Comptroller General
of the United States

United States General Accounting Office
Washington, DC 20548

Decision

Matter of: RTS Travel Service

File: B-283055

Date: September 23, 1999

Rodger L. Smith for the protester.
Col. Barry S. Wilson, and Abby K. Horwitz, Esq., Department of the Air Force, for the agency.
Paul E. Jordan, Esq., and Paul Lieberman, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

In performing a direct conversion cost comparison under Office of Management and Budget (OMB) Circular No. A-76, agency properly adjusted contractor's price for contract administration costs to reflect the addition of a .5 full time equivalent quality assurance evaluator, done in accordance with OMB guidelines.

DECISION

RTS Travel Service (RTS) protests the determination by the Department of the Air Force, pursuant to Office of Management and Budget (OMB) Circular No. A-76, that it would be more economical to obtain traffic management office services at Los Angeles Air Force Base, California (LAAFB) using in-house, Air Force personnel, rather than to contract for these services. RTS alleges that the Air Force violated A-76 guidelines in conducting the comparison under request for proposals (RFP) No. F04693-98-R-0049, which provided the basis for the agency's determination. RTS contends that a properly conducted study and cost comparison would have resulted in a determination that the protester's proposal was more economical.

We deny the protest.

Traffic management services at LAAFB entail the provision of advice and assistance for the worldwide movement of authorized government personnel and personal property, which includes resolving complaints, answering questions, and solving problems. At the time of the cost study, these services were performed by four Air Force personnel (three civilian and one military). Because the personnel involved numbered fewer than 10, the LAAFB conducted the cost study in accordance with

Air Force Pamphlet (AFP) 26-12, which provides for direct conversion. AFP 26-12, ch. 12-1c. In order to calculate the government estimate of the cost of current in-house performance, the LAAFB Manpower Office used the number of personnel currently assigned and their extant grades to calculate personnel costs. The Manpower Office also developed material and supply costs based on historical information and, at the same time, developed an estimate of the cost of contract administration to be added to the contractor's offer. This information was entered into the Air Force's COMPARE program, which produced a worksheet for use in the actual cost comparison. This worksheet was sealed in an envelope and maintained in the bid box in the contracting office.

The RFP, issued on March 10, 1999, sought proposals to provide all supervision, personnel, equipment, material, tools, and other items necessary to perform traffic management office services in accordance with the RFP's performance work statement. Offerors submitted annual unit prices for a base year with four 1-year options. The offeror submitting a technically acceptable proposal at the lowest total price was to be selected to compete against the government's in-house cost. RTS, one of three offerors submitting proposals, was selected for the cost comparison.

The public cost comparison was conducted on June 3. The government's total in-house cost was $910,348 and RTS's unadjusted proposed price was $821,262. However, after the addition of $122,555 for contract administration, $2,310 for one-time conversion costs (equipment and supplies) and the deletion of $3,284 as an income tax credit, RTS's adjusted price became $942,843. Based on the government's cost being $32,495 less than RTS's adjusted total, the contracting officer determined that the requirement would remain in-house.[1] After receiving notice of the results of the cost comparison, RTS filed this protest with our Office.

OMB Circular No. A-76 describes the executive branch's policy on the operation of commercial activities that are incidental to performance of government functions. It outlines procedures for determining whether commercial activities should be operated under contract by private enterprise or in-house using government facilities and personnel. Our Office will review A-76 decisions resulting from an agency's issuance of a competitive solicitation for the purpose of comparing the cost of private and governmental operation of the commercial activity to determine whether the comparison was conducted reasonably. See Madison Servs., Inc., B-277614, Nov. 3, 1997, 97-2 CPD ¶ 136 at 4; Crown Healthcare Laundry Servs., Inc., B-270827, B-270827.2, Apr. 30, 1996, 96-1 CPD ¶ 207 at 3. In particular, we consider whether the agency complied with the applicable procedures. See Tecom, Inc., B-253740.3, July 7, 1994, 94-2 CPD ¶ 11 at 3. Further, in order for our Office to sustain the protest, the record must evidence not only that the agency failed to follow established procedures, but also that this failure could have materially affected the

---

[1]There is no Air Force administrative appeal process available with respect to a direct conversion A-76 cost study. Air Force Memorandum, July 2, 1999, at 1.

outcome of the cost comparison. Id.; Alltech, Inc., B-237980, Mar. 27, 1990, 90-1 CPD ¶ 335 at 4.

RTS first contends that the agency failed to follow all requirements for conducting a cost comparison under OMB Circular A-76.[2] In this regard, RTS notes that there is no evidence that any management study was performed or that a most efficient organization plan (MEO) was prepared. Protester's Comments at 2. OMB Circular No. A-76, Revised Supplemental Handbook (hereinafter Handbook), permits streamlined cost comparisons where, as here, the government activity has 65 full time equivalents (FTE) or less. Handbook, part II, ch. 5, ¶ A. There is no provision for preparation of a management plan or MEO since "the existing organization is assumed to be the MEO." Handbook, part II, ch. 5, ¶ B.3., B.9. Likewise, AFP 26-12 provides for a direct conversion procedure without a formal cost comparison where the activity is performed by "10 or less" Air Force civilian employees. AFP 26-12, ch. 12-1c. Thus, the agency was not required to prepare an MEO or management study.

RTS next argues that the contract administration costs that were added to its price were excessive because they were attributable to the addition of a quality assurance evaluator (QAE). In RTS's view, "[q]uality control and assurance is an inherent function of all activities associated with the Department of Defense." Protest at 1. RTS argues that only a minimal cost should be incurred to continue this function. Based on our review of the record, the Air Force's addition of contract administration costs complied with the applicable OMB procedures.

The Handbook provides guidance for the determination of the cost to the government of obtaining a commercial service by contract and includes both a determination of the amount to be paid to the contractor and a determination of the additional costs to the taxpayer incurred in the event of a conversion, specifically including among the additional costs those attributable to "contract administration." Handbook, part II, ch. 3, ¶ C.

Contract administration in an A-76 cost comparison is distinguished from the types of quality assurance inspections which any performer (contract or government) is responsible to maintain. While the contractor is responsible for ensuring that it provides "quality" performance, the agency is responsible for administering the contract including ensuring that the contractor is successful in meeting the contract

---

[2]In its original protest, RTS also argued that the government failed to follow the A-76 federal pay raise assumptions and inflation factor updates in its cost comparison. Protest at 1. The agency explained that it followed all applicable updates in computing the government's cost. RTS did not rebut the agency's position in its comments. Accordingly, we view this allegation as abandoned. Analex Space Sys., Inc.; PAI Corp., B-259024, B-259024.2, Feb. 21, 1995, 95-1 CPD ¶ 106 at 8.

requirements. In this regard, under A-76 guidelines, "contract administration" includes "the cost of reviewing compliance with the terms of the contract, processing payments, negotiating change orders, and monitoring the closeout of contract operations [but] does not include inspection and other administrative requirements that would be common to contract and Government performance to assure acceptable performance." Handbook, part II, ch. 3, ¶ C.1. Similarly, Air Force guidance provides that contract administration costs include "the cost of reviewing contractor performance for compliance with the terms of the contract (quality assurance surveillance), processing contract payments, negotiating contract changes, and monitoring the closeout of contract operations."[3] AFP 26-12, ¶ 10-13.

The responsibilities of the QAE position added by the Air Force fit squarely within the above-referenced guidance concerning contract administration. In this regard, the contracting officer explains that the QAE position was formerly denominated the technical representative of the contracting officer. Contracting Officer's Statement at 7b. The QAE is required to have the technical knowledge and experience in the area to be contracted sufficient to allow him to observe performance and determine whether it meets contract standards. Air Force Manual 64-108, ch. 6.1. In this capacity, the QAE is:

> responsible for conducting a formal plan to insure the requirements of the contract are met. The QAE is also responsible for determining when changes to the contract are required, developing cost estimates for changes, providing input on possible claims, participating in the negotiation of changes and claims, and assisting with contract close-out by conducting joint inventories with the contractor, and insuring proper support to follow-on contractors. Other duties . . . include preparation of contract discrepancy reports, acceptance of contract services, and for preparation of receiving reports to support payments to the contractor.

Contracting Officer's Statement at 7b. These responsibilities are outlined in the position description included in the cost comparison report. Agency Report, Tab 18, Core Personnel Document. Further, the position description identifies the following duties: manage the traffic management quality assurance program; perform inspections and surveillance; monitor and evaluate management products; establish and maintain files; operate office machines; and perform routine clerical work. Id. These responsibilities go well beyond the typical inspection and administrative requirements for which the entity performing the contract is responsible. Accordingly, we have no

---

[3]In this regard, the RFP specifically provided for quality control as the contractor's responsibility (RFP § 1.3) and quality assurance, through the QAE, as the government's responsibility (RFP § 1.4).

basis to conclude that the agency erred in adding contract administration costs to RTS's price.

RTS also challenges the amount ($122,555) that the agency attributed to contract administration. Specifically, RTS argues that the use of a .5 FTE, GS-7 is excessive. While RTS challenges the GS-7 grade level itself, the protester fails to suggest an appropriate alternative grade or explain why the selected grade is unreasonable. Our review of the record fails to disclose any basis to question the agency's determination in this regard.

The cost of contract administration is limited to that attributable to the personnel levels set forth in Table 3-1 of the Handbook. Handbook, part II, ch. 3, ¶ C.2. Where the government staffing level is 10 or fewer, the contract administration FTE is .5 personnel. Handbook, Table 3-1; Agency Report, Tab 8, Air Force Memorandum, Subject: Air Force Costing Policy and Procedures for Cost Comparisons and Direct Conversions, Sept. 6, 1996, at app. B. Since the staffing level for this contract is four personnel, the Air Force properly followed this guidance by adding a .5 FTE for the QAE position.

With regard to the determination to set the position as a GS-7, this grade was certified by a position classification specialist at LAAFB who based his determination on the position description included in the cost comparison.[4] Agency Report, Declaration of Position Classification Specialist, July 2, 1999, Tab 25. Based on our review of the QAE's significant administrative responsibilities (as set forth above), we see no basis to question the selected grade level. In addition, the cost comparison indicates that the agency personnel to be replaced by contractor personnel consist of three GS 6, Step 5 civilians and one E-4 servicemember. Agency Report, Tab 18, at 7. From this, it is reasonable to infer that the contractor's personnel would be equally qualified, which would warrant the appointment of a QAE (with oversight responsibilities) of a higher grade and experience.

---

[4]RTS also challenges the timing of the Air Force's determination to make the QAE a GS-7 position, noting that the position was certified after receipt of RTS's proposal. Apart from its speculation on timing, however, RTS provides no evidence to indicate that the agency relied on its proposal in order to determine the QAE grade. Agency contracting personnel are presumed to act in good faith and in the absence of evidence to the contrary, we will not attribute bad faith based solely on a protester's speculation. Creative Management Tech., B-245589, Jan. 13, 1992, 92-1 CPD ¶ 55 at 6-7. Based on our review of the record, including the position description for the QAE, there is no indication that the personnel classification specialist considered RTS's proposal in any way in making the grade determination.

Since the cost to the government of having RTS perform the contract exceeds the cost of government performance, the agency properly determined to retain the work in-house.[5]

The protest is denied.

Comptroller General
of the United States

[5]RTS also challenges the upward adjustment of its price by $2,310 for equipment and supplies. We do not reach this aspect of RTS's protest because its elimination from the cost comparison would not change the outcome. RTS's price, as adjusted upward for contract administration costs alone, exceeds the government's cost by more than $30,000.