



Comptroller General
of the United States
Washington, D.C. 20548

Decision

Matter of: Servrite International, Ltd.

File: B-241942.3

Date: June 13, 1991

David M. Eppsteiner, Esq., McKenna & Cuneo, for the protester.
Kathleen C. Little Esq., Howrey & Simon, for the Contract
International Corporation, an interested party.

John A. Dodds, Esq., Department of the Air Force, for the
agency.

Scott H. Riback, Esq., and James A. Spangenberg, Esq., Office
of the General Counsel, GAO, participated in the preparation
of the decision.

DISCUST

Agency's price analyses of fixed-price offers on a solicitation containing an economic price adjustment (EPA) provision, which consisted of comparing the price elements of the various proposals of the competing offerors and the government estimate, is sufficient for the agency to reasonably determine price/cost reasonableness of the awardee's proposal, where the price elements subject to adjustment under the EPA provision are supported by firm quotes from the offerors' vendors.

DECISION

Servrite International, Ltd. protests the award of a contract to Dairy Maid Dairy, Inc. under request for proposals (RFP) No. F62321-90-R0093 issued by the Department of the Air Force to acquire dairy operations and maintenance services at the government-owned dairy plant in Okinawa, Japan. Servrite argues that the Air Force improperly evaluated prices in connection with the award of the contract.

We deny the protest.

The solicitation called for the production of various dairy items as well as delivery of those items to a number of delivery points. The RFP contemplated the award of a fixed-price requirements contract with an economic price adjustment (EPA) provision. The services were for a base year with four 1-year options. Award under the solicitation was to be made to the firm submitting the technically compliant, lowest evaluated price proposal.

Offerors were required to submit unit prices as well as extended prices based upon government-furnished best estimated quantities for a large number of contract line items, each representing a particular dairy end product. Each line item specified a "best estimated quantity" and a maximum quantity. The EPA provision allowed unit prices to be adjusted quarterly based upon the application of a complex formula accounting for changes in the costs for the specified ingredients and the dollar/yen currency exchange rate. In preparing their offers, firms were required under the solicitation to provide per-unit^{1/} costs for the 10 major ingredients as of August 1, 1990. To support these unit prices, offerors were required to submit letters signed by officials of the vendors giving the offeror their cost quotations in effect on August 1.

Most of the work called for is to be performed using government-furnished equipment, although offerors were required to provide certain machinery and vehicles. The RFP also provided offerors with detailed information concerning arrangements in effect with the local labor unions and provided the applicable wage rates for Japanese individuals to be employed at the dairy.

The agency received three offers in response to the RFP, and all were determined to be within the competitive range. The agency engaged in one round of clarifications, two rounds of discussions, and solicited best and final offers (BAFO). All offerors were determined acceptable. After the evaluation of BAFOs, the Air Force made award to Dairy Maid, having determined that Dairy Maid submitted the lowest priced, technically compliant offer. This protest followed.

Servrite argues that the agency failed to adequately analyze Dairy Maid's price proposal to ensure that its proposed prices and costs were reasonable. Servrite alleges that, given the dollar value of the contract awarded to Dairy Maid, the firm must have proposed cost elements that did not reflect the actual costs that the firm will incur during contract performance. In particular, Servrite argues that Dairy Maid did not propose ingredient, labor and equipment costs that will be adequate to perform the contract. According to the protester, had the agency properly evaluated costs and prices in accordance with the Federal Acquisition Regulation (FAR), it would have concluded that Dairy Maid had submitted other than the low cost proposal. Servrite argues that "additional analysis" was required because this contract contained an EPA provision, which Servrite alleges effectively made it similar

^{1/} For example, offerors were required to provide a per-pound price for non-fat dry milk powder (NFDM).

to a cost reimbursement contract. Servrite asserts that the additional analysis would have revealed that Dairy Maid's prices were unreasonably low.

FAR §§ 15.805-2 and 15.805-3 require that, in evaluating proposals, agencies must determine that proposed costs and prices are fair and reasonable. In connection with this requirement, the FAR outlines a number of techniques that may be used in reaching a determination of cost or price reasonableness, including a comparison of the offers received for consistency as well as a comparison with the government estimate. Id. Such price/cost analysis techniques can be sufficient where there is no requirement for certified cost or pricing data.^{2/} See Henry H. Hackett & Sons, B-237181, Feb. 1, 1990, 90-1 CPD ¶ 136.

We are aware of no legal requirement that a more in-depth analysis be employed merely because a solicitation contains an EPA provision. This is so because firms are required to submit some form of "established" base prices regarding the cost elements subject to adjustment under the EPA provision in order for an accurate base line for subsequent pricing fluctuations to be established. See FAR § 16.203-1. The contracting officer need only obtain "adequate information" to establish this base level. FAR § 16.203-2(b). In the instant case, the data used to establish the base-line were the vendors' quotes for the main ingredients as of August 1, 1990. In the absence of any indication that these quotes were submitted in other than good faith, there was no requirement that these vendors be contacted to ascertain the veracity of their quotes as is suggested by Servrite.^{3/}

In this case, the record shows that the agency compared Dairy Maid's and the other offerors' price elements to each other and the government estimate, and found no reason to question Dairy Maid's prices. The major cost advantage of the awardee's offer was its significantly lower rates for general and administrative expenses, overhead and profit. Contrary to the protester's allegations, the challenged cost elements of Dairy Maid's offer were comparable to, and in some instances in excess of the same elements in the other offers and the

^{2/} In this case, the agency determined that certified cost or pricing data would be unnecessary because adequate competition for the acquisition existed See FAR § 15.804-3. The protester does not argue that the agency improperly waived this requirement.

^{3/} The record shows that during discussions the agency requested that offerors obtain verifying signatures from vendors who submitted unsigned quotations.

government estimate. For example, in the area of labor costs, contrary to Servrite's allegation, Dairy Maid proposed costs that exceeded those proposed by Servrite. In sum, the protester's allegations concerning the structure and composition of Dairy Maid's price proposal are unsupported and inaccurate.

The protest is denied.^{4/}


for James F. Hinchman
General Counsel

^{4/} The protester also alleged that the agency improperly informed Dairy Maid of the availability of government-supplied NFDM at a price significantly below the market price for NFDM. The record does not support this allegation, since Dairy Maid's cost for NFDM was significantly above the cost allegedly offered by the government. Moreover, while it is true that the Air Force is currently selling surplus NFDM to Dairy Maid, the price is in excess of the price quoted by Dairy Maid in its offer. The apparent reason for this sale is that Dairy Maid was initially unable to timely receive its lower-cost NFDM via government transport because of Operation Desert Storm.