

**COMPLETE STATEMENT OF  
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DEPUTY COMMANDING GENERAL  
U.S. ARMY CORPS OF ENGINEERS  
DEPARTMENT OF THE ARMY**

**BEFORE THE**

**Committee on Small Business  
HOUSE OF REPRESENTATIVES**

**March 6, 2008**

Madam Chair and Members of the Committee, I am Major General Ronald Johnson, Deputy Commander General of the U.S. Army Corps of Engineers (Corps). Thank you for the opportunity to testify before you today concerning the impact of emerging procurement methods on small business contractors. In 2004, the Corps completed a pilot study and report on reverse auctioning and it is my understanding that the Committee specifically requested that I discuss this report, entitled "Final Report on USACE Reverse Auction Pilot Program." This report was prepared by LTC A. J. Castaldo, the Corps' Deputy Principal Assistant Responsible for Contracting at that time. While the results of the pilot program were never submitted formally, we did provide the results to our industry partners and the public. My testimony will be split into two main topics; the Corps' experience with reverse auctions and a general update on the Corps' Small Business Program.

In the 2002, Defense Appropriations Act, Congress provided \$1.4 million to "Freemarkets" to explore reverse auctions. In turn, the Corps of Engineers received the funds (Department of Defense - Operations and Maintenance) to explore online markets. The Corps sought to do four things with this funding:

- Conduct a pilot program to test online E-sourcing, specifically full-service reverse auctioning for use by the Corps and its industry partners;
- Encourage activities within the Corps to explore the potential of online reverse auctioning;
- Conduct training in the use of this new and emerging acquisition tool; and
- Determine the appropriateness of augmenting our acquisition strategies and processes with reverse auctioning to improve efficiency of the acquisition process.

During Fiscal Year 2003, the Corps conducted a pilot program to evaluate the use of e-sourcing, specifically reverse auctioning in conjunction with the diverse and complex mission of the Corps. To accomplish the goals of this pilot program in accordance with Congressional direction, the Corps entered into a contract with FreeMarkets, Inc., an e-sourcing contractor who has subsequently been acquired by Ariba, Inc. FreeMarkets provided reverse auction software technology and training to eight separate Corps Districts (Louisville (2), Ft. Worth, Norfolk, Omaha, Philadelphia, Savannah, Huntsville Center, and Pittsburgh), provided two different forms of reverse auction technology training and gave their expertise, assistance and advice to the reverse auction process. Reverse auction software, such as that provided by FreeMarkets, Inc., provides a contracting officer with a pricing tool that can be used during the acquisition process.

In a typical online reverse auction, there is an initial starting price that is posted by the purchaser. Sellers have the ability to submit multiple and consecutively lower bids for a requirement during a set time period. Each seller has the ability to see the lowest bid, although they are not able to see the identity of that bidder. A potential benefit is that

competition will help drive prices lower, because the sellers have the ability to see the lowest bid.

FreeMarkets, Inc. introduced the concepts of reverse auctioning to the Corps and its reverse auction software tool to our pilot sites. Contracting Officers used the reverse auction process on nine individual projects for construction (5), commodities (3), supplies and services (1). The Corps received protests on two of the construction projects and one of the protests was sustained due to a problem with the Reverse Auction software.

The Corps, through our pilot study, found no basis to claim that reverse auctioning provided any significant or marginal savings over a traditional contracting process for construction or construction services. Reverse auctioning has a chance to provide benefit when the commodities or manufactured goods procured possess a controlled and consistent nature with little or no variability. Construction and construction services are, by nature, variable due to factors such as changing customer requirements and site conditions.

Specifically, due to the variability of each construction project, the reverse auction functionality that allows comparison to past projects does not provide usable results for Contracting Officers of our construction projects. Our study also found that there is considerably more time involved in the preparation and execution of reverse auctions, which increases the level of labor and project costs associated with the procurement. Labor costs are an important aspect of our project costs and we always strive to ensure that they are controlled to the extent possible and appropriate.

In summary, the Corps, working with Freemarkets, Inc. and through the pilot programs, was not able to support the potential benefits of reverse auction for our construction program. While this tool may be appropriate and beneficial in more repetitive types of acquisition, we did not find it to be a useful tool for our construction program and do not currently utilize it today to any great extent.

#### Update on the Corps' Small Business Program

Before closing, I would like to update you on the Corps' small business program for the last two fiscal years. The Corps has long considered the small business community an important partner in the success of its mission. Historically, the Corps has been and continues to be one of the Department of the Army's strongest small business supporters as demonstrated by its accomplishments in small business prime contract awards. The following table shows a comparison of small business accomplishments for Fiscal Year (FY) 2006 and FY 2007. In FY 2006, 37% of total procurement dollars or \$5.7 billion went to small businesses. In FY 2007, the accomplishments were slightly higher. As an agency, the Corps has very aggressive small business goals; the overall small business goal is almost twice the statutory goal.

**FY06/FY07 Small Business Prime Award Comparison**

<b>US Business Base</b>	<b>FY06 - \$15.1B</b>				<b>FY07 - \$15.4B</b>		
	<b><u>Statutory</u></b>	<b><u>Goal</u></b>	<b><u>SB Dollars</u></b>	<b><u>Corps</u></b>	<b><u>Goal</u></b>	<b><u>SB Dollars</u></b>	<b><u>Corps</u></b>
Small Business	23%	43.0%	\$5.7B	37.8%	44.8%	\$5.8B	38.0%
Small Disadvantaged Business	5%	16.5%	\$2.3B	15.4%	19.9%	\$2.66B	17.2%
8(a)-part of SDB goal	NA		\$1.39B	9.2%		\$1.9B	12.4%
Service Disabled Veteran Owned	3%	1.5%	\$244M	1.6%	1.5%	\$205M	1.3%
Woman Owned	5%	5.6%	\$832M	5.5%	5.4%	\$905M	5.9%
HBCU/MI	NA	13.9%	\$10M	22.0%	13.4%	\$15M	30.4%
HUBZone	5%	8.0%	\$1.5B	10.1%	9.2%	\$1.7B	11.1%

The Corps will continue to explore other small business prime options, such as buying construction supplies from small business to be provided as government furnished equipment. The Corps will strive to exceed our small business goals, but our main focus will be on increasing the dollars going to small businesses year after year.

We engage the small business community not because federal statutes require us to do so, but rather because it makes good business sense. Our continued commitment to successful small business partnerships will help to ensure that a vibrant and robust cadre of small businesses is available and utilized in performing our mission.

Summary

To close, I would like to thank you once again, Madam Chair, for allowing the Corps of Engineers the opportunity to appear before this Committee today. I will be happy to answer any questions you or Members of the Committee may have.

Thank you.