified team members to assist you.**

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Boulder // 5710 Flatiron Pkwy., Ste B // Boulder, CO 80301 **Denver** // 1777 S. Harrison St., Ste 350 // Denver, CO 80210

303.999.3800

www.reliascent.com