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Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: GTE Government Systems Corporation

File: B-260022; B-260022.2

Date: May 16, 1995

Michael W. Clancy, Esq., for the protester.
Paul Shnitzer, Esq., Raymond F. Monroe, Esq., and Stephanie V. Corrao, Esq., Crowell & Moring, for AlliedSignal, an interested party.
Gregory H. Petkoff, Esq., and William F. Cloran, Esq., Department of the Air Force, for the agency.
Daniel I. Gordon, Esq., and Paul Lieberman, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

Cost realism analysis does not require in-depth verification of every item, and analysis was adequate where agency reasonably reviewed key components of cost; protest that agency's cost realism analysis failed to take into account awardee's significant cost overruns under prior contract is denied where the record does not indicate that the alleged overruns occurred.

DECISION

GTE Government Systems Corporation protests the award of a contract to AlliedSignal under request for proposals (RFP) No. F04606-94-R-43007, issued by the Department of the Air Force for certain support services. GTE challenges various aspects of the proposal evaluation and source selection process, particularly the evaluation of the realism of the awardee's proposed costs.

We deny the protest.

The Air Force issued the RFP on July 22, 1994, to obtain proposals for approximately 5 years of depot-level support for the common user element of the global network of space and ground tracking, telemetry, command, mission operations, and data transfer resources supporting manned and unmanned programs of the Department of Defense and other agencies as well as foreign programs sponsored by the United States government. The procurement is a follow-on to a prior contract performed by AlliedSignal. The RFP anticipated an indefinite quantity contract and, with several exceptions not relevant here, the contractor will receive cost reimbursement plus an award fee.

Section M of the RFP stated that the evaluation criteria, in descending order of importance, were technical, management, proposed response to a hypothetical factual scenario, and cost. The RFP further divided the technical and management factors into subfactors. The solicitation provided that the agency would use a color/adjectival rating scheme and would evaluate the performance risk for each offeror and the proposal risk for each proposal's technical approach. Proposed cost was to be evaluated for realism and reasonableness, as well as the total dollar amount. The RFP stated that cost realism would be evaluated "by assessing the compatibility of proposed costs with proposal scope and efforts."

Proposals were received from AlliedSignal and GTE by the August 31 closing date. After the initial evaluation, discussions were conducted through issuance of clarification requests and deficiency reports on October 12 to the two offerors; written responses were received by October 27. Oral discussions were then conducted with each offeror during the course of November. Requests for best and final offers (BAFO) were issued on December 9, and BAFOs were received by the December 16 closing date.

In reviewing the BAFOs, the agency evaluators assigned the two proposals identical "green" (acceptable) ratings under the technical, management, and scenario factors. For proposal risk as well, identical scores were assigned (both were rated as low risk). The only difference in risk rating was that GTE's technical proposal was assessed a moderate performance risk, while AlliedSignal's was rated low risk; both proposals were rated low performance risk as to their management and scenario proposals.

In contrast to these similar technical ratings, the two proposals offered very different costs: AlliedSignal's proposed cost was $85 million, while GTE's was $101 million, approximately 19 percent higher. The agency found no basis to conclude that the proposed costs were unrealistic, and the evaluated costs were therefore the same as the proposed figures for both offerors.

While the agency believed that AlliedSignal's proposal had certain technical advantages over that of GTE, the determining element in the source selection decision was the substantial difference in evaluated cost. Primarily due to AlliedSignal's lower cost, the source selection authority selected that firm for award on January 5, 1995. This protest followed.

While GTE raises certain limited challenges to the technical and risk evaluations, the gravamen of the protest is the challenge to the cost realism analysis, and we therefore focus on that question. GTE identifies several specific cost areas which it claims were not covered in AlliedSignal's cost proposal or which it views as unreasonably understated in that proposal.[1] In particular, GTE contends that the Air Force failed to take into consideration the substantial overruns that allegedly occurred under AlliedSignal's predecessor contract for these services.

When a cost reimbursement contract is to be awarded, the offerors' estimated costs of contract performance should not be considered as controlling since the estimates may not provide valid indications of the final actual costs which the government is required to pay. See Federal Acquisition Regulation § 15.605(d). Consequently, the contracting agency must perform a cost realism analysis to determine the realism of an offeror's proposed costs and to determine what the costs are likely to be under the offeror's technical approach, assuming reasonable economy and efficiency. CACI, Inc.-Fed., 64 Comp. Gen. 71 (1984), 84-2 CPD ¶ 542. An agency is not required, however, to conduct an in-depth analysis or to verify each item in conducting a cost realism analysis. Hattal & Assocs., 70 Comp. Gen. 632 (1991), 91-2 CPD ¶ 90. A cost realism assessment necessarily involves the exercise of informed judgment and the agency is clearly in the best position to make that assessment; therefore, our Office will review such a determination only to ascertain whether it had a reasonable basis. Id.

Here, the record demonstrates that the Air Force reviewed key facets of the cost proposals for realism. It considered the total proposed costs as one measure of cost realism; in that analysis, it concluded that both proposals' costs were realistic. The agency also reviewed the costs for materials, the number of labor hours, and the mix of labor skills, and concluded that both offerors' proposals in these areas were realistic and compatible with the proposed scope and efforts. The evaluators further considered whether escalation factors or other costs had been omitted, and concluded that none appeared to be missing. The proposed rates were submitted to the Defense Contract Audit Agency, which indicated that the rates for both prime contractors and subcontractors were reasonable, with minor exceptions.

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[1]For example, the protester alleges that certain facility costs and equipment depreciation costs were omitted from the awardee's proposed costs.

In the context of a difference of more than $15 million between the cost of the competing proposals, the specific individual challenges raised by GTE are inconsequential--with the exception of the broader allegation that the agency failed to consider alleged overruns under the predecessor contract. Moreover, the specific individual challenges raised are premised on the assumption that our Office will find a cost realism analysis unreasonable unless the agency has conducted an in-depth analysis and verified each cost item. Because, as explained above, that is not our standard of review, the possibility that the agency may not have verified every cost item does not call into question the reasonableness of the overall cost realism analysis.

As noted above, however, GTE alleges that AlliedSignal incurred a substantial overrun under the predecessor contract and that the agency unreasonably failed to take that into account. While such a scenario, if factually supported, might raise doubt about the reasonableness of a cost realism analysis, there is no basis in the record for such concern here. The Air Force personnel responsible for administering the contract deny that there was a significant cost overrun under AlliedSignal's predecessor contract. On the contrary, the Air Force found that, in the context of an indefinite quantity contract where the agency's precise needs cannot be determined in advance, AlliedSignal's estimate of costs approximated their actual costs.

In fact, GTE's calculations show the awardee performing for slightly less than estimated costs for some periods and somewhat more than the estimates for other periods. The Air Force views those cost differences as indicative of the inability to precisely predict actual requirements, not as an overrun. Moreover, even if the calculations are assumed to reveal an overrun, it would be on the order of only 10 percent overall, which is barely half the proportional difference between GTE's and AlliedSignal's proposed costs in the instant procurement. That is, raising AlliedSignal's proposed cost by an adjustment proportionate to the alleged overrun under the prior contract would nonetheless leave AlliedSignal's evaluated cost significantly below that of GTE.

GTE takes the position, however, that the overrun should not be directly measured by the dollar cost incurred above the estimate. Instead, according to GTE, the total cost for each year should be divided by the number of hours recorded for that year, thus producing an hourly "rate" that will allegedly be substantially higher than the comparable rate constructed by dividing AlliedSignal's proposed costs by the estimated number of hours under either the predecessor contract or the RFP at issue in this protest. The agency and AlliedSignal respond that such an artificially constructed rate is meaningless, particularly since the number of labor hours recorded did not include all subcontractor hours.[2] We reject as unreasonable the argument that the agency was required to adopt, in its review of cost realism, an analysis which was inconsistent with the experience and informed judgment of the agency personnel who administered the prior contract.

In sum, the record provides no indication that the cost realism analysis was unreasonable. GTE's argument that there was a large overrun undetected by the Air Force, in addition to being implausible on its face, is not supported by the record in this case. Particularly in the context of an indefinite quantity contract, where the precise requirements of the government are difficult to forecast, there was nothing in the record that required the agency to find that AlliedSignal had caused a substantial overrun. Accordingly, the agency had a reasonable basis to find that AlliedSignal's proposed cost under the instant RFP, which was consistent with its proposal under the predecessor procurement, was realistic.

Other than the criticism of the cost realism analysis, the protest is essentially limited to challenges to several discrete aspects of the technical evaluation. For the reasons explained in the following paragraphs, none of these challenges indicate that the source selection was improper.

Several of the protester's allegations relate to the areas in which the agency rated the awardee's technical proposal superior to GTE's. The awardee proposal's evaluated superiority had no impact on the source selection; hence, error in the ratings indicating that superiority could not have prejudiced GTE. The agency states, and the record confirms, that the primary reason for the selection of AlliedSignal's proposal was its substantially lower cost, not any technical superiority. Accordingly, even if, for the purpose of this analysis, the performance risk assessment for GTE's technical proposal were adjusted to "low risk" and the "blue" rating that the awardee's proposal was assigned under one technical subfactor were lowered to a "green" (as GTE contends was required), the source selection equation--and its outcome--would be unaffected. The result would simply be to make the technical and risk ratings of the two proposals even more nearly equal, and cost would remain the discriminator. Particularly in view of our finding that the agency had a reasonable basis for finding AlliedSignal's lower proposed cost realistic, any errors in

[2]We note in this regard that the RFP provided that subcontracts were to be proposed as "other direct costs" and that subcontractor rates were not to be provided.

the technical and risk evaluations could not have prejudiced GTE.[3] Because prejudice is an essential element of a viable protest, Lithos Restoration Ltd., 71 Comp. Gen. 367 (1992), 92-1 CPD ¶ 379, we therefore do not address the merits of GTE's challenges to the ratings under which its proposal was rated less highly than the awardee's.

The remaining evaluation issues relate to areas in which GTE alleges that its proposal, if properly evaluated, would have been found superior to AlliedSignal's. For example, GTE challenges the reasonableness of the "green" (acceptable) rating assigned to its technical proposal. In GTE's view, its proposal merited a "blue" (exceptional) rating, primarily in light of the agency's having identified strengths but no weaknesses in the proposal. GTE also contends that that agency should have assigned a moderate performance risk rating to AlliedSignal's proposal.

These allegations (like the challenges to the agency's finding that AlliedSignal's proposal had certain technical or risk advantages over GTE's) represent instances of the protester simply disagreeing with the evaluators' judgment; such disagreement alone does not render that judgment unreasonable or otherwise improper. See Paragon Imaging, Inc., B-249632, Nov. 18, 1992, 92-2 CPD ¶ 356. In particular, the fact that the evaluators did not identify any weaknesses in GTE's proposal, but did identify strengths in it, did not make it unreasonable to assign it a "green" rating. Judging whether a proposal is exceptional (meriting a "blue" rating under the Air Force color scheme) and assessing an offeror's performance risk are matters committed to the contracting agency's discretion, subject to the test of reasonableness and conformance with the solicitation evaluation criteria, and GTE's disagreement

[3]Similarly, GTE could not have been prejudiced by the agency's alleged failure to raise during discussions a concern about one subfactor as to which GTE's proposal received a moderate risk rating. GTE views that moderate risk rating as unjustified. Because the moderate risk rating under that subfactor rating was outweighed by the low risk rating under other subfactors, it had no impact on the evaluation.

with the agency's judgment in these areas does not establish that the judgment was unreasonable or inconsistent with the RFP evaluation criteria.

The protest is denied.

For Robert P. Murphy
General Counsel