Comptroller General
of the United States

Washington, D.C. 20548

Decision

REDACTED DECISION

A protected decision was issued on the date below and was subject to a GAO Protective Order. This version has been redacted or approved by the parties involved for public release.

Matter of: Blue Cross Blue Shield of Texas, Inc.

File: B-261316.4

Date: November 9, 1995

Thomas G. Jeter, Esq., Patrick K. O'Keefe, Esq., and Mark J. Meagher, Esq., McKenna & Cuneo, L.L.P., for the protester.
Thomas P. Humphrey, Esq., Robert M. Halperin, Esq., Peter J. Lipperman, Esq., Stephanie V. Corrao, Esq., and Nabil W. Istafanous, Esq., Crowell & Moring, for Foundation Health Federal Services, Inc., an interested party.
Kenneth S. Lieb, Esq., and Philip E. Adams, Esq., Office of the Civilian Health and Medical Program of the Uniformed Services, for the agency.
Glenn G. Wolcott, Esq., and Paul Lieberman, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

1. Agency was not obligated to advise offeror that its price for a portion of the proposal was higher than the government estimate where agency did not consider the price unreasonable.

2. Agency's methodology for assessing a risk premium associated with each offeror's projected costs was reasonable and consistent with the evaluation scheme set forth in the solicitation.

3. Awardee's reduction in price between initial proposals and best and final offers was reasonable where government estimate during this period decreased in an amount greater than the awardee's price reduction.

4. Where one element of awardee's proposed pricing methodology significantly exceeded the government's estimate, agency's evaluation of awardee's proposal was reasonable where agency recognized and quantified the risk associated with awardee's proposed high price and considered that risk in making its source selection decision.

5. [Deleted]

6. Agency reasonably evaluated awardee's proposal as offering a "net" savings approach to resource sharing expenditures.

7. Agency reasonably determined that award to offeror submitting lower-rated, lower-price proposal was in the government's best interest.

DECISION

Blue Cross Blue Shield of Texas, Inc. (BCBSTX) protests the award of a contract by the Office of the Civilian Health and Medical Program of the Uniformed Services to Foundation Health Federal Services, Inc. (FHFS) under request for proposals (RFP) No. MDA906-93-R-0004.[1] The RFP sought proposals to provide managed health care services for CHAMPUS beneficiaries in Arkansas, Oklahoma, Louisiana, and Texas. The RFP contemplated award of a contract for a base period with five 1-year options. BCBSTX protests that the agency failed to conduct meaningful discussions, improperly evaluated various aspects of its and FHFS' proposals, and failed to perform an appropriate cost/technical tradeoff.

We deny the protest.

BACKGROUND

The RFP was issued on November 1, 1993, and sought proposals for the development and operation of a health care delivery and support system for CHAMPUS beneficiaries in the States of Oklahoma and Arkansas and major portions of the States of Texas and Louisiana, which are collectively referred to as Region 6. Offerors were required to submit proposals in two parts: one part to perform administrative functions (primarily claims processing and support services) and one part to provide health care services. Separate technical and business proposals were required and the RFP provided that, in the source selection decision, technical factors would be given a weight of 60 percent and business factors a weight of 40 percent.

Regarding the health care portion of the contract, proposals were required to offer CHAMPUS beneficiaries three health care options with increasing levels of managed care. The required options were (1) "TRICARE Standard," under which beneficiaries select providers of their own choosing who are compensated on a fee-for-service basis; (2) "TRICARE Extra," under which the beneficiaries' health care is to be

---

[1]Throughout this decision, we refer to the program as CHAMPUS, and the agency as OCHAMPUS.

provided by members of the contractor's preferred provider organization (PPO); and (3) "TRICARE Prime," under which the beneficiaries' health care is to be provided through a contractor-established health maintenance organization (HMO).

The RFP stated that the government intended to award a fixed-price contract (with the price subject to specified adjustments during performance). For the administrative portion of the business proposal, the RFP required conventional firm, fixed-price proposals. Under the health care portion of the contract, the fixed-price nature of the contract was modified by a risk-sharing arrangement which is a key characteristic of OCHAMPUS managed-care solicitations. Under this arrangement, in the event of health care cost overruns or underruns, the government and the contractor will share the responsibility or benefits respectively through application of loss-sharing or gain-sharing formulas.

In the event of cost overruns, responsibility for excess costs will be shared by the government and the contractor, pursuant to the established formula, until the contractor has absorbed overruns equal to the amount of equity which the contractor offered to put at risk in its proposal.[2] At that point, the contract will begin to function on a cost reimbursement basis, with the government paying for all additional health care costs.

Actual health care costs will be a function of a large number of variables, such as the number of CHAMPUS beneficiaries who enroll in the HMO or PPO options, the level of provider discounts, inflation, and the contractor's ability to manage health care utilization. Offerors were required to propose "trend factors" (which are essentially multiplication coefficients) for each of the variables; the proposed trend factors represented the offerors' prediction of its cost performance in comparison to the agency's experience during the 12-month period immediately preceding contract performance. Data estimates regarding the government's experience during the preceding 12-month period (referred to as the "data collection period" or "DCP") was provided as part of the RFP. Thus, in the event an offeror was predicting that its costs would be identical to those experienced in the DCP, its proposed trend factor would be 1.0. If the offeror was predicting a cost decrease, its proposed trend factor would be less than 1.0, while if it was predicting a cost increase its proposed trend factor would be greater than 1.0.[3]

---

[2]The RFP required offerors to place a minimum of $60 million of equity at risk with at least $15 million pledged per year, but permitted them to exceed this minimum in order to make their proposals more attractive to the government.

[3]Because the DCP data provided in the RFP was preliminary, the RFP stated that the data would be revised at two specified points during contract performance. The revised data would lead to adjustments in the contractor's proposed price for

(continued...)

The RFP distinguished between trend factors over which the contractor was likely to have control and those over which the contractor was unlikely to have control.[4] Specifically, in projecting actual health care costs, the RFP stated that offerors' proposed controllable trend factors would be evaluated "based upon the justification and documentation provided for the trends in the business proposal" and upon "the government's estimate of the likely trends under the offeror's approach." Based on this assessment, the agency would adjust the offeror's proposed figures to reflect the agency's judgment regarding the actual costs that would be incurred under each offeror's approach. Regarding evaluation of the uncontrollable trend factors, the RFP stated that the agency would substitute its independent government cost estimate (IGCE) for those proposed by offerors, except in instances in which an offeror had "a signed capitation agreement with specified capitation rates." The agency's final assessment of projected actual health care costs for each offeror would reflect the costs proposed, as modified by the agency's adjustments of either controllable or uncontrollable factors.

The RFP further explained that, after calculating the projected costs associated with each proposal (including the fixed-price administrative area and health care profit), the agency would estimate the cost to the government (pursuant to the risk-sharing formula) of various percentages of overruns and underruns relative to each offeror's projected cost. This analysis was performed in order to assess each proposal's "sensitivity" to cost overruns or underruns.[5] The resulting calculation would lead to a further adjustment to the total probable cost for the proposal through the addition of a "risk premium."

---

[3](...continued)
purposes of applying the risk sharing formula. Thus, the contractor's actual performance would be more accurately measured in light of its required operating environment.

[4]Controllable trend factors included provider discounts, resource sharing, and penetration rates. Uncontrollable trend factors included inflation, volume tradeoff, and diagnostic related group capital and direct medical education expenditures.

[5]For example, a proposal that offered more than the minimum required level of equity at risk would be less "sensitive" to cost overruns since the point of total government responsibility for costs would be delayed.

Initial proposals were received from five offerors, including BCBSTX and FHFS, by August 31, 1994. Following evaluation, all five offerors' proposals were determined to be within the competitive range and discussions occurred between October 1994, and February 1995. Best and final offers (BAFO) were submitted on February 27. Following BAFO evaluation, FHFS' and BCBSTX's proposals were determined to be the two proposals offering the greatest value to the government. BCBSTX's proposal received a final technical score of 610.177 at a total evaluated price of $2.361 billion; FHFS' proposal received a technical score of 566.239 at a total evaluated price of $1.988 billion. A best buy analysis was performed, applying the appropriate weighting factors to the cost and technical scores, which resulted in a best buy score of 956.795 for the FHFS proposal and 936.824 for the BCBSTX proposal.

After considering underlying reports and analyses of the business proposal evaluation team (BPET) and the source selection evaluation board (SSEB), the source selection advisory council (SSAC) recommended that the source selection authority (SSA) award a contract to FHFS, stating

> "(1) While BCBSTX has significant strengths in the administrative areas, these strengths were not perceived to be worth an additional $120 million in costs to the Government. (2) In the area of health care delivery, the strengths of FHFS, plus their lower cost of approximately $370 million represent substantial cost savings to the Government."[6]

The SSA reviewed the complete file and recommendations and selected FHFS for contract award. The contract was awarded on April 28. On May 8, BCBSTX filed its initial protest. Following an agency debriefing, BCBSTX filed its first supplemental protest on May 19. The agency responded to BCBSTX's initial and first supplemental protests in its report to our Office on June 23. In a letter dated July 10, BCBSTX stated

> "In light of the expansive Agency Report and documents supporting that report, as well as our conclusion that certain of the grounds raised in the original and first supplemental protest have been adequately addressed by the agency, these comments focus only on those remaining grounds of protest . . . [on] which [BCBSTX] requests the GAO to render a decision."[7]

---

[6]This $370 million figure represents the overall evaluated cost differential, which includes the $120 million in administrative costs.

[7]Accordingly, our decision today does not address the issues raised in BCBSTX's initial and first supplemental protest which BCBSTX did not pursue following receipt of the agency report. Datum Timing, Div. of Datum, Inc., B-254493, Dec. 17, 1993, 93-2 CPD ¶ 328; Heimann Sys. Co., B-238882, June 1, 1990, 90-1 CPD ¶ 520.

On July 10, BCBSTX filed a second supplemental protest based on information obtained from the June 23 agency report.

DISCUSSION

Meaningful Discussions

BCBSTX first protests that the agency failed to engage in meaningful discussions regarding the price it proposed to perform the administrative portion of the contract. In this regard, BCBSTX's initial price for administrative services exceeded the government's estimate by approximately [deleted] percent. BCBSTX asserts that "[an offeror's] price should be the subject of discussions if that price exceeds the government's own corresponding price estimate" and, on that basis, maintains that the award to FHFS should be overturned.[8]

The agency responds that although BCBSTX's initially proposed price for administrative services exceeded the IGCE by approximately [deleted] percent, the agency did not view that price as unreasonably high. Accordingly, the agency concluded that any specific advice to BCBSTX's regarding its proposed administrative price would have, effectively, communicated to BCBSTX that its price was too high in relation to another offeror.[9]

An agency may not inform an offeror of a cost it must meet to obtain further consideration or of its relative price standing, Innovative Training Sys., B-251225.3, Oct. 19, 1993, 93-2 CPD ¶ 232, and need not inform an offeror that its cost is too

[8]In its July 10 comments, BCBSTX for the first time asserted that certain questions posed by the agency during discussions were designed to affirmatively mislead BCBSTX. The record is clear that BCBSTX knew all of the information on which this allegation is based after the agency debriefing on May 5. Accordingly, BCBSTX was required to raise this issue within 10 working days after the debriefing. 4 C.F.R. § 21.2(a)(2) (1995). Since BCBSTX did not raise this allegation until July 10, the issue is untimely raised and will not be considered.

[9]The records shows that, in fact, two other offerors proposed administrative prices significantly higher than BCBSTX, and a third offeror's proposed administrative price was virtually identical to BCBSTX.

high unless the government has reason to think the cost is unreasonable. Price Waterhouse, 65 Comp. Gen. 205 (1986), 86-1 CPD ¶ 54; Applied Remote Technology, Inc., B-250475, Jan. 22, 1993, 93-1 CPD ¶ 58; Warren Elec. Constr. Corp., B-236173.4; B-236173.5, July 16, 1990, 90-2 CPD ¶ 34. Further, an agency has no duty to enter into price discussions with an offeror solely because its price is significantly higher than the prices proposed by other offerors. In fact, pursuant to Federal Acquisition Regulation (FAR) § 15.610(e)(2), an agency is prohibited from informing an offeror that its price is high in relation to another offeror's, unless its price is unrealistic for what is offered.

Here, the RFP did not designate a particular approach which offerors were required to employ in performing the administrative services; rather, each offeror was responsible for preparing its own technical approach and proposed price based on its analysis of what would be most advantageous to the government. The agency found that BCBSTX's technical approach to performing the administrative functions was superior and its overall technical rating reflected numerous strengths. In this context, the agency did not view BCBSTX's price for administrative services as unreasonably high; rather, it simply concluded ultimately that the associated technical benefits were not worth the additional cost to the government. On this record, given that an agency is not required to inform an offeror that its price is higher than the government estimate unless the agency believes the price is unreasonable, the agency's decision not to advise BCBSTX that its administrative price was higher than the IGCE is unobjectionable.

Agency's "Sensitivity Analysis"

BCBSTX next challenges the "sensitivity analysis" employed by the agency to assess a "risk premium" for each proposal. BCBSTX protests that the agency's analysis in this regard was flawed in that it "assume[d] that BCBSTX and FHFS were equally likely to overrun or underrun health care costs."

BCBSTX's complaint fails to recognize that, before performing the sensitivity analysis, the agency conducted an extensive evaluation of each offeror's projected health care costs, thoroughly considering the unique aspects of each offeror's proposed controllable trend factors. Specifically, the agency adjusted each offeror's proposed price in each instance where it was not fully persuaded that the costs proposed accurately reflected the costs likely to be incurred, given the offeror's proposed approach. The result of this evaluation was a most probable cost for each offeror's proposal which reflected the agency's best judgment as to the likely costs to be incurred by each offeror. Accordingly, the agency's subsequent sensitivity analysis assumed that the likelihood of overruns or underruns, in relation to the agency's best judgment of the offerors' respective costs, would be the same for all offerors. In essence, the agency reasonably believed that its individual assessments of the offerors' likely costs were equally reliable. See QualMed, Inc., B-257184.2, Jan. 27, 1995, 95-1 CPD ¶ 94. Accordingly, we find no basis to question this aspect of the agency's cost analysis.

FHFS' BAFO Price Reduction

BCBSTX next protests that the agency erred in its cost evaluation of FHFS' proposal by failing to specifically evaluate the reasons for FHFS' reduction in health care costs in its BAFO. BCBSTX accurately notes that FHFS' health care costs were reduced by approximately [deleted] percent between submission of its initial proposal and its BAFO. BCBSTX asserts "there is nothing in the record that shows that [the agency] questioned this reduction, evaluated whether it was reasonable, or assessed the impact of the reduction on FHFS' technical capabilities."

This allegation is inconsistent with the record. First, the final BPET report specifically listed the differences in FHFS' health care costs between its initial proposal and BAFO, by option period and contract line item, reflecting the agency's individual assessment of each aspect of FHFS' revised price. More importantly, BCBSTX's protest fails to take into consideration the fact that the government's IGCE for health care costs decreased by approximately [deleted] percent between submission of initial proposals and BAFOs. This reduction was based on revised DCP data as well as changes in the RFP requirements.[10] Finally, in raising this issue, BCBSTX neglects to mention that its own proposed health care costs decreased between submission of initial proposals and BAFOs by almost [deleted] percent. On the record presented here, this portion of BCBSTX's protest is without merit.

Evaluation of DRG Capital/DME Costs

BCBSTX next protests that the agency failed to reasonably evaluate FHFS' proposal with regard to one of the cost categories--diagnostic related group (DRG) capital and direct medical education (DME) costs.[11] BCBSTX notes that FHFS' proposal

---

[10]For example, the RFP requirements were changed between submission of initial proposals and BAFOs to incorporate a "uniform benefit" in the CHAMPUS program. This change provided a basis for some cost reduction.

[11]DRG payments are prospective payments for hospital operating costs that are based on the diagnosis of the patient and resources routinely needed to treat that condition; DRG payments generally do not vary. DRG capital/DME payments are retrospective payments to hospitals that are not included in prospective DRG hospital payments; DRG capital costs include interest, rent and depreciation. DME costs are expenses directly related to conducting graduate medical education
(continued...)

was significantly higher than the agency's IGCE for DRG capital/DME costs and maintains that the agency failed to properly consider the risk associated with this aspect of FHFS' proposal.

The estimated data in the DCP period regarding DRG capital/DME costs supported the agency's IGCE of [deleted] million in DRG capital/DME costs for the base period and [deleted] million over the entire contract period. FHFS' proposed costs for the entire contract period amounted to [deleted] million. As discussed above, the RFP provided for adjustments to offerors' proposed prices on the basis of changes in DCP data. Because FHFS' proposed DRG capital/DME costs were significantly greater than the government's IGCE, a change in the baseline DCP data would have a magnifier effect on FHFS' proposed price.[12] BCBSTX asserts that the agency failed to give appropriate consideration to this risk during its evaluation of FHFS' proposal.

Contrary to BCBSTX's allegation, the agency did, in fact, thoroughly consider the potential impact of FHFS' proposed DRG capital/DME costs. The BPET report specifically stated

> "There is one additional element of risk we wish to bring to the attention of the SSAC concerning [FHFS] . . . . There is an issue concerning [FHFS'] proposed prices for DRG capital and Direct Medical Education (DME) costs which creates some additional risk to the Government, as follows: . . . [FHFS] formally proposed approximately [deleted] million for DRG capital/DME costs over the life of the contract. This amount is approximately [deleted] times the level of DRG capital/DME costs that we estimated that FHFS would experience under our cost realism estimates ([deleted] million). While our cost realism methodology reflects our estimate for these costs rather than [FHFS'] estimate (because these costs are classified as an uncontrollable cost factor), our methodology

---

[11](...continued)
programs, such as the salaries of interns and residents. Hospitals submit invoices for DRG capital/DME costs directly to the contractor. The portion of a hospital's DRG capital/DME costs applicable to the CHAMPUS program is determined by multiplying the hospital's total DRG capital/DME costs by the ratio of CHAMPUS patient days to total patient days. Thus, DRG capital/DME costs are controlled by the hospital, not the contractor. Consistent with this, the RFP provided that DRG capital/DME costs were to be treated as an uncontrollable trend factor.

[12]That is, a 50-percent increase or decrease in the DCP data, which would result in a [deleted] million increase or decrease to the IGCE (50 percent of [deleted] million), would result in a [deleted] million increase or decrease in FHFS' proposed price (50 percent of [deleted] million).

> does not take into account the risk associated with the fact that, under the RFP's bid price adjustment provisions, the contractors' proposed prices for DRG capital/DME in each Option Period will be multiplied by the ratio of the actual level of these costs in the DCP to the DCP level projected in the RFP. Further, while the [deleted] million of DRG capital/DME costs projected for the DCP is relatively low compared to health care costs overall, the effect of this DCP adjustment would be magnified because of FHFS' significant overestimate of these costs during the Option Periods."

Consistent with this recognition of risk, and properly taking into account the risk-sharing provisions of this procurement, the agency calculated that FHFS' proposed DRG capital/DME costs added a risk factor of approximately [deleted] million to FHFS' proposed price; FHFS' final evaluated price properly reflected this assessment. In the context of evaluating FHFS' DRG capital/DME costs, the agency also considered whether FHFS' status as the incumbent health care services provider for approximately 15 percent of the Region 6 CHAMPUS beneficiaries affected its risk assessment.[13] Noting that DRG capital/DME costs are controlled by hospitals rather than the contractor and that FHFS does not own any hospitals in Region 6, the agency concluded that it would not assess further risk based on FHFS' status as the health care provider for BRAC sites in Region 6. Finally, the agency noted that FHFS' high estimate for DRG capital/DME expenses would have an equally magnified impact on its adjusted price in the event the actual DCP data was lower than the government's estimate--that is, if actual DRG capital/DME costs for the DCP were lower than estimated, FHFS' adjusted price would decrease significantly. Given that the DCP estimate represented the most accurate information available regarding what the actual DCP data would be, the agency concluded there was the same likelihood that the actual DCP data would be less than the initial estimate as there was a likelihood that the data would be greater than the initial estimate.

When agencies evaluate proposals for award of contracts with cost reimbursement aspects, the agency must perform a cost realism analysis to determine the extent to which an offeror's proposed costs represent the true cost to the government. CACI, Inc.--Fed., 64 Comp. Gen. 71 (1984), 84-2 CPD ¶ 542. Because the contracting agency is in the best position to make this cost realism determination, our review of an agency's exercise of judgment in this area is limited to determining whether the

---

[13]FHFS is the incumbent contractor providing health care services to CHAMPUS beneficiaries in Base Realignment and Closure (BRAC) sites in Region 6. The BRAC sites account for approximately 15 percent of the DCP health care costs in the Region.

determination was reasonably based and not arbitrary. General Research Corp., 70 Comp. Gen. 279 (1991), 91-1 CPD ¶ 183, aff'd, American Management Sys., Inc.; Department of the Army--Recon., 70 Comp. Gen. 510 (1991), 91-1 CPD ¶ 492; Grey Advertising, Inc., 55 Comp. Gen. 1111 (1976), 76-1 CPD ¶ 325.

Here, we find the agency's evaluation of the risk associated with FHFS' proposed DRG capital/DME expenses reasonably based. As noted above, the agency did, in fact, consider the potential impact that FHFS' proposed DRG capital/DME costs could have on the government's costs, accurately calculating a potential [deleted] million additional risk to the government under the appropriate risk-sharing provisions of the RFP. This assessment was properly reported to and considered by the SSA in the ultimate decision to award the contract to FHFS. Regarding the agency's assumption that increases or decreases in relation to its estimated DCP data were equally likely, BCBSTX offers no evidence that the DCP data would be more likely to be either higher or lower than the initial estimate. Accordingly, we find no basis to question the agency's evaluation of this portion of FHFS' proposal.

[Deleted]

Evaluation of FHFS' Resource Sharing

BCBSTX next protests that award to FHFS was improper because FHFS' proposal "made inconsistent and ambiguous representations concerning resource sharing." BCBSTX maintains that the agency was obligated to reject FHFS' proposal because it could not reasonably evaluate what FHFS intended to propose in this regard.

Under the provisions of this RFP, resource sharing refers to the contractor's placement of resources--that is, personnel and/or equipment--at military treatment facilities (MTFs) with the purpose of encouraging beneficiaries to use the MTFs. Because costs associated with MTFs are easier to control, such expenditure of resources can result in net program savings; that is, the level of resources spent to encourage MTF use may be less than the savings resulting from those expenditures.

This portion of BCBSTX's protest is based on the fact that, in one of the exhibits which the RFP required offerors to submit, FHFS proposed "0" resource sharing expenditures; yet, its proposal contemplated program savings based on resource sharing expenditures. Thus, BCBSTX asserts that FHFS' proposal was internally inconsistent and, therefore, should have been rejected as unacceptable.

The agency responds that it evaluated FHFS' "0" entry as reflecting a "net" approach to resource sharing.[14] The agency notes that this interpretation of FHFS' proposal was consistent with other portions of FHFS' business and technical proposal in which it clearly contemplated resource sharing expenditures. Specifically, FHFS' business proposal explicitly stated that FHFS intended to incur [deleted] million for resource sharing in option year 1; [deleted] million in option year 2; [deleted] million in option year 3; [deleted] million in option year 4; and [deleted] million in option year 5. Similarly, FHFS' technical proposal devoted [deleted] pages to discussing how it intended to coordinate with MTFs to identifying resource sharing opportunities and specifically stated that FHFS would "project the amount of resources and actual cost of obtaining them" and "subtract the resource sharing expense from the projected CHAMPUS cost."

In determining whether a proposal must be rejected as technically unacceptable a procuring agency must assess whether the proposal, reasonably read as a whole, offers to perform all material terms of the solicitation without exception. See, e.g., Keyes Fibre Co., B-225509, Apr. 7, 1987, 87-1 CPD ¶ 383. Here, we conclude that the agency reasonably determined, based on its review of FHFS' entire proposal, that FHFS' "0" proposal for resource savings in one of the required exhibits represented a "net" savings approach.[15] Accordingly, we find no merit in this portion of BCBSTX's protest.

Cost/Technical Tradeoff

Finally, BCBSTX protests that the agency failed to conduct a reasonable cost/technical tradeoff. BCBSTX notes that the RFP provided that technical factors would be given a weight of 60 percent and cost/price factors a weight of 40 percent for purposes of the cost/technical tradeoff, and that its proposal was rated technically superior to FHFS' proposal. In view of this, BCBSTX asserts that the agency failed to adequately justify its decision to award a contract on the basis of FHFS' lower technically rated, lower-priced proposal.

---

[14]That is, the agency evaluated FHFS' proposal as anticipating savings as a result of its resource sharing expenditures at a level in excess of its resource sharing expenditures. Thus, the agency concluded that FHFS' proposed savings due to resource sharing were decreased by the amount of its expenditures; accordingly, its resource sharing expenditures were proposed at "0" to ensure that the agency did not inadvertently subtract those expenditures from its proposed savings a second time.

[15]In QualMed, Inc., B-257184.2, Jan. 27, 1995, 95-1 CPD ¶ 94, we similarly rejected the argument BCBSTX now raises under virtually identical circumstances.

In responding to this portion of BCBSTX's protest, the agency has provided a detailed description, along with supporting documentation, describing the analysis it performed in arriving at the source selection decision. As discussed above, the BPET and the SSEB performed evaluations of the individual aspects of each offeror's technical and business proposals. During the evaluation there were "crosstalks" among the evaluators to ensure a complete understanding of each offeror's approach. The conclusions of the BPET and the SSEB were formally documented, extensively detailing the perceived strengths and weaknesses of each proposal, and were included in the final reports which were forwarded to the SSAC. In instances where the SSAC had questions or concerns regarding the evaluation, questions were sent back to the BPET or SSEB for appropriate written responses. In addition, the SSAC was briefed extensively by the BPET and the SSEB in face-to-face meetings. After determining that FHFS' and BCBSTX's proposals offered the greatest value, the SSAC focused on the various strengths of each proposal. In performing this analysis, the SSAC prepared two tables, which listed each of BCBSTX's and FHFS' proposal strengths by technical task and, under the heading "value to the government," specifically assessed each strength as having low, medium, or high value to the government. Finally, based on its review of the entire record before it, as well as its own documented analysis, the SSAC concluded

> "Analysis of the strengths of the technical proposals of [BCBSTX] and FHFS reveals savings to the Government in two areas. (1) While BCBSTX has significant strengths in the administrative areas, these strengths were not perceived to be worth an additional $120 million in costs to the Government. (2) In the area of health care delivery, the strengths of FHFS, plus their lower cost of approximately $370 million, represent substantial costs savings to the Government."

The SSA executed the source selection statement on April 28, 1995. In that statement, the SSA stated that he had reviewed all of the SSEB, BPET and SSAC reports, along with various other documents. In his statement, he summarized the strengths of both BCBSTX and FHFS, as well as each offeror's expected costs and various aspects of those costs, concluding

> "I believe that the Best Buy Analysis clearly substantiates award to the number one best buy offeror, FHFS. The difference in total proposed price of FHFS' proposal ($1.822 million) versus that of BCBSTX ([deleted] million) of [deleted] million is a very significant factor of this final award decision. While the cost realism analysis decreases this difference to $373 million, the proposal submitted by FHFS continues to provide a very advantageous price to the Government."

In a negotiated procurement, an agency may make award to a lower-priced, lower technically rated offeror if it determines that the price premium involved in awarding to a higher-rated, higher-priced offeror is not justified given the acceptable level of technical competence obtainable at the lower price. Securiguard, Inc.; Vance Uniformed Protection Servs.; MVM, Inc., B-254392.8 et al., Feb. 9, 1994, 94-1 CPD ¶ 92; W.M. Schlosser Co., Inc., B-247579.2, July 8, 1992, 92-2 CPD ¶ 8. We will review such tradeoffs to assure that they are reasonable in light of the evaluation scheme. Lockheed Corp., B-199741.2, July 31, 1981, 81-2 CPD ¶ 71.

Here, the record amply supports the reasonableness of the agency's cost/technical tradeoff. The record specifically reflects that the SSA reviewed and considered each of the BPET, SSEB, and SSAC reports which extensively documented the strengths and weaknesses of each offeror. In this regard, the SSAC report included a head-to-head comparison of BCBSTX's and FHFS' respective strengths, by task to be performed, assessing a relative value to the government applicable to each strength. Accordingly, we find without merit BCBSTX's assertion that the agency failed to perform or adequately document its cost/technical tradeoff.

The protest is denied.

Comptroller General
of the United States