



The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: ST Systems Corporation

File: B-231093

Date: August 2, 1988

DIGEST

Protest that contracting agency did not conduct a proper cost realism analysis of the awardee's proposal is denied where the agency relied upon information from the Defense Contract Audit Agency and there is no evidence that the agency's cost realism analysis was unreasonable.

DECISION

ST Systems Corporation protests the award of a contract to Atmospheric Environmental Research, Inc. (AER) under request for proposals (RFP) No. F19628-88-R-0021, issued by the Air Force for basic research in support of Advanced Meteorological Processing System (AMPS) studies and the development of new weather forecasting techniques. ST Systems contends that the Air Force failed to conduct a proper cost realism analysis. We deny the protest.

The RFP, issued January 11, 1988, solicited proposals on a cost-plus-fixed-fee basis. Three proposals were received by the February 24 closing date. Two of the offerors, AER and ST Systems, were found technically acceptable and, after discussions, both submitted best and final offers on April 5. Award was made to AER based on the Air Force's assessment of its higher technical merit and its lower evaluated cost. ST Systems then protested to our Office.

The RFP provided that award would be made to the offeror whose proposal was determined to be the most advantageous to the government. Cost was listed as secondary to technical considerations in the evaluation scheme. AER's final proposed cost, including the fixed fee, was \$709,230. ST Systems' final proposed cost, including fee, was \$875,559. ST Systems does not challenge the agency's technical rating of its proposal as "very good" and AER's proposal as

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"excellent." Instead, ST Systems argues that AER's cost proposal represents an attempt to buy into the contract. ST Systems believes the Air Force could not have reasonably concluded that AER's low proposed costs were realistic and questions whether a cost realism analysis was conducted at all.

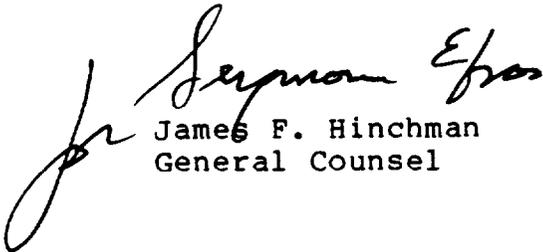
Where, as here, a cost reimbursement contract is contemplated, the contracting agency must analyze each offeror's proposed costs in terms of their cost realism, since regardless of the cost proposed, the government is bound to pay the contractor its actual and allowable costs. Informatics General Corp., B-224182, Feb. 2, 1987, 87-1 CPD ¶ 105. An agency, however, is not required to conduct an in-depth cost analysis or to verify each and every item in conducting its cost realism analysis. Rather, the evaluation of competing cost proposals requires the exercise of informed judgment by the contracting agency involved, since it is in the best position to assess the "realism" of cost and technical approaches and must bear the major criticism for the difficulty or expenses resulting from a defective cost analysis. Quadrex HPS, Inc., B-223943, Nov. 10, 1986, 86-2 CPD ¶ 545. Consequently, we will not disturb an agency's cost realism determination unless it is shown to be unreasonable. Dayton T. Brown, Inc., B-229664, Mar. 30, 1988, 88-1 CPD ¶ 321.

Under this standard, we have reviewed the results of the Air Force's cost realism evaluation, and we see no basis to conclude that the results reached were unreasonable. The record shows that the Air Force contacted the Defense Contract Audit Agency (DCAA) to verify labor rates, overhead and general and administrative rates for both offerors. In addition, a technical evaluation team reviewed the offerors' labor mix, material costs, travel costs, and the proposed labor hours. The record indicates AER and ST Systems used approximately the same number of labor hours; however, AER's direct labor costs were significantly lower than ST Systems'. This difference, together with AER's lower fee, accounted for most of the cost difference between the proposals. Thus, even after the Air Force, based on its realism analysis increased both offerors' proposed costs by approximately the same amount AER's costs remained considerably lower than the protester's.

We have held that it is reasonable for an agency to rely on DCAA advice in judging the cost realism of a proposal. Dayton T. Brown, Inc., B-229664, *supra*; Allied Maritime Management Organization, Inc., B-222918 *et al.*, Aug. 26, 1986, 86-2 CPD ¶ 227. Moreover, our review indicates that the agency's technical team properly reviewed all primary costs, including the offerors' proposed labor hours, travel

costs, publication charges and material costs. Further, we do not agree with the protester's contention that since its proposed costs were already significantly lower than the government estimate, AER's costs, which were even lower, must necessarily be unreasonable. Although both proposals were well below the government estimate, that estimate is not necessarily controlling in a cost realism analysis. See Kinton, Inc., B-228260.2, Feb. 5, 1988, 67 Comp. Gen. ____, 88-1 CPD ¶ 112. At most, the disparity between the offerors' costs and the government estimate seems only to indicate that the estimate was too high.

The protest is denied.



James F. Hinchman
General Counsel