



**Comptroller General  
of the United States**

Washington, D.C. 20548

# Decision

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**Matter of:** Ameriko, Inc.

**File:** B-277068

**Date:** August 29, 1997

B. Michael Schestopol, Esq., and James F. Nagle, Esq., Oles Morrison & Rinker, for the protester.

Timothy H. Power, Esq., for State Management Services, Inc., an intervenor.

Darryl Bardusch, Esq., Capt. Philip T. McCaffrey, and Col. Nicholas P. Retson, Department of the Army, for the agency.

Tania L. Calhoun, Esq., and Christine S. Melody, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

## DIGEST

1. Protest that contracting agency improperly failed to conduct price realism evaluation of awardee's proposal is denied where the record shows that the agency reviewed each contract line item number (CLIN) of the awardee's price proposal to assess its reasonableness and realism in comparison with historical pricing and the offeror's own cost data, and subjected subsequent revisions to similar review.
2. Protest that contracting agency improperly failed to downgrade offeror's technical proposal for its inadequate understanding of the solicitation's requirements based upon its allegedly unrealistic pricing is denied where the allegation of unrealistic pricing is not generally supported by the record, and where the awardee's proposal as a whole supports the agency's evaluation.

## DECISION

Ameriko, Inc. protests the award of a contract to State Management Services, Inc. under request for proposals (RFP) No. DAHC77-96-R-0034, issued by the Department of the Army to obtain preventive maintenance services at military housing on various military installations on the island of Oahu, Hawaii. Ameriko contends that the Army improperly evaluated State's proposal.

We deny the protest.

The successful offeror was to be awarded a fixed-price requirements contract to perform these services over one 6-month base period, with up to two 6-month

option periods.<sup>1</sup> Offerors were to provide unit and extended pricing for most of the solicitation's 356 CLINs, including those for basic preventive maintenance services for individual dwelling units of varying sizes; supplemental preventive maintenance; electrical, carpentry, plumbing, and pest control service order work; and standing operating order work such as sewer line and water system maintenance. In this regard, offerors were required to document each cost element to show the basis and rationale used in arriving at the amounts proposed.

Award was to be made to the offeror whose proposal was most advantageous to the government, price and technical factors considered. The solicitation clearly defined the scope of the evaluation for each technical factor, including the most important one, comprehension of requirements. Each offeror's proposed price was to be evaluated to determine whether it reflected the offeror's understanding of the project and ability to successfully organize and perform the contract; was based on adequate estimating procedures; and was reasonable--each price proposal would be evaluated using price analysis to determine the extent to which it was reasonable, realistic and consistent with the technical proposal. Price was to be evaluated by adding the total price for all options to the total price for the basic requirement. The RFP stated that, although price would not be formally scored, its importance could not be ignored; the importance of price in the selection would increase as the quality difference between proposals decreased.

Four offerors submitted proposals in response to the solicitation, including State and Ameriko, the incumbent. The Army evaluated initial proposals and included all four in the competitive range; conducted discussions and evaluated revised proposals; and requested and evaluated best and final offers (BAFO). The final evaluation results were as follows:<sup>2</sup>

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<sup>1</sup>The contract resulting from this solicitation is to serve as an interim contract until a contract for consolidated family housing maintenance services is awarded.

<sup>2</sup>After Ameriko filed this protest, the Army realized that it had misevaluated the offerors' BAFO revisions. The Army's reevaluation of proposals resulted in a slightly higher technical score for each offeror (Ameriko's score increased from 72.47 to 72.83; State's from 68.48 to 70.38; Firm A's from [DELETED] to [DELETED]; and Firm B's from [DELETED] to [DELETED]), but the revised price negotiation memorandum indicates that these revisions would not have affected the award decision.

	<b>Technical</b>	<b>Price</b>
Ameriko	72.47	\$6,422,596
State	68.48	\$5,642,518
Firm A	[DELETED]	\$(DELETED)
Firm B	[DELETED]	\$(DELETED)
Independent Government Estimate (IGE)		\$(DELETED)

The price negotiation memorandum summarized various technical and price findings for each offeror, and noted that State's proposal received the highest rating under the comprehension of requirements factor. The contracting officer stated that the technical differences between the proposals submitted by Ameriko and State were not worth the additional \$780,078 associated with Ameriko's proposal, and determined that State's proposal represented the best value to the government. Award was then made to State, and this protest followed.

Ameriko argues that the Army improperly failed to assess the cost realism of State's pricing proposal, relying only on the "bottom-line prices" without considering "anomalies or aberrations" in State's pricing of certain individual CLINs. Ameriko also cites this allegedly aberrant pricing to argue that the Army improperly failed to downgrade State's technical proposal for its inadequate understanding of the solicitation's requirements.

Cost realism--a measurement of the likely cost of performance in a cost reimbursement contract--is generally not a factor in the evaluation of proposals where, as here, a fixed-price contract is to be awarded, because the government's liability is fixed, and the risk of cost escalation is borne by the contractor. Volmar Constr., Inc., B-272188.2, Sept. 18, 1996, 96-2 CPD ¶ 119 at 5. However, since the risk of poor performance when a contractor is forced to provide services at little or no profit is a legitimate concern in evaluating proposals, an agency may, as it did here, provide for a price realism analysis in the solicitation of fixed-price proposals. Id. The Federal Acquisition Regulation (FAR) provides a number of price analysis techniques that may be used to determine whether prices are reasonable and realistic, including comparison of proposed prices with prior proposed prices for the same or similar services, FAR § 15.805-2(b); comparison of proposed prices with each other, FAR § 15.805-2(a); and comparison of proposed prices with an IGE. FAR § 15.805-2(e). The depth of an agency's price realism analysis is a matter within the sound exercise of the agency's discretion. Cardinal Scientific, Inc., B-270309, Feb. 12, 1996, 96-1 CPD ¶ 70 at 4.

In order to assess price reasonableness and realism here, the Army reviewed each offeror's initial proposal, CLIN by CLIN, making notations as to whether the pricing was reasonable or realistic in comparison with historical pricing and/or whether it was consistent with the cost data provided by the offeror. Areas of concern to the Army were raised with each offeror during discussions, and each offeror's proposal revisions were similarly reviewed. In its price negotiation memorandum, the Army discussed various specific aspects of each offeror's price and technical proposal, as revised by its BAFO, prior to making the award determination. Hence, the record shows that the Army did conduct a price realism evaluation, utilizing the analysis techniques provided under the FAR.

The record also shows that the individual CLINs of concern to Ameriko were the subject of discussions with State, to the ultimate satisfaction of the Army. Although the price realism evaluation was not as well documented as it might have been, we see no basis on the record here to conclude that the Army's determination was improper.

With regard to specific CLINs, Ameriko first argues that State's pricing for the basic preventive maintenance services CLINs was unrealistic because the firm proposed the same flat rates without regard for the size of the dwelling units, which ranged from a minimum of 915 square feet to a maximum of 4,020 square feet.<sup>3</sup> The Army points out, however, that Ameriko's assumption that increased square footage is directly correlated with increased services and higher costs is not supported by its own BAFO pricing. [DELETED] The fact that both other offerors also proposed flat prices for these CLINs buttresses the Army's claim that State's pricing strategy is neither uncommon nor unreasonable.

Ameriko next argues that State's pricing for the supplemental maintenance and service order CLINs is unrealistic because it is consistently higher than Ameriko's. The record shows, however, that the two offerors' pricing under these CLINs is not actually far apart--the difference is between [DELETED] and [DELETED] percent. Moreover, Ameriko does not challenge the legitimacy of the cost data provided in State's proposal, which supports its pricing.

Ameriko also argues that State's prices for the sewer line and water system maintenance CLINs are unrealistic since they are much higher--in some cases by nearly 1,000 percent--than its own prices. Given the absence of any explanation for this pricing in State's proposal, the significant differences between State's prices for these CLINs and the prices proposed by the other offerors, and the Army's silence in the matter, we agree with Ameriko that these prices appear to be unrealistic.

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<sup>3</sup>It should be noted that only 8 of more than 3,500 dwelling units to be maintained per contract period have a maximum square footage of 4,020 square feet; most of the units have a maximum square footage of approximately 2,500 square feet.

However, since no more than 16 of the 356 solicitation CLINs are at issue, at a total value of approximately \$41,000, we cannot conclude that State's entire price proposal should have been rejected as unrealistically priced based on these CLINs alone. In any event, we note that reducing State's prices for these CLINs, as Ameriko presumably believes should have happened, would only have increased State's BAFO pricing advantage over Ameriko.

Finally, the fact that State's total price was 10.5 percent below the government estimate is not, as Ameriko suggests, a basis for finding the price realism evaluation inadequate. EC Corp., B-266165.2, Feb. 20, 1996, 96-1 CPD ¶ 153 at 4 n.2, citing Birch & Davis Assocs., Inc.--Protest and Request for Recon., B-246120.3, B-246120.4, Apr. 20, 1992, 92-1 CPD ¶ 372 at 6-7 (price realism evaluation adequate even though award price was 24 percent below government estimate).

Ameriko next argues that, in view of these alleged pricing aberrations, the Army improperly failed to downgrade State's technical proposal under the comprehension of requirements factor and the cost estimating subfactor of another technical factor.

Section L of the RFP does not contemplate the consideration of price under either the comprehension of requirements factor or the cost estimating subfactor. Section L advised offerors that the evaluation of their proposals under the comprehension of requirements factor, for example, would consider their service plans, procedures for material control, start-up schedule, man-loading charts, housekeeping and storage procedures, and plan for accomplishing recurring exterior maintenance. Since the evaluation of proposals must be based on the factors set forth in the solicitation, FAR § 15.608(a), the Army could not have properly downgraded State's technical proposal in the manner Ameriko suggests.

The solicitation did anticipate, however, that the price realism analysis might be used as a means to assess an offeror's understanding of the project. In such cases, the evaluation must be based on consideration of the proposal as a whole. EC Corp., supra, at 3. As noted above, State's proposal received the highest technical rating under the comprehension of requirements factor, the same high rating as Ameriko under the cost estimating subfactor, and the second highest technical rating overall. Ameriko has raised no specific challenges to State's technical evaluation, but merely expresses its general dissatisfaction with the minimal comments made on the evaluation rating sheets. Further, save for the sewer line and water system maintenance CLINs, State's pricing is not aberrational or unrealistic. Accordingly, the record provides us with no basis to conclude that State's proposal should have been downgraded based upon its pricing, or any other reason. Id. at 4.

As a final matter, Ameriko argues that the Army's best value determination improperly failed to consider the cost savings represented by its lower proposed

coefficients for replacement item CLINs,<sup>4</sup> as well as other CLINS discussed above. Ameriko is mistaken. As the price negotiation memorandum makes clear, technical scores, as well as the price variance among proposals--which took into account the coefficients proposed by all offerors, including Ameriko--were used to determine which offer provided the best overall value to the government.

The protest is denied.

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<sup>4</sup>Offerors were to price several CLINs for the replacement of defective items by referring to government-provided price lists for the parts and offering coefficient percentages to be applied to the government estimates--the coefficients multiplied by the government estimates were to be the offered prices for those CLINs.