

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

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FILE: B-211710 **DATE:** January 23, 1984
MATTER OF: ARA Services, Inc.

DIGEST:

Protest of General Services Administration decision to perform operations and maintenance services in-house based on cost comparison rather than to contract for services is denied where the protester has not shown that any agency errors affect the evaluation result.

ARA Services, Inc. (ARA), protests the General Services Administration's (GSA) decision to continue in-house performance of operations and maintenance (O&M) services covered by invitation for bids (IFB) No. GS-11C-30017 for services at the Housing and Urban Development Building, Washington, D.C., and GSA's Regional Office Building, Federal Building No. 6.

We deny the protest.

After GSA's cost comparison analysis, the total figure for GSA was \$4,147,706 and the total figure for ARA, the low bidder, was \$4,204,140, a difference of \$56,434. ARA timely filed an administrative appeal of GSA's decision. This appeal was denied, and a timely protest was filed with GAO. Essentially, ARA contends that the cost comparison was inaccurate and failed to comply with the applicable provisions of the cost handbook used by GSA in the cost analysis.

Line 1-Direct Material Costs

ARA asserts that GSA did not follow the handbook in calculating the direct material costs of performing these services. GSA derived costs of \$189,205 by averaging its 1980 and 1981 costs for supplies and materials, \$104,856 and \$157,811, respectively, and then making an adjustment for inflation.

Specifically, ARA alleges that GSA failed to follow the two-step costing procedure set out by the handbook of first

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estimating the types and quantities of material needed and then determining the cost of that direct material. Rather, ARA claims that GSA used a single-step costing procedure and, by doing so, failed to examine its own actual material needs.

GSA states that it used historical data in estimating its direct material costs because O&M work requirements vary little from year to year and that, therefore, the quantities and types of materials required are similar from year to year. GSA claims that the handbook permits the use of historical data as long as the data is adjusted to take into consideration differences between the IFB's statement of work and past practices or workload with adjustments for inflation.

It is inherent in deriving a figure for material costs for the agency first to estimate the types and quantities of material needed and then to determine the cost of that direct material. Although GSA's worksheets may not have expressly demonstrated that the prescribed two-step costing procedure was followed, we consider that the above GSA statement shows that GSA followed the prescribed two-step costing procedure. Accordingly, ARA has failed to show that the handbook's guidance was violated.

Further, ARA contends that while GSA may use historical data (its 1980 and 1981 figures), the handbook requires that the data "must be adjusted for price-level changes to the time period of the first year of the comparative analysis."

To this end, GSA states that it averaged the costs incurred in 2 prior years and adjusted that average by 8-percent per year for inflation to the period of the first year under review. Therefore, GSA has complied with the requirement to adjust historical data "for price-level changes to the time period of the first year of the comparative analysis."

ARA also argues that GSA must explain the 51-percent materials cost increase from its 1980 figure to its 1981 figure to justify averaging the two figures. ARA contends that if GSA cannot provide a rationale for its averaging technique, GSA should use only the 1981 figure adjusted for inflation. This approach would result in a figure of

\$210,577, or a difference of \$64,117 over 3 years, an amount sufficient to require reversal of the in-house determination.

GSA states that it used 2 years' figures to ensure a full accounting of costs since items may be purchased and expended in different fiscal years. GSA claims that the 51-percent increase between its 1980 and 1981 figures was due to a "region-wide supplemental minor repair program . . . not in the normal course of business" undertaken in 1981. GSA further argues that this repair program inflated its 1981 figure and could have been deducted before averaging the costs for these years. In our view, GSA has provided a satisfactory rationale for averaging its direct materials cost figures for the 2 years.

Accordingly, we find that GSA has complied with the handbook in deriving its direct material cost figure, and we deny the protest on this issue.

Line 12-Contract Administration

ARA contests GSA's use of a 6-percent contract administration rate instead of the standard 4-percent rate. If GSA used the 4-percent rate, the resulting difference of \$72,768 would be sufficient in itself to require reversal of the in-house determination. ARA claims that GSA may not use a 6-percent rate because it has not complied with the applicable handbook requirements, which read:

- "3. The standard 4-percent contract administration rate shall be used unless there is precise and supportable evidence that contract administration costs will be less or more than 4-percent. In no case, however, will the rate exceed 6-percent.
 - "a. The following conditions must be met in order to exceed the 4-percent [figure]:
 - "(1) The estimate of contract administration cost is based on a formal Government quality assurance surveillance plan;

- "(2) The solicitation must contain clearly defined contractor quality control requirements;
- "(3) The Government quality assurance surveillance plan shall be based on the [prescribed] quality assurance technique . . . ;
- "(4) The supporting data for line 12 must contain a detailed breakdown of inspection costs based on the quality assurance surveillance plan;
- "(5) The statement of work must be performance oriented"

ARA contends that GSA has not provided the "formal Government quality assurance surveillance plan" required above. In reply, GSA states that it has provided for such a plan and for all other of the above requirements. As stated by GSA:

"GSA's surveillance plan was both formal and comprehensive. Various sections of the IFB outline the methodology employed to monitor contract performance.

"Contract surveillance by GSA is essentially accomplished by monitoring four major performance activities: preventive maintenance (PM), services calls (remedial maintenance), tours, and watches. With regard to PM, GSA must be assured that all planned PM is carried out as scheduled. To do so, GSA must inspect the PM work performed. . . . As to remedial maintenance, GSA must inspect each service call response reported by the tenant agency as not completed to assure that the contractor does not claim some recurring trouble or intervening act after a repair is reportedly completed. Planned sampling plus inspection of tenant complaints is required for all service call work. The IFB also contains requirements for tours and watches. Tours are walk-throughs which

allow for visual inspection, such as noting if equipment is running when it should be turned off, etc. Planned sampling of sign-in sheets. . . is the methodology employed to assure that tours are completed. As to watches [a visual inspection of a particular equipment function], operator assignment sheets will be validated on a planned sampling basis."

Considering the above, we conclude that GSA provided for both a "formal government quality assurance surveillance plan" and "clearly defined contractor quality control requirements," required above.

As to the requirement for "precise and supportable evidence of the rate to be used," GSA justified its use of a 6-percent contract administration rate by stating that it had determined from "historical workload documents" that one full-time contract inspector is required for each 14,200 hours of O&M contract operation. Since a GSA productivity analysis had revealed that a minimum of 52,905 hours per year are required to perform the services, GSA estimated that four contract inspectors would thus be needed. GSA claims that the salary costs of these four inspectors over the 3-year period under review would be \$458,214, which is well in excess of 6-percent of the contract bid price.

GSA has submitted an analysis concerning its estimate for contract inspection. GSA reports:

"GSA's 14,200 figure was developed in February 1982. It was established without reference to any given solicitation, and well in advance of ARA's bid. It represents a 1 to 8 inspector/worker ratio. GSA has calculated that after consideration of annual leave, sick leave, and Federal holidays, there are approximately 1776 productive working hours in a given working year. Consequently, $1776 \times 8 = 14,208$, or 14,200 rounded off. The 1776 figure has been in use as early as 1980.

"As of January 1982, GSA had established a 1 to 12 inspector/worker ratio; one inspector for every 22,000 hours of O&M contract work. In

actuality, this staffing pattern proved inadequate in that [a contract] inspector performs more oversight duties in administering the contract. An inspector for every 7 to 9 contract employees was considered more realistic and supported by our then limited experience in contracted out field offices.

"GSA has conducted a study of two of its contracted out field offices, Forrestal and Interior. Actual productive hours to perform O&M work were calculated for each office and then multiplied by a percentage factor of inspection time v. productive work to determine the total inspection hours required. A total of 8002.6 inspection hours were calculated for Forrestal and 7580.7 for Interior. Using the 1776 productive hour figure as a divisor, 4.5 inspectors were required for Forrestal and 4.3 inspectors for Interior. There are four inspectors currently assigned to our Forrestal office and five at Interior.

"A further calculation shows 14,325 productive hours per inspector in Forrestal and 14,535 in Interior. These figures support GSA's 14,200 figure. A copy of the GSA study is enclosed.

"Based on the foregoing, we maintain that our conclusion that four inspectors are required is a reasonable determination. . . ."

ARA has not questioned GSA's recent analysis, other than to say that the analysis is self-serving; however, ARA has not specifically shown any error in GSA's analysis.

Under the circumstances, it is our view that ARA has not met its burden of showing that the GSA's calculations violate the handbook guidance.

Accordingly, GSA has met the requirement that a contract administration rate in excess of 4-percent be demonstrated by "precise and supportable evidence," and we find ARA's protest concerning the 6-percent contract administration rate used by GSA to be without merit.

Line 5-Operations Overhead

ARA further contends that GSA has improperly charged it with the cost of GSA employees who will inspect the performance of the contractor since ARA already has included supervision of its employees in its contract price. In our view, however, the government has the right to provide its own contract inspectors regardless of the amount of supervision provided by the contractor of its employees. GSA therefore is not "double counting" costs in this area. Moreover, we consider that GSA should not have added inspection costs to GSA's performance cost, as also alleged by ARA, because we are not aware of any requirement that GSA must provide for these inspectors.

ARA finally contends that, although GSA states that it would need four contract inspectors, GSA's worksheets indicate that only two persons were available who could fill positions as contract inspectors and that, therefore, GSA will not utilize four inspectors.

GSA states that since the time it filled out its worksheets, two more of its employees are now in supervisory positions and all four are now available to fill inspector positions if GSA contracts. GSA also claims that it listed two vacancies for inspection positions in its worksheets because it was unable to immediately fill the vacancies given reductions-in-force procedures, personnel ceilings, and budget constraints. GSA also realized that the services would be shortly subjected to the present cost analysis and the possibility of contracting; this consideration caused it to defer the prompt filling of the two vacancies. In our view, this explanation for the two vacancies listed in its worksheets is reasonable.

Line 8-Inflation and Line 26-Other
Costs Added to Contracting Out Performance

ARA asserts that GSA did not follow the handbook in calculating inflation and other costs added to the cost of contracting. ARA contends that GSA miscalculated inflation by \$3,746 and other costs added to contracting by \$31,910. However, since the difference after GSA's cost comparison analysis between GSA's and ARA's total figure is \$56,434, the two alleged errors would not affect the evaluation result.

The protest is denied.

for *Harry R. Can Clene*
Comptroller General
of the United States