The Comptroller General
of the United States

Washington, D.C. 20548

Decision

Matter of: D&G Contract Services

File: B-231453.2

Date: March 2, 1989

DIGEST

1. The apparent low offer under a request for proposals for washer and dryer rental for a 1-year base period and two 1-year options is mathematically unbalanced where there is a price differential of 685 percent between the base year and the second option year and the requirement is essentially the same for all 3 years. Such an offer is properly rejected as materially unbalanced where the agency has a reasonable doubt that acceptance of the offer, which would not become low until the final option year, would ultimately result in the lowest overall cost to the government.

2. The Small Business Administration's Certificate of Competency program addresses a small business concern's responsibility for purposes of receiving a government contract and does not apply where the firm is not otherwise qualified to receive award.

DECISION

D&G Contract Services protests the award of a contract to Four Seasons Support Services under request for proposals (RFP) No. DAKF40-88-R-0403, issued by the Army for the rental and maintenance of washers and dryers for troop housing at Fort Bragg and Camp McKall, North Carolina. D&G challenges the Army's determination that its proposal was materially unbalanced. We deny the protest in part and dismiss it in part.

The RFP provided for award of a 1-year base period with two 1-year options. The RFP incorporated by reference the clause at Federal Acquisition Regulation (FAR) § 52.217-5, entitled Evaluation of Options, which advised offerors that proposals would be evaluated based on the total price for the base period and all options, and further cautioned that the government could reject an offer materially unbalanced as to prices for the basic requirement and the option quantities. The clause defined an unbalanced offer as one offering prices that are significantly less than cost for some work and significantly overstated for other work. Award was to be made to the lowest priced technically acceptable offer.

On the August 26, 1988 closing date, the Army received 10 offers. According to the Army, D&G proposed $801,240, the lowest total price for all 3 years. That firm proposed $410,860 for the base year, $339,220 for the first option year and $51,160 for the second option year. Four Seasons proposed a price of $381,867 for the base year, and $310,035 and $147,135 for the options for a total price of $839,037. The contracting officer rejected D&G's offer as unbalanced. Six other offerors were eliminated from the competitive range. Best and final offers were requested from the remaining three offerors and award was made on November 9 to Four Seasons.

D&G argues that its offer is not unbalanced because it is based on recovering the cost of equipment in the first year. The firm also asserts that if its offer is unbalanced then the awardee's offer is also unbalanced.

Although the concept of unbalancing generally applies to a sealed bidding situation, it also may apply to negotiated procurements where, as here, cost or price constitutes a primary basis for source selection. tg Bauer Associates, Inc., B-228485, Dec. 22, 1987, 87-2 CPD ¶ 618. An offer is materially unbalanced where: (1) it is mathematically unbalanced in that each item does not carry its share of the cost of work, or is based on nominal prices for some of the work, and enhanced prices for other work; and (2) award based on the mathematically unbalanced offer will not result in the lowest overall cost to the government. Semcor, Inc., B-227050, Aug. 20, 1987, 87-2 CPD ¶ 185. Although there may be certain pricing variables depending on the nature of the procurement, an offer will be questioned if, in terms of the pricing structure evident among the base and optional periods, it is neither internally consistent nor comparable to other offers received. Thus, a large pricing differential existing between the base and option periods, or between one option period and the other, is itself prima facie evidence that the offer is mathematically unbalanced. Howell Construction, Inc., 66 Comp. Gen. 413 (1987), 87-1 CPD ¶ 455.

The record shows that D&G's base year price is 685 percent higher than its price for the second option year and its first option year is 563 percent higher than its second option year. We have held much smaller differentials to indicate by their very magnitude that the offer is mathematically unbalanced. See Professional Waste Systems, Inc. et al., 67 Comp. Gen. 68 (1987), 87-2 CPD ¶ 477.

The record shows that D&G's offer may not result in the lowest cost to the government as its total price does not become low when compared to the awardee's price until the eighth month of the final option year. The determination of whether there is a reasonable doubt that award to the offeror submitting a mathematically unbalanced offer will result in the lowest ultimate cost to the government is a factual one which varies depending upon the particular circumstances of each procurement. Aquasis Services, Inc., B-228044, Nov. 2, 1987, 87-2 CPD ¶ 426. In cases involving extreme front-loading and where the mathematically unbalanced offer does not become low until the end of the final option year, despite the initial intent to exercise the options, intervening events could cause the contract not to run its full term, resulting, therefore, in inordinately high cost to the government and a windfall to the offeror. Under this type of factual situation, we have held that there was a reasonable doubt whether the mathematically unbalanced offer would ultimately provide the lowest cost to the government. D&G Contract Services, B-232879, Dec. 12, 1988, 88-2 CPD ¶ 584. Since D&G's offer does not become low until near the end of the last option year, we find that it was reasonable for the Army to doubt that acceptance of D&G's offer would actually provide the lowest cost to the government and to reject the offer as materially unbalanced. Id.

D&G also complains in its comments on the agency report that if its offer is unbalanced, then so is Four Season's offer. It is true that Four Seasons did propose significantly less for the third option year than for the base or first option year; however, the difference was not nearly as great as that proposed by D&G. Moreover, as indicated above, Four Season's offer is low until well into the last option year. Consequently, we have no reason to question the agency's obvious position that Four Season's offer reasonably represents the lowest cost to the government and therefore could be accepted.

Finally, D&G argues that the agency improperly determined that it was nonresponsible without referring the matter to the Small Business Administration (SBA) under that agency's Certificate of Competency (COC) procedures. The Army responds that D&G's responsibility was initially a matter of concern to the contracting officer based on a recent preaward survey conducted in connection with another procurement. According to the Army, it was prepared to refer the matter to the SBA; however, prior to the referral the contracting officer found D&G's offer materially unbalanced and rejected it on that basis.

There is nothing in the record which indicates that D&G was rejected on the basis of nonresponsibility. As indicated above, its offer was rejected because it was unbalanced. A COC warrants that a small business is capable and otherwise responsible for the purpose of receiving and performing a government contract. The COC procedures do not apply where as here the firm is not otherwise qualified to receive award. See Jarke Corp., B-231858, July 25, 1988, 88-2 CPD ¶ 82.

The protest is denied.

Seymour Efros

James F. Hinchman
General Counsel