



**Chairman Richard Hanna
Committee on Small Business
Subcommittee on Contracting and Workforce
“Contracting Away Responsibility: Reverse Auctions in Federal Agency Acquisitions”
December 11, 2013**

Good morning. Thank you Chairman Coffman. This morning, we are here to talk about reverse auctions, specifically when they make sense for taxpayers - as well as when they don't. Reverse auctions can be a way to facilitate competition and increase small business participation, or they can be a barrier to entry for small businesses and a means of evading meaningful competition. –As I have said before, no one type of contracting methodology is inherently good or bad; it is how the government uses the tool that matters.

In May, my subcommittee held a hearing that looked at the use of reverse auctions for construction services, and the testimony we received convinced me that reverse auctions do not work for these contracts. Therefore, I introduced H.R. 2751, the Commonsense Construction Contracting Act of 2013 to restrict the use of reverse auctions for construction services. However, 90 percent of reverse auctions are for goods, not services, and today we are going to look at the other uses of reverse auctions.

On Monday, the Government Accountability Office (GAO) released a report that suggests that reverse auctions are not being properly used for other types of goods and services. GAO found that last year, over one third of the reverse auctions conducted for agencies had no interactive bidding – the hallmark of a reverse auction – yet agencies paid \$3.9 million in fees for these auctions. Furthermore, they found that 24 percent of all reverse auctions were not awarded to the lowest bidding vendor, and in 27 percent of the cases there was only one vendor bidding. This raises serious questions about who is conducting reverse auctions, how they are conducted, and for what goods and services they are used.

Despite the fact that reverse auctions accounted for nearly a billion dollars in contracts in FY 2012, there is no federal law or regulation that addresses this procurement method. It seems we are making it up as we go along, often to the detriment of small businesses. While 95 percent of reverse auctions are for less than \$150,000 – the amount the Small Business Act reserves exclusively for small businesses – only 86 percent of reverse auction awards are given to small businesses. This has become so problematic that the Small Business Administration's Chief Counsel for Advocacy has requested that the Administration, “at a minimum provide a clear policy statement to the acquisition community that reverse auctions must comply with the requirements that contracts within the simplified acquisition threshold are to be reserved exclusively for small businesses.”

I'm hoping our witnesses today will help us understand the scope of this problem, and what actions we need to take to make sure that reverse auctions are used in a responsible manner. Our procurement system should be an efficient, transparent process that promotes competition and small business inclusion. I continue to believe that part of the solution to our fiscal crisis is finding ways to improve competition and thereby reduce prices. Small businesses are a crucial part of that solution,

since their participation increases competition, creates jobs, and encourages innovation. I look forward to the testimony of our witnesses, and thank them for joining us here today.