



The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: Centel Business Systems
File: B-229059
Date: December 24, 1987

DIGEST

Protest is sustained where agency failed to discover and call to offeror's attention an obvious proposal pricing error which should have been reasonably detected and which materially prejudiced the offeror.

DECISION

Centel Business Systems protests the award of a contract to GTE Telecom Marketing Corporation under request for proposals (RFP) No. F11624-87-R-0016, issued by the Air Force for a telecommunications system for Grissom Air Force Base, Indiana. The procurement contemplated the award of a firm-fixed-price contract for a telecommunications system for 120 months. Centel argues that the Air Force did not perform a proper price analysis of its proposal or conduct adequate discussions because contracting officials failed to discover a mistake in the firm's price proposal. We sustain the protest.

The solicitation, issued on March 6, 1987, provided that award would be made to the offeror whose proposal met all the mandatory technical requirements and who offered the lowest evaluated life cycle cost. Proposals were required to be submitted on the basis of lease, lease with an option to purchase (LWOP), purchase and lease to ownership (LTOP) plans.^{1/} Each of the four plans included line items for a basic system consisting of installation and monthly maintenance of a complete telecommunications system and expanded services consisting of additional equipment and services not provided in the first year under the basic system. The basic and expanded services were also broken down into

^{1/} All of the prices mentioned in the decision pertain to the LWOP plan because that plan was the subject of the award.

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"non-recurring" line items, for which a single charge is to be paid and "recurring" line items (consisting of lease and maintenance items), which call for a charge every month after the item is acquired under the contract.

Seven proposals were received by the April 24 closing date; all seven met the solicitation's mandatory technical requirements. After conducting discussions on May 21 the Air Force issued amendment 0003, which, among other things, added under the expanded services, three subline items (SLINs) for the repair of buried telephone cables accidentally cut during the life of the contract. The Air Force explains that, as a result of agency uncertainty as to how offerors would price cable repair work and because of concern with water leaks in repaired cables, three separate SLINs were provided for offerors' proposed prices for repair of cut cables. The first, listed as a nonrecurring SLIN, included all labor associated with cable repairs, such as excavation, splicing and reburying. The second, also a nonrecurring SLIN, included all materials and equipment required for cut cable repairs, such as cable, cable connectors, and splice enclosures. The third, SLIN 0014AH, was a recurring monthly charge for maintenance of repaired cables. The estimated quantity for the three cable cut SLINs was 20,000 wire pairs.^{2/} There were corresponding SLINs for cable cuts in all four of the required plans.

Centel's revised price pages, which were submitted on June 8, included a unit price of \$2.90 and an extended price of \$58,000 (\$2.90 x 20,000 estimated quantity) on all three SLINs for cut cables. Since the first two SLINs represented one-time, nonrecurring costs they each added only \$58,000 to Centel's total proposed price. However, since 0014AH was a recurring monthly maintenance charge, Centel's entry in that SLIN added \$58,000 for every month remaining in the contract. For evaluation purposes, Centel's entry in SLIN 0014AH increased its total price by \$3,479,365 for the projected life of the system.

According to the Air Force, after all offerors' revised price pages were submitted in response to the amendment, they were reviewed by contracting officials for minor informalities and apparent clerical mistakes as required by the Federal Acquisition Regulation (FAR), 48 C.F.R. § 15.607 (1986). No errors were detected in any offerors' revised price pages. Discussions were conducted and best and final offers (BAFOs) were requested and received by July 8.

^{2/} The Air Force explains that cables range in size from 25 to 1800 pair of wires.

The BAFOs were forwarded to the Air Force command headquarters for calculation and comparison of the contract life cycle costs of each proposal under the four plans (lease, LWOP, purchase and LTOP) in accordance with the terms of the RFP. The result of this calculation was a report consisting of cost figures for each offeror under each of the four plans. According to the Air Force, this report did not cause contracting officials to suspect a mistake in Centel's price proposal.

Based on the price evaluation, the contracting officer decided that the most advantageous award would be to GTE on the basis of its LWOP proposal; award was made to that firm on August 26 at an evaluated 10-year life cycle cost of \$6,475,317.

Centel maintains that there was a mistake in its proposal which occurred when its computer operator erroneously inserted \$2.90 in all three cut cable SLINs on the firm's revised price pages submitted in response to amendment 0003.^{3/} According to Centel, it intended to distribute its entire proposed charge associated with repair of cut cables over SLINs for labor and materials, so that the entry in 0014AH for monthly maintenance of cut cables, should have been "NSP," for not separately priced. Centel says that if its mistake had been corrected, it would have been the low offeror by almost \$200,000 and would have received the award.

Centel argues that the mistake was obvious so contracting officials should have noticed it and pointed it out so the firm could correct the mistake or resolve it in discussions. Centel maintains that the agency's failure to discover and inform the firm of the mistake violated the agency's duty to conduct meaningful discussions and its duty, under the FAR, 48 C.F.R. § 15.607(a), to inspect proposals for minor informalities and irregularities and to permit offerors to correct them. Finally, Centel argues that contracting officials should have performed a price evaluation on the Centel proposal prior to the submission of BAFOs.

While acknowledging that the insertion of \$2.90 for cable cut maintenance must have been an error, the Air Force concludes that because of the complex nature of the

^{3/} Centel requested that proprietary information in its price proposal and protest not be disclosed outside the government. In order to comply with this request, we have reviewed Centel's proprietary price information in camera and we will discuss Centel's actual prices only to the extent necessary to address the protest.

solicitation's pricing schedule it had no reason to believe prior to award that Centel's response to amendment 0003 and its BAFO contained errors. In this regard, the agency notes that the price schedule provided for the insertion of 5,000 prices for four separate plans and was so complicated that the offerors' prices had to be analyzed by a computer, which was only available for evaluating the BAFOs.

More specifically, the Air Force states that it reviewed the responses to amendment 0003 and did not find Centel's \$2.90 unit price for monthly maintenance of cut cable out of line either with Centel's \$2.90 unit prices for labor and parts for cable repair or its \$2.75 unit price for monthly maintenance of switched lines. The agency notes in this connection that it had no prior pricing experience in this area and it had no government estimate. Finally, the agency states that when it evaluated the total price for each of the offerors' four plans, Centel's total evaluated prices, while the highest of the offers received, were not "extraordinarily" higher than the other BAFOs. For the reasons set forth below, we do not agree with the agency that it properly executed its duty to review proposals for errors.

Where a contracting officer is on actual or constructive notice of a possible error in an initial or revised proposal, the error must be called to the offeror's attention and resolved--generally through written or oral discussions. FAR, 48 C.F.R. §§ 15.607, 15.610(c)(4); American Management Systems, Inc., B-215283, Aug. 20, 1984, 84-2 CPD ¶ 199. Where an agency fails to resolve a proposal error that it should have reasonably detected and which materially prejudices an offeror, the agency has failed in its obligation to conduct meaningful discussions. Id.

Based on our review of the Centel proposal, we find that a clear discrepancy exists in that firm's pricing for cut cable maintenance which should have led the Air Force to suspect that an error existed in both Centel's revised offer and BAFO.

While it is true, as the Air Force argues, that the \$2.90 unit price for cut cable maintenance does not seem extraordinary in the context of Centel's \$2.90 unit prices for cut cable labor and materials, it must be noted that not only is the maintenance unit price extended to \$58,000 by the 20,000 pair solicitation estimate (which also applied to both the labor and material charges), but it also must be multiplied by a 108-month evaluation factor representing the system's useful life. Thus, when the \$2.90 is evaluated in accordance with the solicitation, it totals \$3,479,365. This figure is obviously absurd when compared with the

\$116,000 total charge for repairing all the estimated cable cuts. Further, when evaluated under the solicitation, the maintenance charge for the cut cables becomes nearly six times higher than Centel's proposed maintenance charge for the entire basic system and causes Centel's price for the expanded services to be almost as high as the awardee's total price for both the basic and expanded services.^{4/} Further, we are informed by the agency that none of the other firms offered a separate price for the maintenance of cut cable.^{5/}

We agree with the Air Force that it would be difficult to detect errors in proposals like Centel's, which in total included almost 5,000 separate prices. Nevertheless, the prices for the cable repairs were submitted in response to amendment 0003, not the initial solicitation. The agency specifically states that it separately examined the responses to amendment 0003. These responses contained nowhere near 5,000 separate unit prices.

In sum, it appears that the agency missed the error because it failed to comprehend the impact of the solicitation's evaluation scheme on the \$2.90 unit price inserted by Centel for cut cable maintenance and because it failed to analyze the BAFO prices on any basis other than a "bottom line" determination as to which firm offered the lowest overall prices. Given the significant impact this one price made on Centel's overall offer, we think the agency should have detected the problem and raised the issue with Centel during discussions.

There is nothing on the face of Centel's proposal to show what, if anything, it intended to offer as a price for cut cable maintenance. It argues that it intended to offer no separate price for this item and the record shows that none of the other firms offered a separate price for this item. Further, the solicitation's evaluation scheme (unit price x 20,000 x 108 months) suggests that Centel did not intend to submit a unit price because even an extremely low price when extended would dwarf Centel's \$116,000 total charge

^{4/} The \$2.75 unit price for monthly maintenance cited by the Air Force results in a \$6,875 per month charge. This figure represents the maintenance charge for all the expanded services items except for cut cable. This is also incongruous in the content of the \$58,000 per month figure offered for cut cable maintenance.

^{5/} In this respect, neither the Air Force or GTE contend that there will be any significant cost for maintenance of cut cables under the contract.

for cable repair. Such a pricing scheme, with a much higher cost for cut cable maintenance than for overall cable repair, obviously would be illogical. Therefore, based on the circumstances here, we conclude that it is highly unlikely that Centel, in the absence of error, would have offered a separate unit price for this item. Accordingly, we recommend that the Centel offer be evaluated as if that firm did not offer a separate price for cut cable maintenance. If Centel is evaluated as low, in view of the fact that contract performance has been suspended, the Air Force should terminate the existing contract for the convenience of the government.

The protest is sustained.

Milton J. Fowler
for Comptroller General
of the United States