



DOCUMENT FOR PUBLIC RELEASE

The decision issued on the date below was subject to a GAO Protective Order. This redacted version has been approved for public release.

Decision

Matter of: Smartronix, Inc.

File: B-413721.2

Date: February 22, 2017

James H. Roberts III, Esq., Van Scoyoc Roberts PLLC, for the protester.
Lt Col Kevin P. Stiens, Department of the Air Force, for the agency.
Noah B. Bleicher, Esq., and Peter H. Tran, Esq., Office of the General Counsel,
GAO, participated in the preparation of the decision.

DIGEST

Protest challenging agency's cost realism analysis and adjustment to protester's proposed costs is denied where the record shows that the agency performed a reasonable cost evaluation.

DECISION

Smartronix, Inc., a small business of Hollywood, Maryland, protests the issuance of a task order to Atlantic CommTech Corporation, of Norfolk, Virginia, under request for proposals (RFP) No. FA8307-16-R-0088, issued by the Department of the Air Force for maintenance support services for the cyberspace vulnerability assessment/hunter (CVA/H) weapon system. Smartronix challenges the agency's cost evaluation.

We deny the protest.

BACKGROUND

The Air Force issued the solicitation on May 10, 2016, as a request for proposals (RFP) to small businesses holding Network-Centric Solutions-2 (NETCENTS-2) indefinite-delivery, indefinite-quantity (IDIQ) contracts. The RFP contemplated the issuance of a task order with cost-plus-fixed-fee and cost-reimbursement line items pursuant to Federal Acquisition Regulation (FAR) subpart 16.5 for a 1-year base period and two option years. RFP at 1.

A performance work statement (PWS) outlined the hardware and software maintenance tasks the contractor would perform for CVA/H's 12 cyber protection

teams located at Joint Base San Antonio in Texas and Scott Air Force Base in Illinois.¹ PWS ¶ 2. In this regard, the PWS identified more than 40 specific system sustainment tasks that ranged from maintenance of data files and existing systems to system security, troubleshooting assistance, and deployment of new capabilities.² Id. ¶ 3.1. The PWS advised that during performance of the order, the number of involved systems would increase and the configuration of the system would “evolve significantly.” Id., Executive Summary, at 1. As a result, the PWS warned that the level of expertise required to fulfill the requirement was very high and the contractor’s “ability to increase and decrease the number of staff to match the dynamic support requirements [was] critical.” Id. The PWS also provided contractor personnel staffing estimates, which identified 32 full time equivalent (FTE) staff for both the base year and the first option year, and 60 FTEs for the second option year, as well as an additional eight FTEs for support of the information operations fly-away kit (IOP-FAK).³ Id. ¶¶ 3.1.3.1, 3.1.3.2.

The RFP provided that the task order would be issued on a lowest-priced, technically acceptable (LPTA) basis, in accordance with FAR § 15.101-2. RFP amend. 0003, at 50. First, the agency would evaluate all proposals for technical acceptability; proposals rated technically unacceptable would not be evaluated further.⁴ Id. Next, the Air Force would calculate a most probable cost (MPC) for each offer and rank all technically acceptable proposals by the government-estimated MPC.⁵ Id. Pursuant to the RFP, the technically acceptable proposal with the lowest MPC would receive the task order. Id.

¹ According to the PWS, the CVA/H weapon system provides a collection of tools to assess the health of segments of the Air Force network, and to remediate any vulnerabilities identified during those assessments. PWS ¶ 3.1.3.1.

² The PWS outlined numerous additional tasks such as operational support services, system administration, and software support. PWS ¶¶ 3.1.1, 3.1.1.2, 3.3.4.

³ The IOP-FAK is a subsystem to the CVA/H. PWS ¶ 3.1.3.2.

⁴ The RFP identified six technical subfactors: staffing plan; recognition of risks to weapon system mission fulfillment with mitigation strategies; alignment of work breakdown structure to proposed workforce and requirements of the PWS; ability to attract and retain staff; management processes; and transition plan. RFP amend. 0003, at 50.

⁵ Although the RFP contemplated a lowest-priced, technically acceptable award methodology, the order was to be cost reimbursable, and the RFP advised offerors that the most probable cost would be used to determine lowest “price.” See RFP amend. 0003, at 55.

The RFP instructed offerors to submit separate technical and cost proposals. As relevant here, offerors' cost proposals were to include total proposed costs/prices for each of the dozen contract line item numbers identified in the solicitation, as well as a cost spreadsheet that detailed proposed labor categories, labor rates, and labor hours, among other data. Id. at 48-49; RFP, attach. 4, Cost Proposal. The Air Force would evaluate cost/price proposals for reasonableness, realism, completeness, balance, and accuracy using the cost/price analysis techniques outlined in FAR § 15.404. RFP amend. 0003, at 53. The RFP warned that "unrealistically low or high proposed costs or prices" could be grounds for eliminating a proposal from the competition. Id. at 53-54. Further, the RFP advised that the Air Force would compute an MPC for each offer, which would reflect the agency's best estimate of the cost of any contract that was likely to result from the offeror's proposal. Id. at 54. The MPC would be determined by adjusting the offeror's proposed cost and fee to reflect any additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis. Id.; see FAR § 15.404-1(d). Pursuant to the solicitation, the MPC would be used for evaluation purposes. RFP amend. 0003, at 50, 54-55. Id.

The agency received proposals from Atlantic CommTech, Smartronix, and six other offerors by the June 17 submission deadline. Contracting Officer's Statement (COS) at 8. An evaluation board reviewed the proposals and, following clarifications, assessed five of the offers as technically acceptable, including proposals from Smartronix and Atlantic CommTech. Agency Report (AR), Tab 14a, Proposal Analysis Report (PAR), Aug. 29, 20126, at 8. Atlantic CommTech's MPC was the lowest of the technically acceptable offerors, and the firm subsequently was selected for award. AR, Tab 15a, Fair Opportunity Decision Document (FODD), Aug. 29, 2016, at 7.

Thereafter, Smartronix protested to our Office, alleging that the Air Force's cost evaluation and basis of estimate were flawed and unreasonable. In response, the Air Force took corrective action, which included reevaluating offerors' cost proposals and making a new award decision. As a result, our Office dismissed Smartronix's protest as academic.

During the corrective action, an Air Force cost team--which was not involved in the original evaluation and award decision--conducted an entirely new evaluation of the cost/price proposals of the five firms that submitted technically acceptable offers. AR, Tab 14b, Revised PAR, Nov. 9, 2016, at 1. As more fully described below, the cost team identified concerns with Smartronix's approach to phase-in staff over a 6-month period during the second option year of performance. Id. at 4. Consequently, as part of their realism analysis, the cost team recalculated Smartronix's staffing approach based on a 60-day phase-in period. Id. at 5. The result of the cost realism analysis was an increase of \$596,960 to Smartronix's proposed cost/price, which resulted in an MPC of \$19,685,244. Id.

Atlantic CommTech's \$19,177,991 MPC remained the lowest of the technically acceptable offers, and the order was reissued to the firm on November 9. AR, Tab 15b, Revised FODD, Nov. 9, 2016, at 1-3. Following receipt of a written debriefing, Smartronix again protested to our Office.⁶

DISCUSSION

Smartronix challenges the agency's cost evaluation.⁷ Specifically, the protester objects to the Air Force's MPC adjustment, asserting that it was unwarranted and a deviation from the solicitation's evaluation methodology. Protest at 3. Smartronix argues that it should have received the task order because its proposal was technically acceptable and lower priced than Atlantic CommTech's. We find no merit to the protester's arguments.

When an agency evaluates a proposal for the award of a cost-reimbursement contract or task order, an offeror's proposed estimated costs are not dispositive because, regardless of the costs proposed, the government is bound to pay the contractor its actual and allowable costs. FAR §§ 15.305(a)(1), 15.404-1(d); Palmetto GBA, LLC, B-298962, B-298962.2, Jan. 16, 2007, 2007 CPD ¶ 25 at 7. Consequently, the agency must perform a cost realism analysis to determine whether the estimated proposed cost elements are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the unique methods of performance and materials described in the offeror's proposal. FAR § 15.404-1(d)(1); Advanced Commc'n Sys., Inc., B-283650 et al., Dec. 16, 1999, 2000 CPD ¶ 3 at 5. An offeror's proposed costs should be adjusted, when appropriate, based on the results of the cost realism analysis. FAR § 15.404-1(d)(2)(ii); Systems Techs., Inc., B-404985, B-404985.2, July 20, 2011,

⁶ The awarded value of the task order at issue exceeds \$10 million. Accordingly, at the time this protest was filed on November 16, 2016, this procurement was within our jurisdiction to hear protests related to the issuance of orders under IDIQ contracts awarded under the authority of Title 10. See 10 U.S.C. § 2304c(e)(1)(B); see also National Defense Authorization Act for Fiscal Year 2017, Pub. L. No. 114-328, 130 Stat. 2000, § 835 (amending jurisdictional threshold to \$25 million for protests of orders placed under IDIQ contracts awarded under authority of Title 10, effective December 23, 2016).

⁷ Subsequent to the filing of this protest, on December 5, 2016, the Air Force executed an override of the Competition in Contracting Act (CICA) automatic stay of contract performance, based upon the determination that such action was in the "best interests" of the United States and that "urgent and compelling circumstances that significantly affect the national security interests of the United States" would not permit waiting for the protest decision. Air Force Letter to GAO, Dec. 5, 2016, at 1; see 31 U.S.C. § 3553(d)(3)(C)(i).

2011 CPD ¶ 170 at 5. Because the contracting agency is in the best position to make this cost realism determination, our review of an agency's cost realism evaluation is limited to determining whether the cost analysis is reasonably based and not arbitrary. Jacobs COGEMA, LLC, B-290125.2, B-290125.3, Dec. 18, 2002, 2003 CPD ¶ 16 at 26.

As an initial matter, Smartronix seemingly argues that the agency's consideration of an MPC was improper given that the procurement utilized an LPTA award methodology. See Protest at 4; Comments at 1, 3. The solicitation here advised that the task order was primarily cost-plus-fixed-fee and cost-reimbursable, that the evaluation of proposals would include a cost realism analysis and MPC calculation, and that the order would be issued to the firm that submitted the technically acceptable proposal with the lowest MPC. RFP at 1-2; RFP amend. 0003, at 50, 54. Given this, the agency's actions were consistent with the solicitation. Indeed, an award to the firm that submitted the lowest proposed price/cost, without any MPC assessment, as Smartronix would have preferred, would have been in direct conflict with the express terms of the solicitation.⁸

Next, we turn to Smartronix's protest of the agency's MPC adjustment. Specifically, the protester offers its general disagreement with the agency's cost adjustment; the firm does not challenge the specifics of the agency's findings.

As highlighted above, as part of the agency's corrective action, an Air Force cost team conducted a new evaluation under the cost/price factor of the technically acceptable proposals. In accordance with the RFP, the team examined whether the offerors proposed an unrealistically low cost/price such that it indicated a lack of understanding of the requirements, and calculated what it would cost the offeror to perform the effort. See RFP amend. 0003, at 54-55. With respect to Smartronix's proposal, the evaluators noted an inconsistency between the labor hours identified in the firm's cost/price proposal for the second option year, and the overall number of FTEs proposed for that year as illustrated in its technical proposal.⁹ AR, Tab 14b, Revised PAR, Nov. 9, 2016, at 4. Due to the discrepancy, the agency sought clarification from Smartronix. AR, Tab 9, Smartronix Clarification, at 2-3.

⁸ To the extent the protester had objections about the RFP's evaluation methodology, it was required to protest on that basis prior to the submission of its proposal. See 4 C.F.R. § 21.2(a)(1) (protests based upon alleged improprieties in a solicitation must be filed prior to the time set for receipt of initial proposals).

⁹ Specifically, while the firm's technical proposal identified [DELETED] FTEs for the second option year, the cost/price proposal identified [DELETED] labor hours, which computed to [DELETED] FTEs for the same period. Compare AR, Tab 10, Smartronix Technical Proposal, at 34, with AR, Tab 11, Smartronix Cost/Price Proposal, at 25, 51, 78; see also AR, Tab 14b, Revised PAR, Nov. 9, 2016, at 4.

The firm explained that they intended to add [DELETED] additional FTEs for the second option year, and that these personnel would be phased in over a 6-month period. Id. at 1 (identifying [DELETED] FTEs for day one of option year 2, [DELETED] FTEs two months later, [DELETED] more FTEs a month after that, another [DELETED] FTEs a month later, and [DELETED] FTEs at the 6-month mark).¹⁰

The cost team consulted with the technical team to assess the reasonableness of Smartronix's phasing-in methodology. AR, Tab 14b, Revised PAR, Nov. 9, 2016, at 4. While the technical evaluators acknowledged that some phasing in of staff could be possible, given that the work to be performed in the second option year represented a "significant increase to existing work," the evaluators did not consider it feasible for the additional personnel to be phased-in over the course of 6 months. Id. at 5. According to the technical evaluators, the nature of the work created a risk that some of the personnel for the second option year would be required sooner than Smartronix planned. Id. The evaluators also noted that Smartronix had offered no explanation (other than cost savings) as to why the increased work allowed for its phasing-in methodology. Id. Ultimately, the evaluators concluded that a 60-day phase-in period--based on a PWS provision requiring that vacant positions be filled within 60 days--was realistic and the most the agency "reasonably could consider from a risk perspective." Id.; see PWS ¶ 3.1.2.

Accordingly, the cost team recalculated Smartronix's cost/price proposal based on a 60-day phase-in period.¹¹ The result was an addition of 8,126 labor hours, which, as noted above, increased Smartronix's proposed cost by \$596,960. Id.; AR, Tab 13, Smartronix MPC, at 3.

Here, we find unobjectionable the agency's MPC adjustment. Consistent with the solicitation, the agency performed a cost realism analysis of Smartronix's proposal, during which the agency assessed whether the proposal reflected a sound approach to satisfying the requirements. As discussed above, the agency concluded that Smartronix's phasing-in methodology for staffing the second option year was risky and unrealistic, and the agency recalculated the firm's staffing based

¹⁰ Smartronix also provided the agency its response to an evaluation notice from the initial evaluation wherein the firm explained its staff phasing-in approach for the second option year. AR, Tab 9, Smartronix Clarification, at 5, 9-16.

¹¹ Specifically, the evaluators started with the [DELETED] FTEs initially proposed for the full 12 months, added half of the additional staff ([DELETED] FTEs) within 30 days, and the remainder of the additional staff ([DELETED] FTEs) by day 60. AR, Tab 14b, Revised PAR, Nov. 9, 2016, at 5. This resulted in an increase of [DELETED] entry-level labor hours and [DELETED] intermediate-level labor hours. Id.

on what the agency anticipated to be the actual cost of performance.¹² Significantly, the agency's evaluation findings were well-documented and adequately supported.

On this record, we find reasonable the agency's cost realism analysis and upward cost adjustment. Agencies are given broad discretion in conducting cost realism evaluations, and Smartronix's general objection to the MPC adjustment does not provide a basis to question the Air Force's conclusions regarding the realism of the firm's proposed costs. See Systems Techs., Inc., supra, at 6-7 (finding unobjectionable an agency's adjustments to an offeror's proposed labor hours as part of a cost realism analysis); cf. ITT Sys. Corp., B-405865, B-405865.2. Jan. 6, 2012, 2012 CPD ¶ 44 at 6 (sustaining protest where basis for cost realism adjustment of proposed labor hours was not sufficiently explained).

Moreover, we disagree with Smartronix that the MPC adjustment reflects a deviation from the evaluation scheme solely because the proposal had previously been assessed as acceptable. In this regard, the solicitation expressly provided that the agency would perform a cost realism analysis and compute an MPC, regardless of whether a proposal already was determined to be technically acceptable. In fact, the RFP affirmatively required the cost evaluation (including a cost realism analysis) for technically acceptable offers only. RFP amend. 0003, at 50. Given this, we see nothing inappropriate or inconsistent with the agency concluding that Smartronix's technical approach met the minimum standards for acceptability, and, at the same time, taking issue with aspects of the firm's staffing approach as part of its cost realism assessment, as was the case here.¹³

The protest is denied.

Susan A. Poling
General Counsel

¹² To be clear, Smartronix does not expressly protest the agency's application of a 30-day phase-in period for half of Smartronix's additional FTEs for the second option year, nor the evaluators' reliance on a 60-day phase-in period for the other half.

¹³ Likewise, Smartronix's focus on the fact that the initial evaluation did not take issue with its phasing-in approach is also misplaced. The fact that a reevaluation varies from an original evaluation does not constitute evidence that the reevaluation was unreasonable. See IAP World Servs., Inc., B-406339.2, Oct. 9, 2012, 2012 CPD ¶ 287 at 3. It is implicit that a reevaluation could result in different findings and conclusions. Id.