



Constructing Line Items

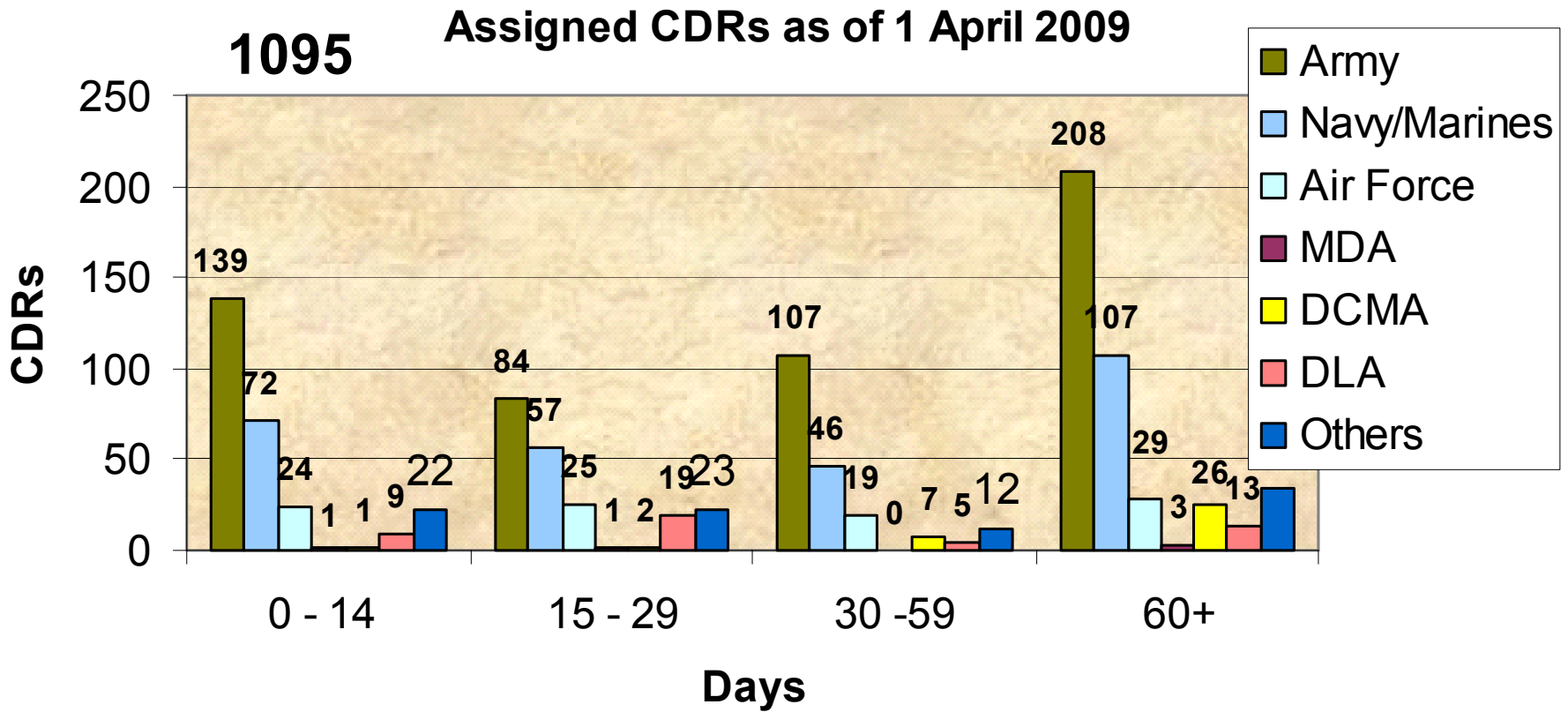
D. B. Propert

Defense Procurement and Acquisition Policy

Contract Quality Issues

- UID Study Observations
 - Line item structures often made it difficult to determine what was to be delivered and when
 - Use of “lot” line items and misleading kit descriptions leads to difficulties with contract payments and UID compliance
 - Contracts did not indicate a clear understanding of options and ordering provisions
 - Contracts under Part 12 generally did not include the UID clause
- Subsequent evidence
 - Navy experienced significant problems with ERP deployment because the deliverables were not being sent to DFAS as line items
 - DFAS chartered Black Belts to examine process and prevent future problems

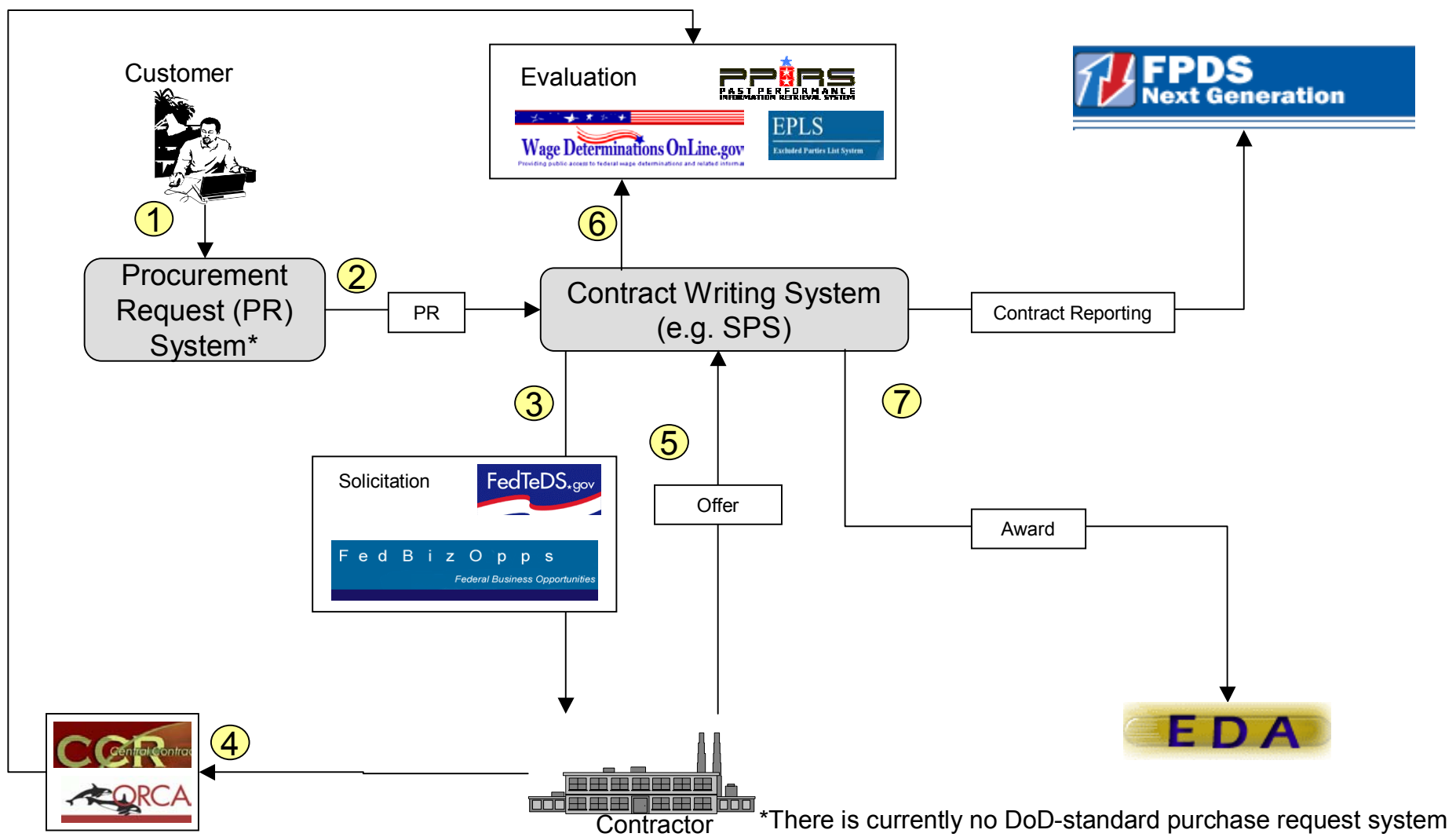
Contract Deficiency Reports in EDA



**Assignment identified by Issue DoDAAC

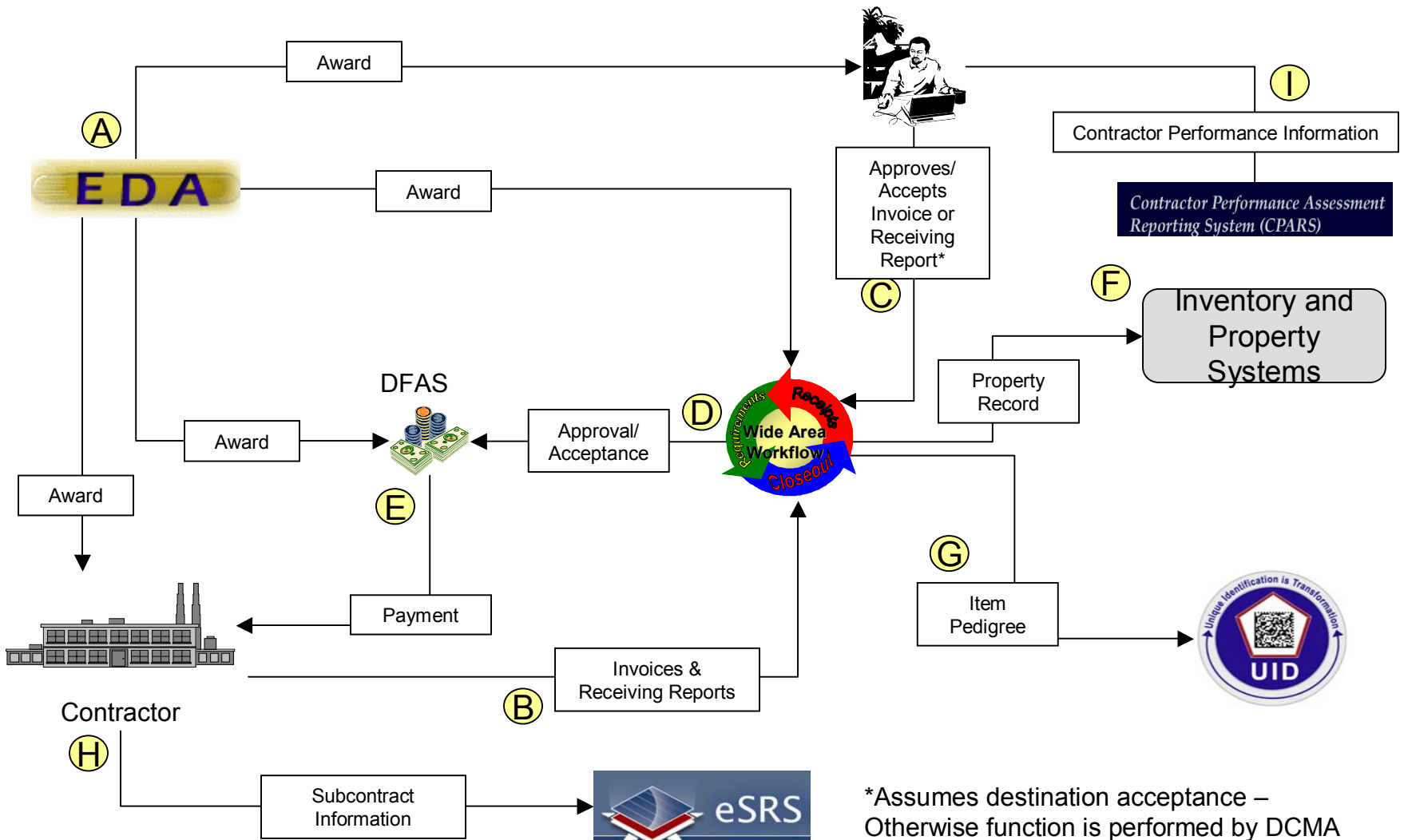
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Basic Procurement Data Flow (Pre-Award)



*There is currently no DoD-standard purchase request system

Basic Procurement Data Flow (Post-Award)



*Assumes destination acceptance – Otherwise function is performed by DCMA



Line Item Life Cycle

Requirement

- Requirement identifier
- Item Number
- Description
- Quantity
- Unit of Issue
- Specs and Standards
- Descriptive Identifiers
(e.g. NSN, Type Designation, PN)
- Delivery date
- Ship to
- GFP Provided
- Funding data
(AAI/LOA)

Contract

- **Contract Number**
- Item Number
- Description
- Quantity
- Unit of Issue
- Specs and Standards
- Descriptive Identifiers
(e.g. NSN, Type Designation, PN)
- Delivery date
- Ship to
- GFP Provided
- **Contract Type**
- **Unit Price**
- **Payment provisions**
- Funding data
(AAI/ACRN/LOA)

Delivery

- Contract Number
- Item Number
- Description
- Quantity
- Unit of Issue
- Descriptive Identifiers*
(e.g. NSN, Type Designation, PN)
- Unit Price
- **Date Delivered**
- **Shipped to**
- **GFP embedded**
- **Ull**

Invoice

- Contract Number
- Item Number
- Quantity
- Unit of Issue
- Unit Price
- Date Delivered
- Contract Type
- Unit Price
- Payment provisions
(AAI/ACRN/LOA)
- **Invoice Number**
- **Invoice Amount**

What is a line item?

Contract line items shall have all four of the following characteristics;

- (1) *Single unit price.* The item shall have a single unit price or a single total price.
- (2) *Separately identifiable.* A contract line item must be identified separately from any other items or services on the contract.
- (3) *Separate delivery schedule.* Each contract line item or service shall have its own delivery schedule, period of performance, or completion date expressly stated (“as required” constitutes an expressly stated delivery term).
- (4) *Single accounting classification citation.*

Separately identifiable

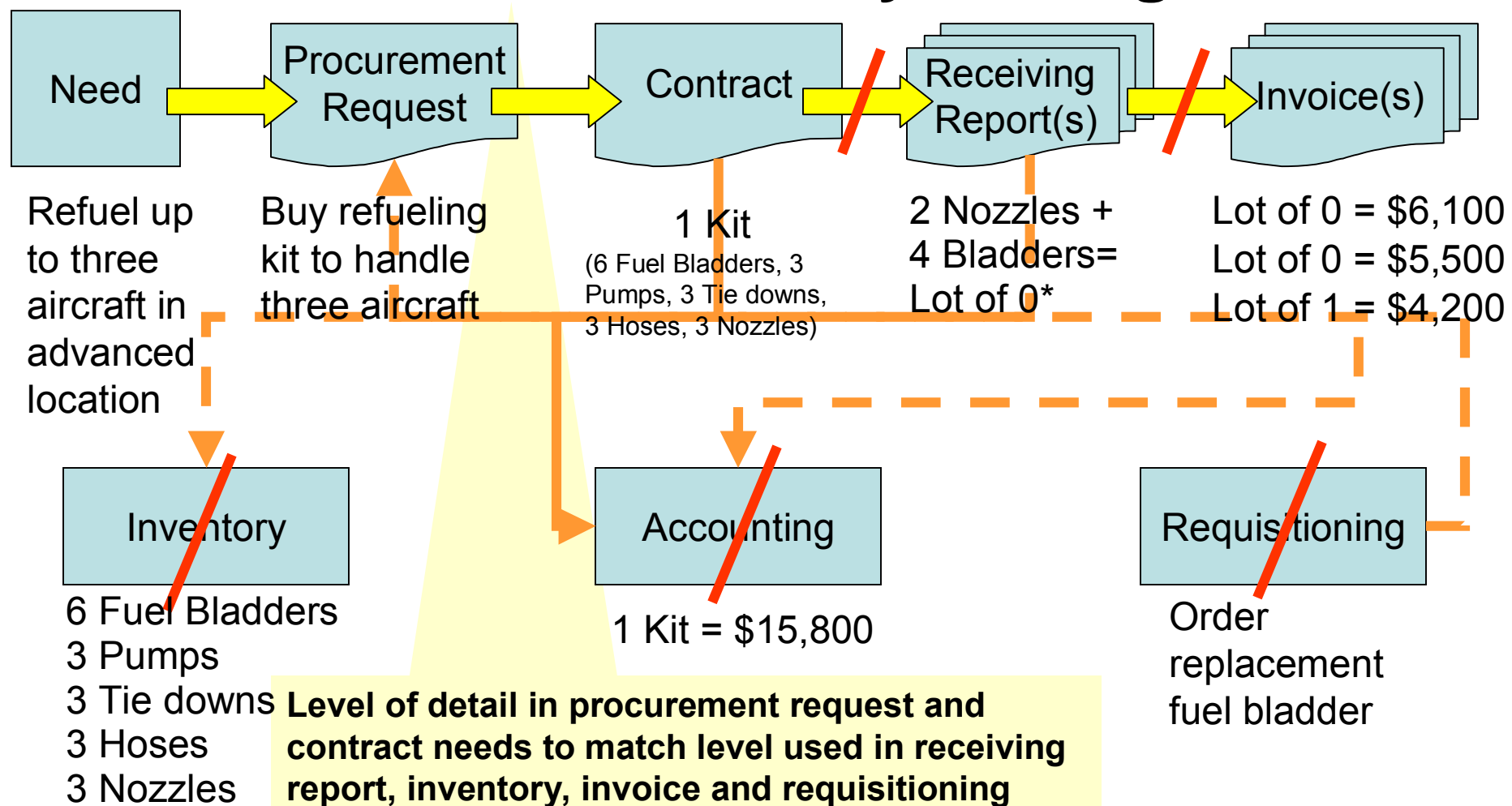
- (i) Supplies are separately identifiable if they have no more than one—
 - (A) National stock number (NSN);
 - (B) Item description; or
 - (C) Manufacturer's part number.
- (ii) Services are separately identifiable if they have no more than one—
 - (A) Scope of work; or
 - (B) Description of services.
- (iii) This requirement does not apply if there are associated subline items, established for other than informational reasons, and those subline items include the actual detailed identification in accordance with 204.7104. Where this exception applies, use a general narrative description instead of the contract item description.

DFARS 204.7103

How to know if the line items are properly constructed

- Items should be bought the way they will be delivered, shipped, and managed
- Performance or delivery must not be divisible except by the quantity, i.e. if you will deliver part of one unit separately, it needs to be a separate item
- Thus, a shipment must contain a whole number quantity of each line item delivered

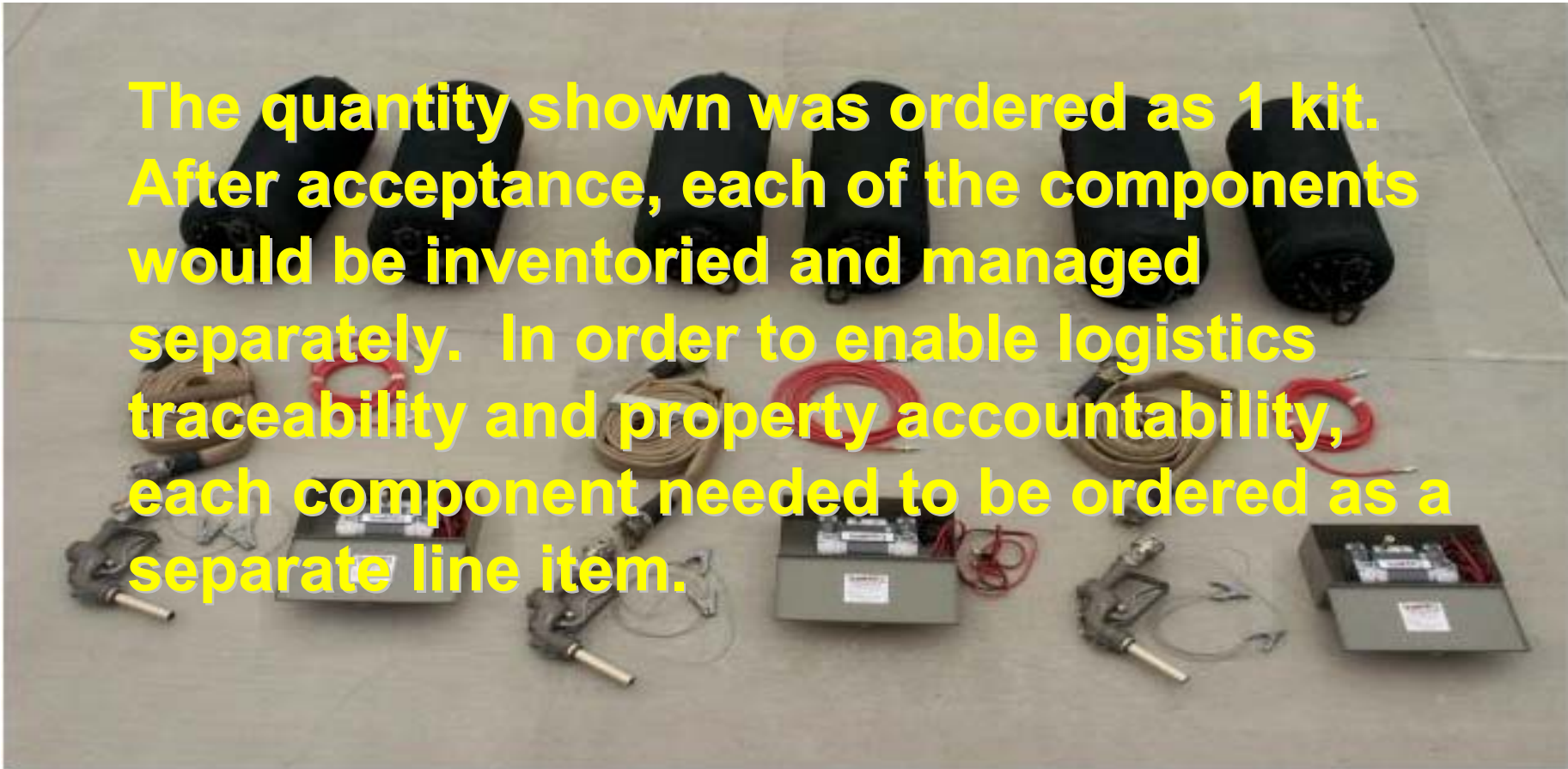
Disconnects caused by misalignment



*Work-around in MOCAS – other systems have no solution

Example of Misalignment of Requirements with Needs

Ground Expedient Refueling System



The quantity shown was ordered as 1 kit. After acceptance, each of the components would be inventoried and managed separately. In order to enable logistics traceability and property accountability, each component needed to be ordered as a separate line item.

“lot” Current Practice

- Contract CLIN for “1” Lot
 - Lot actually consists of a variety of items and quantities delivered over time
 - Conflicts with DFARS definition of a line item
 - Intermittent deliveries against the CLIN specify lot quantity of “0”, but are actually 1 or more individual items (also known as “0” Lot)
 - The amount to be paid per delivery is ambiguous
 - What is being accepted is ambiguous
 - Lot may include like items or unlike items

Zero Lot Shipment Volume

- First Quarter FY09 data from WAWF
 - Receiving Reports with a quantity of 0 and unit of issue of “Lot” - **9,891**
 - Contracts against which those were delivered - **929**
 - *Number of items is unknowable!*
- All of these shipments will require manual intervention to get into inventory and property systems



10 Basic questions

1. What do we expect the contractor to deliver (list hardware, services, software, and data)?
2. Do we have a line item, sub-line item, or exhibit line item for each answer to #1? Do we have ACRNs assigned to each in section B? Do the totals by ACRN, CLIN, and line of accounting match?
3. When is each item due to be delivered?
4. How much will the contractor get paid?
5. Are there interim payments before delivery? If so, on what basis? How are billings apportioned across funding lines?
6. When will the contractor get paid? What documentation will be required to effect payment?
7. How is the timing of contract payments related to deliveries?
8. Is it clear in the line item structure and sections F - I how payments relate to delivery?
9. What constitutes acceptable performance? How is it measured?
10. How do the inspection and acceptance criteria in section E relate to the answers to 9?

***If you can't affirmatively answer these questions,
do not sign the contract.***

Something to consider

- When negotiating the contract, discuss with the contractor how the items will be delivered and shipped
- Consider whether the line item structure needs to be adapted to the contractor



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Common Problems



Kits – A Similar Problem

- Current Contract Construction
 - CLIN = Kit
 - Kit includes multiple, usually dissimilar items
 - Items are not separately priced
 - Varying quantities
 - May be shipped in multiple shipments
 - Kit is not considered “received” until all shipments are received – “kit by set”



Kit Issues

- Per the UID DFARS, the CLIN may exceed \$5,000, requiring UID of the kit
- The kit needs to be a discrete deliverable
 - Cannot record partial acceptance of the kit in WAWF
 - WAWF requires a single shipment per 856 transaction
 - Cannot record more than one RFID associated with a quantity of 1
- Consider the following
 - *Are the contents better described as unpriced embedded items or separately priced SLINs, with IUID required where appropriate?*
 - *How to segregate costs if a parent/child relationship is established?*



Kits - Conclusions

- If the kit really is used as a kit (e.g. tool kit), then UID the toolbox and any necessary components
- Otherwise, apply the same solutions as for lots
 - Use Exhibits
 - Use subline items

Batch

- Anecdotal evidence suggests that people are substituting “batch” for “lot”
- This does not solve any problems!

Conclusions

- UID, RFID, ERPs, and WAWF require greater care in application of rules for writing contracts
- Current contract quality problems cost the taxpayers millions
- Buying activities need to concentrate on precisely defining requirements and deliverables