



**The Comptroller General  
of the United States**

Washington, D.C. 20548

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## Decision

**Matter of:** Burns & Roe Industrial Services Company  
**File:** B-233561  
**Date:** March 7, 1989

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### DIGEST

Agency cost realism analysis had a reasonable basis where the agency reviewed awardee's responses to agency cost discussions in light of the government estimate, verified awardee's overhead and general and administrative rates with the Defense Contract Audit Agency and verified awardee's past performance under similar cost reimbursement contracts; awardee was able to demonstrate to agency's satisfaction how it could perform contract at the costs proposed.

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### DECISION

Burns & Roe Industrial Services Company protests the award of a cost-plus-fixed-fee contract to Bechtel National Inc., under request for proposals (RFP) No. DACA87-88-R-0040, issued by the United States Army Corps of Engineers. Burns & Roe contends that the Corps did not properly evaluate the cost realism of Bechtel's cost proposal.

The protest is denied in part and dismissed in part.

The RFP contemplates the award of a cost reimbursement contract for logistical planning and equipment acquisition in support of the Chemical Stockpile Disposal Program (CSDP). The CSDP is a congressionally mandated plan to provide for the design, construction and operation of facilities to dispose of obsolete chemical warfare agents and munitions.

The statement of work divides the contract work into 10 parts, incorporating two different technologies for the destruction of chemical weapons. Logistical planning and equipment acquisition for the reverse assembly/incineration process is the basic requirement in the RFP. With reverse

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assembly/incineration, the munitions are destroyed in the reverse order in which they were manufactured. Cryofracture/incineration, an alternate method of destruction utilizing intense freezing, cracking and incineration, is included as an option which would be exercised only if the reverse assembly/incineration method proved unsuccessful.

The RFP listed, in descending order of importance, the evaluation criteria of general management, technical approach and cost. Offerors were informed that neither cost or fee would be scored factors but would be evaluated as to reasonableness, realism and affordability and that the total price for the basic requirements would be evaluated together with any options exercised at the time of the award. The evaluated cost of the contract included only the offerors' cost to procure the equipment; the cost of equipment itself would be treated as a pass-through cost to the government. The solicitation also provided that award would be made "to the offeror which in the judgment of the contracting officer best serves the Government's interest within the amount of funds available."

Six timely proposals, including offers from Burns & Roe and Bechtel, were received in response to the RFP. The Technical Evaluation Committee (TEC) found that all six were acceptable and should be included in the competitive range. Written and oral discussions were conducted with the offerors and best and final offers (BAFOs) requested. Burns & Roe's and Bechtel's revised proposals were evaluated as follows:

<u>Contractor</u>	<u>Score</u>	<u>Base Total/Fee</u>
Government Estimate	10,000	\$20,572,532/ 1,234,353
Burns & Roe	10,000	18,988,700/ 949,500
Bechtel	9,920	15,890,500/ 794,500

The contracting officer found that the proposals of Burns & Roe and Bechtel were technically equal and made award to Bechtel on the basis of its lower cost. Burns & Roe protests to our Office that the Corps failed to conduct a proper cost realism analysis of Bechtel's unrealistically

low cost proposal. Performance of Bechtel's contract has not been suspended based upon the agency's determination that urgent and compelling circumstances exist which would not permit awaiting our determination in the matter. 31 U.S.C. § 3553(d)(2) (Supp. IV 1986); 4 C.F.R. § 21.4(b) (1988).

In addition to protesting the cost realism evaluation of Bechtel's proposal, Burns & Roe initially protested several other issues, including that the Corps improperly evaluated technical proposals and that Bechtel's proposal was materially unbalanced. The Corps in its report responded in detail to these allegations, and Burns & Roe in its comments did not rebut the Corps' response but stated that cost realism was the issue in this protest. We consider the other issues to have been abandoned by the protester and will not consider them. See TM Systems, Inc., B-228220, Dec. 10, 1987, 87-2 CPD ¶ 573.

Burns & Roe's cost realism allegation is based primarily on the fact that Bechtel's cost proposal for the basic requirement is approximately 23 percent less than the government estimate and 16 percent less than Burns & Roe's offer. Burns & Roe argues that Bechtel's proposed costs cannot be realistic when they are this far below the government estimate and that Bechtel will not perform the contract for the costs proposed.

When a cost reimbursement contract is to be awarded, a cost realism analysis must first be performed by the agency. See Federal Acquisition Regulation §§ 15.801, 15.805. However, an agency is not required to conduct an in-depth cost analysis or to verify each and every item in conducting its cost realism analysis. Rather, the evaluation of competing cost proposals requires the exercise of informed judgment by the contracting agency involved, since it is in the best position to assess "realism" of cost and technical approaches and must bear the difficulties or additional expenses resulting from a defective cost analysis. Since the cost realism analysis is a judgment function on the part of the contracting agency, our review is limited to a determination of whether an agency's cost evaluation was reasonably based and not arbitrary. In view of the broad discretion vested in the agency procurement officials to make cost realism evaluations, we will accept the agency's judgment even where the record does not provide a full

explanation or rationalization for cost differences between proposals. Grey Advertising, Inc., 55 Comp. Gen. 1111 (1976), 76-1 CPD ¶ 325; Quadrex HPS, Inc., B-223943, Nov. 10, 1986, 86-2 CPD ¶ 545.

The record (portions of which were not released to the protester but which we have reviewed in camera) indicates that the Corps conducted a detailed cost analysis of Bechtel's proposal. Burns & Roe and Bechtel received the highest technical evaluation scores on the initial proposals. The Corps, however, questioned Bechtel's low proposed costs. In response to written and oral discussions, Bechtel provided detailed information to explain and substantiate its proposed costs. The Corps considered Bechtel's submissions and best and final offer in light of the government estimate, verified Bechtel's overhead and general and administrative (G&A) rates with the Defense Contract Audit Agency (DCAA), verified Bechtel's past performance under similar cost reimbursement contracts and compared Bechtel's offered cost to the other cost proposals received.

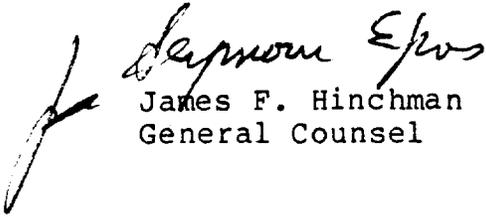
We find that the Corps reasonably relied upon Bechtel's explanations for how it could perform the contract at the costs proposed. Bechtel demonstrated that as a result of its extensive, national organization it could reduce the number of required manhours by assigning personnel on an as-needed, project-by-project basis rather than by dedicating personnel to the contract. Further, Bechtel made several assumptions concerning the contract work which the Corps found reasonable and which would also reduce the number of manhours needed to perform. For example, as a result of earlier contracts under the CSDP, technical data packages for CSDP equipment had already been drawn up and issued for a prototype facility and the equipment procured and tested. The Corps found that Bechtel had reasonably assumed that the data packages were basically sound and would not require labor-intensive review or changes/revisions.

Bechtel also demonstrated that it could achieve other labor efficiencies by planning to perform equipment acquisitions early in the contract effort. Using a unique acquisition approach, Bechtel showed that it could reduce the employee grade level and the number of staff hours required to perform the equipment acquisition. Furthermore, Bechtel offered significant cost savings by offering lower overhead and G&A rates than anticipated by the Corps. Bechtel maintains separate overhead rates for its procurement and engineering organizations, and its overhead rate for procurement functions is half that of its engineering function. Bechtel states that to the extent possible it

shifted administrative and procurement support functions into its procurement organization to achieve additional cost savings. In addition, Bechtel proposed a fixed ceiling on its G&A rate for the purposes of reimbursement by the government. See NDI Engineering Co, Inc., 66 Comp. Gen. 198 (1987), 87-1 CPD ¶ 37, in which we approved of an offeror's use of a proposed ceiling rate on overhead.

We do not view Bechtel's low cost per se unrealistic on the basis that it is lower than the government estimate; rather, we have recognized, as did the Corps, that an offeror may propose a technical approach that reasonably may be found capable of performing the work at a lower cost than the government estimate. See Quadrex HPS, Inc., B-223943, supra. We conclude that the agency's cost realism analysis had a reasonable basis.

The protest is denied in part and dismissed in part.



*James F. Hinchman*

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General Counsel