



IN REPLY
REFER TO
J344

DEPARTMENT OF DEFENSE
SHELF LIFE PROGRAM
8725 JOHN J. KINGMAN ROAD
FORT BELVOIR, VIRGINIA 22060

26 September 2014

MEMORANDUM FOR COMMANDER, DLA DISTRIBUTION

SUBJECT: Waiver of Shelf Life Requirements for materiel under SAIC Contract SPM4AR-07-D-0001

Background:

In May 2007, DLA Aviation awarded Contract SPM4AR-07-D-0001 to SAIC. This contract implemented Base Closure and Realignment Commission's (BRAC) Recommendation 175, which privatized the wholesale supply, storage, and distribution of packaged petroleum, oil, and lubricants. This contract provides this materiel directly to CONUS customers. For OCONUS customers, this materiel is shipped to OCONUS DLA Distribution Centers first, and then shipped to the customer.

This contract does not follow the 85% shelf life remaining requirement as stated in DOD 4140.27-M "Shelf Life Management Manual", Chapter 2:

Acquisition/procurement documentation shall specify that shelf-life items/materiel will have not less than 85 percent (allowing for rounding to whole months) of shelf-life remaining at time of receipt by the first Government activity. Any delivery from a contractor not having at least 85 percent shelf-life remaining shall normally be considered non-conforming.

In 2007, DLA Aviation Commander signed a memorandum stating that mandating the 85% shelf life requirement would significantly impact the cost of this contract and would require renegotiation.

Reason for this waiver:

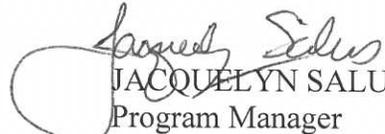
DLA Distribution has standardized processes and procedures in place to support Audit Readiness. These standardized processes and procedures follow DOD policy. Because this contract does not follow DOD policy, materiel receipted at OCONUS DLA Distribution Centers is suspended and a Supply Discrepancy Report (SF 364) is generated for owner's disposition. This waiver allows DLA Distribution to receipt materiel under this contract without suspending.

Waiver of the 85% remaining Shelf Life Requirement for SAIC Contract SPM4AR-07-D-0001 is approved as a one-time single approval. Contract SPM4AR-07-D-0001 states the following shelf life requirements. These shelf life requirements will be used as when receipting materiel under this contract.

SUBJECT: Waiver of Shelf Life Requirements for materiel under SAIC Contract SPM4AR-07-D-0001

For items with a shelf life of:	Upon delivery, item shall have remaining shelf life of at least:
18 months or greater	12.5 months
12 months or greater but less than 18 months	9.5 months
9 months or greater but less than 12 months	7.5 months
6 months or greater but less than 9 months	5 months

This waiver will expire at the completion of SAIC Contract SPM4AR-07-D-0001 in May 2017. Waivers of any subsequent contracts must be submitted on a separate request to the DOD Shelf Life Program. If there are any questions regarding this matter, please contact Ms. Jacquelyn Salus, (703) 767-2686, email: jacquelyn.salus@dla.mil


JACQUELYN SALUS
Program Manager
DOD Shelf Life Program

Enclosure:
Decision to Adjust Shelf Life Requirement letter

CC:
COMMANDER, DLA AVIATION
COMMANDER, DLA LAND & MARITIME
COMMANDER, DLA TROOP SUPPORT



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IN REPLY
REFER TO DSCR-FAGC

MEMORANDUM FOR THE RECORD

SUBJECT: Decision to Adjust Shelf Life Requirement for BRAC Privatization Contract
SPM4AR-07-D-0001

REFERENCES: DoD 4140.26-M, "Defense Integrated Materiel Management Manual for Consumable Items" (May 1997), DoD 4140.27-M, "Shelf Life Management Manual" (May 2003)

Introduction

In May 2007, DSCR awarded Contract SPM4AR-07-D-0001 to SAIC. The purpose of the contract is to use best commercial practices to gain efficiencies and reduce operating costs by privatizing the wholesale supply, storage and distribution of chemicals and packaged petroleum, oil and lubricating products, all of which belong in federal supply classes 6810, 6820, 6840, 6850 and 9150. The acquisition implements the Base Closure and Realignment Commission's (BRAC) Recommendation 175, which became mandatory for implementation by DLA in November 2005.

The contract is an indefinite delivery, indefinite quantity, direct vendor delivery (DVD) contract for nearly 5,000 items. Under the contract, SAIC is required to deliver materiel to customers within two to five days after receipt of order, depending on order priority, allowing materiel to be quickly delivered for imminent use or consumption. Most of the items have a shelf life that exceeds 12 months.

In planning the acquisition, DSCR concluded that operational military mission requirements were such that material delivered to the customer should have, where possible, a minimum of 12 months shelf life remaining upon delivery. For items with a total shelf life of 12 months or less, DSCR established the remaining shelf life requirement after considering the DoD 4140.27-M and recent procurement terms.

Under DoD 4140.27-M Ch.2, at ¶ 2-12, materiel must have 85% shelf life remaining upon first delivery by a supplier to Continental United States (CONUS) DoD customers. DSCR's practice for DVD arrangements to CONUS customers is to require 75% of shelf life remaining upon delivery. For outside CONUS (OCONUS) and for Foreign Military Sales, DDC shipments of materiel having a shelf life of 24 months or more must have at least 12 months of shelf-life remaining; material with less than 24 months shelf life must be issued with at least 6 months remaining, absent special permission from the customer. *Id.* at ch. 5, at ¶¶ 5-5 and 5-6.



The Contracting Officer issued the solicitation requiring material having shelf life of 12 months or less, be delivered with around 75% of shelf life remaining. For items with shelf life of 18 months or more, the solicitation required delivered items have at least 12 months of shelf life remaining.

In responding to the solicitation, SAIC proposed slightly more stringent shelf life requirements. SAIC proposed to deliver material having a shelf life of 12 months or less with 85% of shelf life remaining. For material having a shelf life of 18 months or more, SAIC proposed to deliver with 12 ½ months of shelf life remaining. DSCR incorporated the proposal into the contract as follows:

Material with Shelf Life of:	Must upon delivery have a minimum shelf life remaining of
6 months	5 months, or 83.3%
9 months	7 ½ months, or 83 %
12 months	9 ½ months, 79.2%
18 - 180 months	12 ½ months, 69.4% - 6.9%

DoD Shelf Life Manual Requirement

DoD 4140-27.M, Chapter 2, Paragraph 2-12 provides:

2-12. 85% SHELF-LIFE REMAINING REQUIREMENT APPLICABLE TO ACQUISITION/ PROCUREMENT

A. Acquisition/procurement documentation shall specify that shelf-life items/materiel will have not less than 85 % (allowing for rounding to whole months) of shelf-life remaining at time of receipt by the first Government activity. Any delivery from a contractor not having at least 85 % shelf-life remaining shall normally be considered non-conforming. . . .

B. In supporting imminent use or consumption, the 85% shelf-life remaining on receipt by first Government activity may be modified or adjusted as deemed prudent at the discretion of PMs [Program Managers] and IMMs [Integrated Materiel Managers], when support alternative arrangements such as EC, PV, DVD or local purchase are effected. . . .

Although Subparagraph A mandates a minimum of 85% shelf life remaining, Subparagraph B authorizes the IMM to modify or adjust the requirement "as deemed prudent" under DVD arrangements.

Because DSCR is the IMM for all the materiel included in this contract, *see* DoD 4140.26-M, at App. A-1, the Commander, DSCR has authority under DoD 4140-27.M, Ch. 2, ¶ 2-12 (B) to modify the 85% requirement.

Consideration Whether to Adjust 85% Shelf Life Requirement

The contract requirements for material with 12 months of shelf life or less comply with the 85% shelf life requirement of DoD 4140.27-M.

Application of the 85% requirement to material with at least 18 months of shelf life is not sound business practice for three reasons. The 85% requirement is inconsistent with BRAC Recommendation 175; a requirement for 12 ½ months of shelf life remaining, on the other hand, is consistent with the BRAC recommendation as well as prevailing industry practices. Second, requiring 12 ½ months shelf life remaining will have no detrimental impact on the operational needs of customers. Finally, a requirement for 12 ½ months of shelf life remaining is more cost-effective.

This acquisition implements BRAC Recommendation 175 by privatizing the distribution function currently performed by Defense Distribution Center (DDC). The purpose of BRAC Recommendation 175 is to rely on industry expertise to manage the chemical supply chain functions. This will allow the Department of Defense (DoD) to leverage best industry practices to support warfighter needs for this materiel, while focusing scarce resources on DoD's core functions.

Under the shelf life manual, DDC is not required to meet the 85% shelf life requirement when shipping materiel to customers. *See* DoD 4140.27-M Ch.5 at ¶ 5-2 (F) (prohibiting only the issuance of materiel with expired shelf life); *but see id.* at ¶ 5-3 (C) (expired shelf life materiel may be shipped if customer agrees). Instead, DDC may ship materiel to customers with relatively little remaining shelf life. *Id.* at ¶ 5-3 (requiring issuance of stock with the least shelf-life remaining) and at ¶ 5-6 (allowing CONUS shipments with as little as 3 months shelf life remaining without customer input). Under the BRAC recommendation, SAIC replaces DDC in this distribution function. Holding SAIC to a significantly higher standard than DDC is inconsistent with the BRAC recommendation.

Commercial inventory management practices rely on responsive sourcing and forecasting to reduce inventories and ensure products do not remain in storage for too long. Commercial retail customers typically require frequently ordered material have shelf-lives of less than six months. A 12 ½ month remaining shelf life requirement is more consistent with prevailing private sector inventory management practices.

Second, there appears to be little or no operational benefit to requiring SAIC to meet the 85% requirement on material with shelf life of 18 months or more. Currently, much of the materiel received by customers does not meet the 85% requirement: materiel received from DDC is not required to meet the 85% requirement, and DSCR's practice has been to modify the requirement to 75% on CONUS DVD contracts.

Most of the contract's high demand items have shelf lives of 24 or 36 months. Applying the 85% requirement would mean that customers would receive material with minimum of 21 and 31 months, respectively, far more than is required to satisfy most CONUS customers' retail inventory management practices. The contract's 12 ½ month requirement fully satisfies the

operational needs of overwhelming majority, if not all, of the CONUS customers. Moreover, the contract's 12 ½ month requirement is slightly more stringent than DoD 4140.27-M's 12 month remaining shelf life requirement for DDC shipments to OCONUS and FMS customers. Thus, customer expectations would not be altered significantly with the contract requirement that materiel have 12 ½ months of shelf life remaining upon delivery.

Third, imposing the 85% requirement on SAIC would have a significant cost impact – in the millions of dollars - on DSCR and the customer. Mandating the 85% requirement would be a significant change to the contract. SAIC has noted that implementing the requirement would impact SAIC's material, labor and overhead costs and its management fees; would significantly alter its plan for sourcing the items and managing and distributing inventory; and would require a complete renegotiation of the contract in order for SAIC to meet the stringent contract delivery requirements.

Decision:

In view of the foregoing, I hereby conclude:

- a. Contract SPM4AR-07-D-0001 is a DVD contract supporting primarily imminent use or consumption of materiel.
- b. DSCR is the Integrated Materiel Manager of all items included in Contract SPM4AR-07-D-0001.
- c. With respect to materiel having a shelf life of 12 months or fewer, the contract is consistent with DoD 4140.27-M's requirement that materiel have 85 % shelf life remaining upon delivery.
- d. With respect to materiel having a shelf life of 18 months or more, the contract does not comply with DoD 4140.27-M's requirement that materiel have 85 % shelf life remaining upon delivery.
- e. It is financially and operationally prudent to modify the 85% remaining shelf life requirement of DoD 4140.27-M to 12 ½ months remaining shelf life for materiel delivered under Contract SPM4AR-07-D-0001 having a shelf life of 18 or more months.


ANDREW E. BUSCH
Brigadier General, USAF
Commander