

**DECISION**



**THE COMPTROLLER GENERAL  
OF THE UNITED STATES**  
WASHINGTON, D. C. 20548

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PL-11  
Mr. Weiskopf

FILE: B-193177.2 <sup>0436</sup> DATE: December 6, 1979

MATTER OF: Honeywell Information Systems, Inc.

DIGEST:

[RFP Cancellation Protest]

Agency's decision to cancel RFP for acquisition of upgraded ADP facility is not improper where agency reasonably determined it would be less costly to have ADP workload performed by contract or through interagency agreement and that concept of expanded computer processing facility was no longer viable. However, agency's action in bringing procurement to advance stage before canceling does not enhance competitive procurement system.

2 Honeywell Information Systems, Inc. (Honeywell) protests the cancellation of request for proposals (RFP) No. L/A 78-8, issued by the Department of Labor (DOL) on February 8, 1978. The solicitation was for an automated data processing (ADP) system to replace the existing International Business Machines (IBM) 360/65 system at the Departmental Computer Center (DCC) in Washington, D.C. RFP L/A 78-8 required that the new system have the capability of handling in-house approximately 90 percent of DOL's projected ADP requirements. 9

Subsequent to issuing the solicitation, DOL determined that the DCC workload projections used in developing the solicitation requirements had substantially eroded and were no longer valid. Consequently, DOL decided to operate a less extensive DCC and to permit the agencies within DOL to provide for their own ADP services by contract or interagency agreement. Based on this determination, DOL canceled the solicitation on March 12, 1979, at which time Honeywell was the sole offeror.

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Honeywell contends that DOL canceled the solicitation because it harbored a bias against that firm in favor of IBM or a source offering IBM compatible equipment. Honeywell further alleges that the need for a new ADP system still exists and that DOL arbitrarily and unreasonably canceled the solicitation. As a remedy, Honeywell seeks either reinstatement of the solicitation or reimbursement of its proposal preparation costs. For the reasons stated below, we hold that the solicitation was properly canceled, and that reinstatement is not in order. We also disallow Honeywell's claim for proposal preparation costs.

In 1975, the Assistant Secretary for Administration and Management, on behalf of the Secretary of Labor, decided to establish a modern, cost-effective ADP facility by Fiscal Year (FY) 1978 capable of handling almost all of DOL's ADP requirements. These requirements included the ADP needs of such DOL component agencies as the Employment and Training Administration, Employment Standards Administration, Occupational Safety and Health Administration and the Labor-Management Service Administration. At the time the objective was formulated, the DCC (then the Directorate of Data Automation) was only capable of processing about one-half of DOL's ADP workload, and the projected workloads for FY 1977 and FY 1978 indicated steadily increasing workloads. Therefore, DOL either had to expand its in-house capabilities to meet the projected requirements or contract to have more work done outside DOL.

Since DOL wished to perform these functions in-house it was required by Office of Management and Budget (OMB) Circular No. A-76, as amended, to conduct an analysis comparing the cost of procuring the services from commercial sources with the cost of providing the services in-house. DOL prepared such an analysis in November of 1976 which indicated that it would be less costly for DOL to perform these services in-house than to procure them from a commercial source or to have them performed under a facility management contract. Consequently, DOL decided to procure the equipment needed to modernize and expand the DCC to enable it to fulfill most of DOL's ADP needs.

3 After some delay, on May 2, 1977, DOL submitted an agency procurement request to the General Services Administration (GSA) pursuant to Federal Procurement Regulations (FPR) § 1-4.1104 (1964 ed. amend. 170). On July 22, 1977, GSA granted DOL a delegation of procurement authority to acquire the equipment necessary to upgrade the DCC. GSA stipulated that the cost of conversion for programs not written in standard language should not be considered in the evaluation of offers. 17

The solicitation was thereafter issued on February 8, 1978. The RFP required the successful offeror to supply an ADP system capable of meeting approximately 90 percent of DOL's ADP requirements, to convert 2,800 standard language application programs, and to provide various support services. Technically acceptable proposals were to be evaluated on the basis of the lowest overall cost to the Government. The RFP set June 8, 1978 as the date for submission of initial proposals but DOL subsequently amended the RFP, postponing the date for submission of initial proposals until September 15, 1978.

Honeywell, IBM and Sperry Univac Federal Systems Division of Sperry Rand Corporation (Univac) submitted initial proposals. However, Univac's proposal was rejected as late, and IBM withdrew from the competition in November 1978. Discussions were conducted with Honeywell and at the time of the cancellation that firm had indicated several times to DOL that it was prepared to have its equipment benchmarked.

Meanwhile, during December 1978, DOL was reassessing the DCC upgrade because of doubts that DCC would be called upon to handle 90 percent of the workload as contemplated by the RFP. Consequently, during the week of January 8, 1979, informal discussions were conducted with DOL component agency representatives to determine whether each DOL component agency would use

the DCC if the equipment were purchased. The response was overwhelmingly negative, and indicated that only 20 percent of DOL's total ADP needs would be handled by the DCC. As a result of that and other factors considered in this reassessment, the Secretary of Labor approved canceling the RFP and phasing down the DCC to a telecommunications and smaller ADP processing facility with other ADP work to be performed by contract or interagency agreements.

Honeywell was informed of the cancellation by letter dated March 12, 1979, which stated that the original policy set forth in 1975 had been changed to allow individual DOL agencies to contract for ADP services because the workload projections for DCC had been reduced.

Honeywell maintains that the only reason the agency canceled the RFP was because of a bias against Honeywell. This bias, Honeywell states, was caused by the agency's reluctance to incur conversion costs associated with the installation of Honeywell equipment. The protester argues that the ADP services are still needed by DOL and that the A-76 study proves that the upgrading of the DCC is the most cost-effective method of providing these services. Honeywell asserts that the "change" in ADP requirements was, in actuality, brought about not by a decreased workload but by the reluctance of DOL component agencies to give up control of their individual ADP functions to the DCC where it appeared the successful vendor's equipment would not be IBM compatible.

DOL maintains that it canceled the solicitation because it no longer believed its ADP needs could be provided in the most cost-effective manner by the DCC, as augmented by the equipment to be purchased under the RFP. It found that since the 1976 A-76 study, technological advances and market conditions had reduced the cost of commercially available services and that its component agencies were unwilling to incur the conversion work necessary to use an improved DCC and wished to contract out the work.

A solicitation should be canceled after receipt of proposals only for compelling reasons. California Stevedore and Ballast Company, B-186873, January 24, 1977, 77-1 CPD 47. A compelling reason for cancellation exists where the solicitation no longer represents the Government's needs or the agency decides that the needs of the Government can be satisfied by a less expensive approach than that called for in the solicitation. IFE Imperial Corp., Subsidiary of Gould, Inc. B-190759, August 14, 1978, 78-2 CPD 166; Ikard Manufacturing Company, B-192248, September 22, 1978, 78-2 CPD 220.

We find the RFP cancellation to be proper here since it appears that the expanded DCC as envisioned by the RFP represented neither the most economical approach to meeting the DOL's ADP requirements nor the most current assessment of DOL's actual needs. At the time the RFP was issued, DOL was planning an upgraded facility which would be utilized by DOL's component agencies. DOL has now decided not to maintain an expanded centralized facility and instead to allow its agencies to contract out for ADP services. The record indicates that DOL's decision was based in part on the desires of those agencies, in part on the belief that a centralized DOL facility was no longer viable, and in part in recognition of the fact that there would be considerable expense and disruption resulting from the need for software conversion if DCC expansion took place with Honeywell equipment. The record further indicates that DOL doubted the viability of the up-graded DCC because 1) improved technology has resulted in lower contracting-out costs; 2) commercial firms, unhampered by various regulations and restrictions governing Federal ADP equipment procurements, can much more quickly acquire equipment reflecting latest technology, resulting in more reliable servicing from contractors than the DCC would provide; and 3) DOL, in light of these circumstances and the work delays in data processing that would likely result from the DCC up-grade, would not require its component agencies to utilize the DCC, which for the most part would contract out for their processing needs rather than voluntarily use the DCC.

While Honeywell may be correct that DOL's total ADP workload has not decreased, it is clear that DOL has changed its view of the most appropriate way to handle that workload and has simply made a management decision not to expand its DCC at this time. Moreover, while Honeywell also believes that decision is inconsistent with the A-76 study, we note that the study did not consider conversion costs. The A-76 report itself states at pages 19-20:

" \* \* \* On this basis, conversion costs (considered an offset cost) have been excluded from the cost comparison.

\* \* \* \* \*

" \* \* \* If, as a result of competitive procurement, equipment is procured which is not compatible with computer languages associated with current agency application programs, the Department will be faced with high conversion costs. For example, conversion costs \* \* \* would be low if the Departmental Computer Center were to install an IBM 370/168. The costs would be high and conversion would take much longer if a computer such as UNIVAC, Burroughs or Honeywell was selected."

Thus, the A-76 study does not preclude valid DOL concern with the total cost involved in expanding the DCC.

We also are unable to conclude that DOL's decision resulted from some improper bias against Honeywell. The fact that DOL considered the conversion costs and included them in its assessment of whether the purchase of equipment under the RFP was a cost-effective approach does not itself indicate such a bias, since those costs in fact would have to be incurred if Honeywell equipment was used to expand the DCC. Moreover, the decision to abandon the 1975 concept of an upgraded DCC, while certainly not in Honeywell's interest, is also not evidence of bias since DOL appears to have a reasonable basis for its decision.

Finally, Honeywell argues that if, in fact, DOL's needs have changed, the agency could avoid canceling the RFP by exercising its rights under the Quantity Variations clause in the RFP which allows DOL to order down to 75 percent of the value of the equipment offered under the proposal. The agency states that this clause would not save the subject RFP because it has determined that under its changed policy the DCC would only process 32 percent of the workload contemplated by the RFP. We find no basis to disagree with DOL's position on this point.

In short, we find DOL has made a rationally supportable management decision which resulted in DOL's no longer needing the equipment encompassed by the RFP. Accordingly, there was a cogent and compelling reason for canceling the RFP. Consequently, the protest is denied. Since we find the agency's actions here not to be arbitrary or capricious, the claim for recovery of proposal preparation costs is also denied. See Ikard Manufacturing Company, supra.

Although we deny the protest, we believe that DOL's actions in bringing this procurement to an advance stage before canceling it does not enhance the competitive procurement system. We think it would have been prudent for DOL to have conducted another survey of the component agencies' needs when more than 2 years had lapsed between the initial decision to expand the DCC and the issuance of the RFP. While it is not clear that the additional survey would have prevented the issuance of the RFP or its subsequent cancellation, the possibility that such action could have resulted in an RFP which more closely stated DOL's actual needs would have justified the time and effort needed.

By letter of today, we are pointing out to the Secretary of Labor the need to carefully evaluate the Department's needs before issuing a solicitation.

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The protest and claim are denied.



Deputy Comptroller General  
of the United States