

**HOLD UNTIL RELEASED BY THE
HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY**

**Statement of
Mr. Matthew Beebe
Deputy Director, Acquisition
Defense Logistics Agency
Hearing before the
House of Representatives Committee on Oversight and Government Reform
Subcommittee on National Security
April 17, 2013**

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Good afternoon, Mr. Chairman, Ranking Member Tierney, and distinguished members of the Subcommittee. I am Matthew Beebe, Deputy Director of Acquisition at the Defense Logistics Agency (DLA). I am responsible to the Acquisition Director for the development, application, and oversight of DLA acquisition policy, plans, programs, systems, and operations for our agency's acquisition program. In fiscal year 2012, DLA generated \$44 billion in sales and revenue while managing over 5.2 million items needed by our military services. With me is Mr. William Kenny, the DLA Troop Support Acquisition Executive, and Mr. Gary Shifton, the DLA Troop Support Subsistence Supplier Operations Division Chief.

I appreciate the opportunity to discuss the Subsistence Prime Vendor-Afghanistan contract awarded by DLA to Supreme Foodservice.

The DLA mission is to provide superior logistics support to America's warfighters. In accomplishing its worldwide mission, DLA uses six field activities, including DLA Troop Support, to buy, store and distribute food, fuel, uniform apparel, construction items and equipment, pharmaceuticals, medical and surgical products and equipment, and weapons systems repair parts to the military services.

DLA is committed to meeting our customers' expectations, decreasing material and operating costs to maximize savings, reducing inventory to appropriate levels, and achieving audit readiness to ensure accountability.

In 2004, DLA received the directive from the U.S. Army to provide food support to service members deployed for Operation Enduring Freedom. DLA issued a fully competitive solicitation in October 2004, and awarded the contract in June 2005 to Supreme Foodservice. This contract provides a full line of food and non-food products to service members in Afghanistan and, as extended, will expire in December 2013. Relevant information concerning the contract follows:

- The initial award of the contract on December 3, 2005, had a base period of 18 months with two 12-month and one 18-month options for extension, ending on December 12, 2010.
- On December 13, 2010, DLA extended the contract without competition pursuant to a Justification and Approval document, because Supreme was the only source able to provide the required support within the required timeframe. The extension was for one 12-month base period and two six-month option periods, beginning December 13, 2010, and ending December 12, 2012.
- On June 22, 2012, DLA issued a follow-on interim contract to Supreme for the period from December 13, 2012, to December 12, 2013, also because Supreme was the only source able to provide the required support within the specified timeframe.

- DLA used the two contract extensions to prepare the solicitation for the follow-on contract competition and to incorporate lessons learned from its experience with the Supreme contract and other contracts supporting OCONUS, as well as feedback from industry. The new solicitation was issued on April 26, 2011, as a full and open competition. The extensions also allowed sufficient time for comprehensive evaluation of the very complex technical proposals received from the offerors for the follow-on procurement, and for conducting negotiations with the offerors. Finally, the extensions were needed to provide time for transition following award of the new contract, and to provide uninterrupted support to U.S. and coalition military forces in Afghanistan during the anticipated litigation over the contract award, which did occur and is ongoing.

The 2005 contract award called for delivery to four sites in Afghanistan – Bagram, Kabul, Salerno, and Kandahar, using ground transportation for deliveries. Following that award, requirements in Afghanistan quickly increased, with the military planning to set up significantly more camps and forward operating bases than initially planned. In August 2005, two months after the contract award, DLA Troop Support officials issued an oral change order to Supreme to support additional activities throughout the theater, using a combination of ground transportation, fixed-wing aircraft and helicopters. This combination of transportation is generally referred to as “premium outbound transportation,” and was necessary because many of the additional ordering

activities were operating in remote, mountainous regions, which presented significant transportation challenges. Supreme began preparation for contract performance during this period.

In December 2005, when Supreme assumed full performance on the contract, they submitted proposed premium outbound transportation rates to DLA. After performing on the contract for six months, in June 2006, Supreme billed DLA for premium outbound transportation using Supreme's proposed rates. In order to ensure Supreme's rates were fair and reasonable, in August 2006, DLA requested an initial audit by the Defense Contract Audit Agency (DCAA). Also in August 2006, DLA issued contract modification number 10 to formalize the oral change order that increased the number of supported sites. Modification number 10 included provisional payment rates, explicitly stated to be subject to audit. In October 2006, contract modification number 12 established that DLA Troop Support would reimburse Supreme monthly at 75 percent of the rates in modification 10, pending the results of a DCAA review. The DCAA conducted two separate audits, one in 2008 and another in 2011, using updated sets of proposals from Supreme received by DLA as part of our ongoing negotiations. The DCAA audits were unable to confirm the reasonableness of the in-theater transportation rates proposed by Supreme, either because of lack of support by actual transportation costs or because of Supreme's lack of documentation to support its rates.

In August 2010, during continued negotiations, DLA issued contract modification number 76 to further reduce the actual payment rate for premium

outbound transportation to approximately 50 percent of Supreme's proposed rates.

During contract performance, DLA and Supreme repeatedly attempted to negotiate final rates. After negotiation attempts were unsuccessful and following completion of the second DCAA audit, DLA unilaterally definitized the premium outbound transportation rates in December 2011 based upon information collected, including Supreme's actual costs to the extent known by DLA.

Also during this time period, in February 2011, a Department of Defense Inspector General's (DoD IG) report identified several recommendations for DLA Troop Support related to administration of the Supreme contract. As the result of existing contract administration efforts and the Inspector General's recommendations, DLA took the following actions:

- We definitized the premium outbound transportation rates using data from an audit conducted by the DCAA in August 2011. The rates were also informed by DLA technical analysis on the reasonableness of flight times and fuel consumption in calculating fixed rates per pound for fixed wing, rotary wing, and ground premium transportation.
- The contracting officer determined that Supreme owed the government \$756.9 million, and sent a final decision letter to Supreme on December 9, 2011. Supreme has appealed this decision to the Armed Services Board of Contract Appeals.
- In March 2012, DLA began withholding \$21.767 million per month from Supreme via an administrative offset against contract payments. As of

March 31, 2013, DLA has recouped \$282,976,694 of the money we determined we are owed, and we will continue to use the monthly administrative offset through the Defense Finance and Accounting Service. On February 25, 2013, Supreme submitted a claim against DLA for \$1.802 billion, asserting it is entitled to be paid its requested rates for premium outbound transportation. That claim is under review.

- DLA also issued contract modifications confirming the rates paid for airlift for fresh fruits and vegetables and triwall from the UAE, based on the contracting officer's determination that the rates were fair and reasonable. The contracting officer determined that DLA made no overpayments for the airlift price of the fresh fruits and vegetables and the related triwall costs, and these were therefore not included in the claim against Supreme.
- Lastly, DLA strengthened its contract oversight requirements including by formalizing a quality assurance surveillance plan. We improved government-furnished material accountability by authorizing an increase in the number of contracting officer representatives at the contractor's facilities in Afghanistan; there are currently three CORs located in Afghanistan. DLA also created additional contract oversight at the local level, regionally, and at DLA Headquarters.

Mr. Chairman, we have not only recognized the areas that needed to be corrected in terms of contract administration with our Supreme contract for

Subsistence in Afghanistan, but we also have put measures in place to ensure overpayments and delays in agreement of terms do not occur in the future.

For instance, DLA implemented a new procurement strategy with the new five-and-a-half year Subsistence Prime Vendor-Afghanistan contract, competitively awarded in June 2012. In this new contract, transportation costs are included in fixed distribution fees, ensuring the fees are already built into the pricing. Competition for award of the contract helps to ensure that the fees are reasonable.

Implementation of the new contract, awarded to Anham, has been delayed due to a series of Government Accountability Office (GAO) protests and filings by Supreme with the Court of Federal Claims. Part of that process included a requirement that we re-evaluate certain factors in the proposals, and resulted in a new award decision that affirmed the award to Anham in December 2012. On March 27, 2013, the GAO denied Supreme's protest of the December 2012 award decision. On April 5, 2013, Supreme filed an action in the Court of Federal Claims protesting the December 2012 award decision. That case is pending.

Through the Supreme contract, DLA has ensured continuous food support to military forces in Afghanistan since the contract began eight years ago. At the height of operations, we provided food for more than 260 different forward operating bases, dining facilities, and storage facilities throughout Afghanistan, which translates into approximately 435 million meals. Prior to entering the drawdown phase, the DLA Troop Support Subsistence supply chain annually

exceeded over 10,000 40-foot container equivalents or 265 million pounds per year. Including bottled water, it was customary for our prime vendor to move over 700 thousand commercial cases of product per week.

DLA acknowledges the issues associated with the DOD IG's 2011 findings and has worked diligently to correct them, while continuing to provide subsistence support to our brave men and women serving in Afghanistan. The issues with this contract largely arose from an effort to keep pace with a rapidly changing operational environment. However, we understand DLA must achieve both unwavering warfighter support and thorough contract management.

DLA worked to protect the Government's interests by including provisions for audit of Supreme's proposed rates in the contract modifications implementing the changes, and two audits ultimately determined that Supreme was overpaid. DLA is now recouping the amount owed by Supreme through monthly administrative offsets against contract payments being made under the current extension contract. DLA has also implemented measures to ensure these kinds of issues will not be repeated.

We take much pride in accomplishing our mission as America's combat logistic support agency. On behalf of myself, Mr. Kenny and Mr. Shifton, I thank you for the opportunity to discuss the Subsistence Prime Vendor contract to support service members in Afghanistan.

We are happy to answer any of your questions.

10/28/2010

Beebe, Matthew R. Deputy Director, DLA Acquisition (J7)

Matthew R. Beebe, a member of the Senior Executive Service since 2010, assumed the position of Deputy Director, DLA Acquisition (J7), Defense Logistics Agency, in February 2011. In this capacity, he is responsible for the development, application and oversight of DLA acquisition policy, plans, programs, functional systems and operations for the annual agency acquisition program exceeding \$38 billion.



Mr. Beebe joined DLA in 2010 as the Executive Director of the Joint Contingency Acquisition Support Office. JCASO was established to orchestrate, synchronize and integrate program management of contingency acquisition across combatant commands and U.S. government agencies during pre-conflict operations, contingency operations and combat operations.

Mr. Beebe attended Clarkson College, in Potsdam, N.Y., from which he received a Bachelor of Science degree in civil engineering in 1983 and was commissioned as an ensign in the Navy Civil Engineer Corps later that year. He completed his postgraduate education at the University of Illinois in 1989, where he received a master's degree in civil engineering.

Mr. Beebe retired from the Navy in 2007 with the rank of captain after 25 years of service. His service included tours in the Naval Construction Force with multiple deployments to the Middle East and East Asia, a combined 17 years of federal acquisition experience and three Washington, D.C., tours.

Following his military service, Matthew joined PMA Consultants, LLC, a program, project and construction management firm, to establish its new Washington, D.C., office and lead its business development efforts in the federal sector.

Mr. Beebe is a registered Professional Engineer in the state of Illinois, a certified Project Management Professional, a member of the Defense Acquisition Professional Community, and a graduate of the Carnegie Mellon University Program for Executives. His military decorations include Seabee Combat Warfare Officer, the Legion of Merit (two awards), Meritorious Service Medal (two awards), the Navy and Marine Corps Commendation Medal (three awards), and the Navy and Marine Corps Achievement Medal (two awards).