

**WRITTEN TESTIMONY BY
MICHAEL SCHUSTER
MANAGING DIRECTOR, SUPREME FOODSERVICE**

**BEFORE THE
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON NATIONAL SECURITY**

U.S. HOUSE OF REPRESENTATIVES

APRIL 17, 2013

Good afternoon, Mr. Chairman, Ranking member Tierney, and distinguished members of the Subcommittee. My name is Mick Schuster, and I am Managing Director of Logistics at Supreme Foodservice. Supreme is a global supply chain company founded in 1957 that operates in approximately 20 countries around the world. One of those countries is Afghanistan, where we deliver food and supplies to U.S. and NATO troops. Our success in creating a supply chain that can reach the deepest parts of Afghanistan has been a force-multiplier for the U.S. government and has been one of our proudest accomplishments. Despite operating in one of the most isolated and dangerous areas in the world, we have achieved consistently outstanding performance exceeding contractual requirements.¹

As you know, the Defense Logistics Agency (or “DLA” for short) executed a Subsistence Prime Vendor (SPV) contract with Supreme in June 2005 for the delivery of food, beverages, and other goods to U.S. troops in Afghanistan. Under the terms of the original contract, Supreme was responsible for making deliveries to four and only four locations in Afghanistan: Kabul, Bagram, Kandahar, and Forward Operating Base Salerno. Another contractor was supposed to convert Supreme’s bulk deliveries into smaller ones appropriate for distribution to the numerous forward operating bases throughout Afghanistan.

¹ Supreme Group is a global leader in the provision of end-to-end supply chain solutions to defense, government, and commercial sector clients around the world. The company provides critical, life-sustaining services that empower clients to accomplish missions in challenging and austere environments. Supreme offers a unique breadth of capabilities—ranging from procurement, transportation and storage through to technology and full site services. Today, its legacy of proven and trusted performance in challenging environments spans more than fifty years; covering 20 nations across five continents.

Supreme has a long history of supporting international organizations and governments. Its current clients include the United Nations (UN), the North Atlantic Treaty Organization (NATO), and leading military forces including the US Department of Defense (DoD) and the UK Ministry of Defence (MoD). Over the years, the company has also partnered with many commercial clients. The Group’s excellent reputation is built on the key strengths of delivering where others cannot; implementing rapid response solutions; and creating fully integrated supply chain solutions.

Only weeks after Supreme was awarded the SPV contract, DLA began dramatically expanding Supreme's responsibilities. By August 2005, DLA had directed Supreme to deliver to dozens of forward operating bases in remote regions of Afghanistan. The number of delivery locations continued to increase, and, at the peak of the program, Supreme was delivering to over 250 different points at 120 locations throughout Afghanistan. This required Supreme to change fundamentally the way it executes its responsibilities and to develop and operate a network of airplanes, helicopters, and trucks able to reach isolated regions of Afghanistan—a mountainous country the size of Texas but with little functioning infrastructure and extreme weather patterns. And although DLA's original solicitation said that only "remnants" of the Taliban were still active, Supreme had to build this network in an active war zone. Notably, 312 of our subcontractors have lost their lives delivering food to U.S. and coalition troops.

There has never been any dispute that the changes DLA made to Supreme's contract entitled Supreme to additional compensation. To reiterate, the government hired Supreme to deliver to four central locations in Afghanistan, not hundreds of remote ones. Supreme and DLA consequently negotiated supplemental rates for those services, called "premium outbound transportation" or "POT." DLA insisted that Supreme offer a single set of fixed rates that would be guaranteed for the five-year life of the contract, regardless of delivery location in Afghanistan. This meant that Supreme bore all of the risks of making these deliveries—including changes in the security environment, fuel prices, delivery locations, troop strength, and road and weather conditions.

In August 2006—after nearly a year of uncompensated POT deliveries—Supreme and DLA agreed to pricing that would become final after verification. This was a commercial item contract. Verification should have involved a comparison to market prices for related services and a determination that the offered price was "fair and reasonable." DLA instructed DCAA to audit Supreme as if this were a cost-plus contract—which it is not.

I would like to conclude by emphasizing two points:

First, I want to emphasize Supreme's view that DCAA's audits were fundamentally flawed. Operating under the incorrect assumption that this was a cost-plus contract, DCAA disallowed a significant amount of Supreme's costs. For example, it disallowed 100% of the fuel costs incurred by Supreme for POT deliveries because Supreme did not keep records in accordance with a cost type contract. This obviously does not reflect reality. There is no dispute that Supreme actually made the deliveries and incurred these costs, and, under the rules for commercial, fixed-price contracts, DCAA cannot just "disallow" them. Relying on these audits, DLA unilaterally set POT prices that we believe are unreasonable. For example, as a result of DLA's unilateral rate decision, we are now being paid *less* for POT road deliveries to forward operating bases than what we are paid to deliver to the four original sites—despite the challenges in servicing forward operating bases.

Second, I want to emphasize that there are procedures for resolving disputes between DLA and a contractor, and we are using those procedures to reach a resolution here. After the DLA contracting officer issued a final decision unilaterally changing the prices for POT services in December 2011, Supreme filed a formal appeal with the Armed Services Board of Contract

Appeals. That case is in the process of discovery and is moving forward. Despite this dispute, we continue to work closely with DLA and greatly value our relationship with them. We are confident that this dispute will be resolved in due course through the appropriate channels. In the meantime, Supreme remains committed to performing the contract at a high success level.

Thank you. I look forward to any questions you may have.

MICHAEL SCHUSTER
MANAGING DIRECTOR, SUPREME FOODSERVICE

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Michael Schuster currently serves as Managing Director of Logistics at Supreme Foodservice. He began working with Supreme in 2001 and now has over 20 years of experience in the field of logistics.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Michael Schuster

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

N/A

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Supreme Foodservice, Managing Director of Logistics

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

Supreme has received SPV contracts for Afghanistan and Panama from DLA-TS since October 1, 2010. It has also received a contract for fuel supply from DLA-E and a contract for fuel flow meter maintenance from US Army Contracting Command. The value of these contracts is in part variable and depends on customer demand for Supreme services.

I certify that the above information is true and correct.

Signature: /s/ Mick Schuster

Date: 4/16/2013
