

**STATEMENT OF
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ADMINISTRATIVE OPERATIONS, VETERANS HEALTH ADMINISTRATION (VHA)
DEPARTMENT OF VETERANS AFFAIRS (VA)
BEFORE THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS AND
HOUSE COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON CONTRACTING AND THE WORKFORCE
DECEMBER 11, 2013**

Chairman Coffman, Chairman Hanna, Ranking Member Kirkpatrick, Ranking Member Meng, and distinguished Members of the Committees, we are pleased to appear here this morning to discuss VA's process for establishing and maintaining accountability in its use of reverse auctions. I am accompanied here today by Philip Matkovsky, Associate Deputy Under Secretary for Health for Administrative Operations.

Reverse auctions is a type of electronic tool in which the roles of buyer and seller are reversed. Unlike the traditional auction in which the seller accepts the highest price, reverse auctions result in the buyer accepting the lowest price. VA issued guidance in 2003 on the use of this electronic tool.

Since 2004, the Office of Management and Budget (OMB) Office of Federal Procurement Policy (OFPP) encouraged increased use of commercially available online procurement tools, including reverse auctions. In a September 2010 memorandum, OMB's Federal Chief Performance Officer encouraged senior executives to reform contracting through the continued implementation of innovative procurement methods such as the use of Web-based electronic reverse auctions.

VA supports the use of reverse auction as an acquisition tool. Use of this tool was primarily limited to contractor support for VHA. However, early in fiscal year (FY) 2012, concerns surfaced regarding management of the reverse auction process. As a result VA senior procurement executives made the decision to invoke a moratorium and conduct a comprehensive evaluation of VA's current compliance with policy and regulations. The moratorium was put in place on March 3, 2012. VA analyzed randomly selected files and determined that some contracting actions did not fully comply with VA policy and procedures. Since procuring activities had alternatives for obtaining the required supplies and services, invoking the moratorium had no effect on VA's delivery of health care to Veterans.

The Senior Procurement Executive released the new policy and rescinded the moratorium on the use of reverse auctions on April 3, 2012. The VA policy provides specific guidance for VA warranted contracting officers regarding the use of reverse

auctions. It directs each Head of Contracting Activity (HCA) to develop internal controls including mandatory training, file documentation and reviews, and standard operating procedures to establish oversight of reverse auction procurements. It further directs that each HCA ensure the savings realized through using reverse auction techniques are auditable and transparent, independent of any reverse auction service provider. Further, each award file must be documented with the savings realized through the use of reverse auction techniques as well as the reverse auction fee paid. VA oversees the procurement process, including reverse auctions through its compliance review process.

VHA leadership requested an internal quality assurance group to conduct a focused review of select procurements that employed reverse auctions as the vendor solicitation method. Results of these internal reviews were briefed to VHA senior management, and based on these reviews, VA is pausing further utilization of our reverse auction tool. We are assessing the degree to which we can ensure a consistent application of this solicitation method, which includes thorough documentation, and conforms to all aspects of VA policy. The Department will continue to procure products and services through other procurement methods.

The Department conducted 2,261 reverse auctions in FY 2011 representing over \$78 million in total dollar volume; 60 percent went to small business. In FY 2012, VA conducted 7,587 reverse auctions representing approximately \$305 million in total dollar volume; 79 percent of that total went to small business.

The Department has exceeded goals for small business since FY 2010. The Department's small business accomplishments have ranged from 35-37 percent against goals of 33-34 percent.

Conclusion:

The Department continues to monitor the efficacy of reverse auctions and adjust our policies and processes to be in line with the results of our reviews and business outcomes. I appreciate the opportunity to testify today and am happy to answer any questions the Committees may have.