

# Contract Construction Examples

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There are three primary circumstances in which the drafter of a contract for tangible personal property should account for item unique identification (IUID) requirements:

- 1) The procurement of end items of tangible personal property with a unit acquisition cost equal to or greater than \$5,000.00;
- 2) The procurement of end items of tangible personal property with a unit acquisition cost less than \$5,000.00 that are Department of Defense (DoD) serially managed, mission essential, controlled inventory or designated by the program manager; or
- 3) The procurement of embedded items of tangible personal property that require IUID because they are DoD serially managed.

IUID qualifying items with a unit acquisition cost less than \$5,000.00 must be listed by the procurement contracting officer (PCO) in DFARS 252.211-7003 (c)(1)(ii).

Embedded items do not have a unit acquisition cost identified in the contract because they are subassemblies, components, or parts embedded within a priced line item in the contract. That is, the cost of an embedded item is captured by its parent end item's contract cost.

When procuring DoD serially managed embedded items it is important to note that each IUID-qualifying embedded item must be identified by the Government in an attachment to the contract as requiring IUID. This may be accomplished most easily by the use of non-priced subline item numbers (SLINs) in Section B or via exhibits using exhibit line item numbers (ELINs). The use of exhibits may be more advantageous when the quantity of items to be marked would result in a long list of contract SLINs in Section B. Some key points to remember when using ELINs to identify IUID-qualifying items are:

- Establish a contract line item number (CLIN) for the end ("parent") item. Within the CLIN refer to the exhibit containing the list of IUID-qualifying embedded parts using ELINs to identify each one. One CLIN may refer to multiple ELINs;
- Identify ELINs individually; that is, assume a single ELIN is applicable to a single embedded part; and
- Each ELIN should apply to a single CLIN.

For additional information refer to PGI 204.71 – Uniform Contract Line Item Numbering System at [http://www.acq.osd.mil/dpap/dars/dfars/html/current/204\\_71.htm](http://www.acq.osd.mil/dpap/dars/dfars/html/current/204_71.htm).

This document will use the fictitious end item, Inertial Guidance System (IGS), NSN 4589-01-452-7729, with fictitious parts data, to provide examples of proper and improper contract construction for *Section B – Supplies or Services and Prices* as pertains to IUID.

The unit acquisition cost of the IGS is \$86,500.00 and the item is tracked serially. The IGS end item in this example is a self-contained, metal, cylindrical container 12 inches in diameter, 16 inches tall, and encompassing the interworking IGS components that serve the single function of inertial guidance for an aircraft. The IGS can be removed in entirety as a unit for maintenance and/or replacement, but it functions as a subassembly of the larger avionics system that supports an aircraft.

All components of the IGS are DoD serially managed. Because all DoD serially managed items require IUID (regardless of cost), all components of the IGS meet the criteria for IUID.

While the end item and its component data are fictitious, the erroneous contract formats shown exemplify actual format types found in numbers of contracts across DoD. Such formatting can and does adversely impact financial, accounting, maintenance, warehousing and distribution records, and associated programs. Using the same parts data, acceptable contract formatting for *Section B – Supplies or Services and Prices* compliant with DoD policy is also demonstrated.

It is important to remember that the central issue of proper contract formatting with respect to IUID (but not limited to IUID) lies in the DoD policy requirement to use Wide Area Workflow – Receipt and Acceptance (WAWF-RA) to capture and record specified data in a standardized format usable by electronic business systems for items delivered by contractors to the Government.

WAWF-RA possesses numerous advantages over manual receipt methods. One of the major advantages is the rapid, accurate, and comprehensive electronic distribution of information about items (including those with IUID) received into Government accountability. However, information captured that is incomplete or incorrect significantly and adversely affects the ability of many people working within DoD organizations, commands, and activities to make sound financial, managerial, and operational decisions. The ensuing damage to programmatic and warfighter support can be timely and costly to correct and may linger throughout the operational lifetime of the item(s) involved.

### **Circumstances #1 and #2<sup>1</sup> – Acquisition of class II consumables or class IX repair parts over \$5,000 and less than \$5,000 being delivered to the Government as end items.**

In this scenario a contract is being awarded to procure multiple components for the fictitious IGS to be used to conduct maintenance in the future. Each of the components

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<sup>1</sup> These circumstances are listed at the beginning of this document.

has a unit acquisition cost over \$5,000.00, except the \$4,000 Attitude Referential Display. All items are DoD serially managed. Although the Attitude Referential Display is under \$5,000 each, because it is DoD serially managed, it also requires IUID compliance. Because it is under \$5,000, this CLIN must be noted by the PCO in paragraph (c)(1)(ii) of the contract's DFARS 252.211-7003 clause.

Figure 1 shows one example of a properly constructed *Section B – Supplies or Services and Prices* contract section while Figure 3 and Figure 4 demonstrate two common errors.

**Figure 1 – Proper contract formatting for Section B**

SECTION B – Supplies or Services and Prices						N00###-09-D-0014 Page 2 of 18
ITEM NO.	SUPPLIES / SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT	
0001	<b>Optical Gyroscope Display</b> NSN: 1234-56-789-0123 P/N: IOGD-12345 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 17 April 2010	15	Each	\$7,150.00	\$ 107,250.00	
0002	<b>High Speed Gimbaled Rotor</b> NSN: 2345-67-891-0123 P/N: WHS-657 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 17 April 2010	15	Each	\$8,276.00	\$ 124,140.00	
0003	<b>Ruggedized Accelerometer</b> NSN: 3456-78-901-2345 P/N: RA-7755336 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 17 April 2010	15	Each	\$6,517.00	\$ 97,755.00	
0004	<b>Attitude Referential Display</b> NSN: 4567-89-012-3456 P/N: AHRD-509257 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 04 May 2010	12	Each	\$4,000.00	\$ 48,000.00	
0005	<b>MEMS IMU</b> NSN: 5678-90-123-4567 P/N: MI-765F87 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 04 May 2010	12	Each	\$ 5,335.00	\$ 64,020.00	
0006	<b>Inertial Sensor Unit</b> NSN: 6789-01-234-5678 P/N: ISU-765893 Deliver to: Hershey AFB – Bldg 101 Delivery Date: 04 May 2010	12	Each	\$ 8,689.00	\$ 104,268.00	
0007	<b>D/A Transfer Junction</b> NSN: 7890-12-345-6789 P/N: OTJ-7659878890 Deliver to: USAF Validation Lab – Norcane CA Delivery Date: 23 February 2010	3	Each	\$ 7,800.00	\$ 23,400.00	
Total					\$568,833.00	

Figure 1 shows a properly constructed Section B of a DoD contract with respect to properly describing the CLINs. Each CLIN shown meets all four criteria<sup>2</sup> for a correctly written CLIN as defined in DFARS 204.7103. As each CLIN is received into WAWF-RA, the unique item identifier (UII) and associated pedigree data (date of receipt, unit acquisition price, unit of measure, etc.) will be correctly captured for each deliverable.

**Circumstances #1 and #3<sup>3</sup> – Acquisition of a major end item with unit acquisition cost equal to or greater than \$5,000.00 containing embedded components, sub-components, assemblies or sub-assemblies also requiring IUID.**

In this scenario the IGS, as an end item, would be identified as a CLIN within Section B of the contract with reference to an exhibit defining specific IUID embedded parts to be marked. The exhibit would clearly define and communicate the requirement to mark identified component parts with IUID (see Figure 2).

Figure 2 demonstrates an acceptable method to define and identify IUID requirements for an item of tangible personal property that also has components, sub-components, assemblies or sub-assemblies that require IUID marking and data capture (i.e., Circumstance 3). In this instance the end item meets one of the requirements of DFARS 252.211-7003 (unit cost equal to or greater than \$5,000.00) and is identified in *Section B – Supplies or Services and Prices* of the contract under its own CLIN.

**Figure 2 – Proper contract formatting for Section B when procuring end item Section B – Supplies or services and prices**

SECTION B – Supplies or Services and Prices					
ITEM NO.	SUPPLIES / SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	<b>Inertial Guidance System</b> NSN: 4589-01-452-7729 P/N: IGS 34A57-Z Deliver to Hershey AFB – Bldg 101 Delivery Date: 21 May 2010	10	Each	\$86,500.00	\$ 865,000.00
	See Exhibit “A” for breakout of embedded components, sub-components, assemblies, and sub-assemblies that also require IUID marking.				
	Total				\$865,000.00

<sup>2</sup> The four criteria are: single unit price, separately identifiable, separate delivery schedule, and single accounting classification citation.

<sup>3</sup> These circumstances are listed at the beginning of this document.

**Exhibit A** – Breakout of Inertial Guidance System NSN 4589-01-452-7729  
showing Item Unique Identification (IUID) marking requirements.

Note: ELINs XX01 through and including XX07 shall be marked with IUID in accordance with DFARS Clause 252.211-7003 (See Section I of this contract).

CLIN / ITEM	ELIN	COMPONENT / SUBCOMPONENT	QTY	UOM
<b>Inertial Guidance System</b> NSN: 4589-01-452-7729 P/N: IGS 34A57-Z Deliver to Hershey AFB – Bldg 101 Delivery Date: 21 May 2010	XX01	Part Name: Optical Gyroscope Display NSN: 1234-56-789-0123 Part Number: IOGD-12345	10	Each
	XX02	Part Name: High Speed Gimbaled Rotor NSN: 2345-67-891-0123 Part Number: WHS-657	10	Each
	XX03	Part Name: Ruggedized Accelerometer NSN: 3456-78-901-2345 Part Number: RA-7755336	10	Each
	XX04	Part Name: Attitude Referential Display NSN: 4567-89-012-3456 Part Number: AHRD-509257	10	Each
	XX05	Part Name: MEMS IMU NSN: 5678-90-123-4567 Part Number: MI-765F87	10	Each
	XX06	Part Name: Inertial Sensor Unit NSN: 6789-01-234-5678 Part Number: ISU-765893	10	Each
	XX07	Part Name: D/A Transfer Junction NSN: 7890-12-345-6789 Part Number: OTJ-7659878890	10	Each

To identify embedded components, sub-components, assemblies or sub-assemblies that meet the IUID criterion for embedded items (i.e., they are DoD serially managed) an exhibit is used listing all the parts and the quantity of each that the manufacturer will be required to mark. This method preserves the integrity of the CLIN while clearly and unambiguously identifying embedded parts that require IUID.

Figure 3 shows an example of an incorrectly structured *Section B – Supplies or Services and Prices* of a DoD contract. The CLINs - as written - suffer from multiple problems when compared to requirements defined in DFARS 204.7103. This example combines items by date of delivery into single CLINs resulting in three ‘lots’ of items.

Both CLINs 0001 and 0002 contain multiple items of separate form, fit, and function characteristics commingled within a single CLIN. This is inconsistent with the definition of CLIN and will result in ambiguous and incorrect data being recorded in WAWF-RA and the IUID Registry at time of Government acceptance unless corrected beforehand at unnecessary time and expense.

Second, because the requirement for separately identifiable items has been breached the unit of measure (UOM) used is ‘Lot’ to denote multiple unlike items embedded within the CLIN instead of the correct ‘Each.’ The use of the unit of measure ‘Lot’ is likely the most common error in contract construction in Section B with respect to IUID. It is also one of the most insidious with respect to correctly capturing and recording UII and associated pedigree data (among other data collected at time of receipt). Consequently,

under the column “UNIT PRICE” the aggregate price of the three separate items contained therein is erroneously listed.

**Figure 3 – Improper contract formatting for Section B (Example 1 of 2)**

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SECTION B – Supplies or Services and Prices					
ITEM NO.	SUPPLIES / SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	<b>Inertial Guidance System</b> NSN: 4589-01-452-7729 Various Parts; P/N - IOGD-12345, WHS-657, RA-7755336 Delivery to: Hershey AFB – Bldg 101 Delivery Date: 17 April 2010	1	<b>Lot</b>	\$ 329,145.00	\$ 329,145.00
0002	<b>Inertial Guidance System</b> NSN: 4589-01-452-7729 Various Parts; P/N - AHRD-509257, MI-765F87, ISU-765893 Delivery to: Hershey AFB – Bldg 101 Delivery Date: 04 May 2010	1	<b>Lot</b>	\$ 216,288.00	\$ 216,288.00
0003	<b>D/A Transfer Junction</b> NSN: 7890-12-345-6789 P/N: OTJ-7659878890 Deliver to: USAF Validation Lab – Norcane CA Delivery Date: 23 February 2010	1	<b>Lot</b>	\$ 23,400.00	\$ 23,400.00
Total					\$568,833.00

In the case of CLIN 0001 the unit price has been recorded in WAWF-RA as \$329,145.00 [(\$7,150.00 times 15) plus (\$8,276.00 times 15) plus (\$6,517.00 times 15) = \$329,145.00]. Because only one price per CLIN will be accepted into WAWF-RA each of the items accepted into Government ownership and accountability under CLIN 0001 will now be incorrectly listed in the DoD IUID Registry and other DoD financial and accounting records as \$329,145.00 each vs. the correct unit costs of \$7,150.00, \$8,276.00 and \$6,517.00 respectively for the three item types actually being delivered. The error in recording the unit acquisition cost will cascade through many information systems causing multiple managers and data users to make decisions based (at least in part) on a grossly incorrect unit price.

Figure 4 shows another example of an incorrectly structured *Section B – Supplies or Services and Prices* of a DoD contract. Again, the CLINs – as written – suffer from multiple problems when compared to requirements as defined in DFARS 204.7103. In this example the items are lumped by delivery location again resulting in two ‘lots’ of items.

The commingling of unlike items within a single CLIN and the incorrect use of ‘Lot’ as a unit of measure presents the same problems as found in the similar situation in Figure 3. Even if a separate delivery schedule or Contract Deliverable Requirements List (CDRL) is used in an attempt to clarify the construct of the CLINs the same problems accrue, as in

Figure 3 above, because WAWF-RA receives items into Government accountability by CLIN, SLIN, or ELIN. Confusion and ambiguity are also likely to occur in the minds of the contractor, any sub-contractors, and any Government receipt inspectors whose responsibility it is to properly inspect and receive into Government possession the items listed in *Section B* of this example.

Note that in this case the recorded unit acquisition cost for each ‘Lot’ is different from the example in Figure 1 above even though the total contract price remains correct at \$568,833.00. From this it can be seen that incorrectly structuring *Section B* can result in dramatically different and erroneous unit acquisition costs, none of which reflect the actual unit acquisition cost. These unit acquisition costs are recorded in WAWF-RA and will follow the item for its operational lifetime.

**Figure 4 – Improper contract formatting for Section B (Example 2 of 2)**

SECTION B – Supplies or Services and Prices					
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ITEM NO.	SUPPLIES / SERVICES	QUANTITY	UNIT	UNIT PRICE	AMOUNT
0001	<b>Inertial Guidance System</b> NSN: 4589-01-452-7729 Various Parts: P/N - IOGD-12345, WHS-657, RA-7755336, AHRD-509257, MI-765F87, ISU-765893 Delivery to: Hershey AFB – Bldg 101 Delivery Date: See CDRL A175	1	<b>Lot</b>	Various	\$ 545,433.00
0002	<b>D/A Transfer Junction</b> NSN: 7890-12-345-6789 P/N: OTJ-7659878890 Deliver to: USAF Validation Lab – Norcane CA Delivery Date: 23 February 2010	1	<b>Lot</b>	Various	\$ 23,400.00
Total					\$568,833.00