



Comptroller General
of the United States

7402812

Washington, D.C. 20548

Decision

Matter of: SCI Systems, Inc.
File: B-257985.2
Date: December 19, 1994

Joel R. Feidelman, Esq., James J. McCullough, Esq., Douglas E. Perry, Esq., and Lawrence E. Ruggiero, Esq., Fried, Frank, Harris, Shriver & Jacobson, for the protester. Ronald S. Perlman, Esq., and Ellen F. Randel, Esq., Porter, Wright, Morris & Arthur, for Metric Systems Corporation, an interested party. Gregory H. Petkoff, Esq., Department of the Air Force, for the agency. David A. Ashen, Esq., and John M. Melody, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

Protest against agency cost realism analysis is denied where agency reasonably determined that awardee's proposed price was based upon realistic costs for the work to be performed and reflected a clear understanding of the solicitation requirements; although the awardee's price was significantly below the government estimate, the protester's price was also significantly below the estimate, and the estimate reflected to some extent a prior sole-source contract with a contractor located in a high-cost area and paying higher labor rates and subcontractor costs.

DECISION

SCI Systems, Inc. protests the Department of the Air Force's award of a contract to Metric Systems Corporation under request for proposals (RFP) No. F08626-93-R-0049, for Global Positioning System (GPS) instrumentation for test and training ranges. SCI challenges the evaluation of price proposals and argues that Metric's proposal was noncompliant with a solicitation requirement for pricing special tooling/special test equipment (ST/STE).

We deny the protest.

BACKGROUND

The solicitation requested proposals to fabricate, assemble, and test GPS range instrumentation which would utilize precisely timed signals from GPS satellites to produce highly accurate position fixes for vehicles during test, tactics development and training missions at Department of Defense test and training ranges. Although the solicitation's schedule of supplies and services included fixed-price incentive firm target (FPIT) line items for first article qualification and quantities of the hardware items, the cover letter to the solicitation stated that offerors "may change contract type or the share ratios for FPIT" items. The solicitation provided for award to be made to the firm whose proposal offered the best overall value and was most advantageous under four stated evaluation factors. The RFP listed four evaluation factors: (1) technical and (2) cost/price, which were of equal importance and were of greater importance than (3) management and (4) logistics, which were of equal importance.

Four proposals, from three offerors, were received by the February 7, 1994, closing date. SCI proposed fixed-price incentive prices for the first article and hardware items, but specified share ratios and a ceiling percentage other than those suggested in the solicitation. Metric and a third offeror (which submitted two proposals) proposed firm, fixed prices for the fixed-price incentive items as permitted by the cover letter to the solicitation. All proposals, except the alternate proposal submitted by the third offeror, were included in the competitive range.

After discussions with offerors, the Air Force requested the submission of best and final offers (BAFO). Based upon its evaluation of the BAFOs, the Air Force found Metric's proposal to be most advantageous under the stated evaluation criteria. Metric's evaluated firm, fixed price of \$49.8 million was approximately 19 percent lower than SCI's ceiling price (\$61.8 million) and 16 percent lower than SCI's target price (\$59.3 million), and more than 30 percent lower than the third offeror's price. Further, all offers received a color/adjectival rating of green/acceptable, with low performance risk, under the technical, management, and logistics factors. The proposals submitted by SCI and the third offeror also received a rating of low proposal risk under the technical, management, and logistics factors.

As discussed below, during its evaluation of BAFOs, the agency discovered a discrepancy of \$363,999 in SCI's proposal which was not reflected in its overall evaluated target and ceiling prices.

Metric's proposal likewise was rated as having low proposal risk under the management and logistics factors, but received a moderate proposal risk rating with respect to the technical factor. This moderate risk rating was based primarily upon Metric's lack of experience in producing GPS systems and the agency's consequent concern with its plan to manufacture all major sub-systems in-house. The Air Force ultimately concluded that this proposal risk could be mitigated by additional government supervision. The agency determined that the primary remaining risk associated with Metric's proposal was in the area of schedule and the firm's likely learning curve, but concluded that this risk did not justify payment of the substantial price premium associated with award to another offeror. Upon learning of the resulting award to Metric, SCI filed this protest.

ECONOMIC PRICE ADJUSTMENT

The solicitation incorporated by reference Federal Acquisition Regulation (FAR) clause 52.216-4, entitled "Economic Price Adjustment--Labor and Material," which provides for a price adjustment in the contract unit prices where "the rate of pay for labor (including fringe benefits) or the unit prices for the material shown in the Schedule either increase or decrease." FAR § 52.216-4(a). The Air Force reports that this clause was incorporated by mistake, and that it did not take into account the possibility that the contractor would be entitled to price adjustments under the economic price adjustment clause in calculating the evaluated price of Metric's offer. SCI argues that this was improper.

The FAR, however, provides that an economic price adjustment clause is appropriate where, among other requirements, a "fixed-price contract is contemplated," FAR § 16.203-4(c)(1)(i), and it includes both fixed-price incentive and firm, fixed-price contracts in its definition of fixed-price contracts subject to adjustment. FAR §§ 16.201 and 16.203-4(c)(1)(i). SCI has not explained why, to the extent that an economic price adjustment clause were operative here, SCI's prices, which in total were at least 19.1 percent higher than Metric's, would not also be subject to adjustment in the event of award. SCI has furnished no evidence of any differential price impact in its favor from application of an economic price adjustment clause. Moreover, SCI has made no claim that it would have altered its proposal had it known of the agency's intention not to consider the possibility that the contractor would be entitled to price adjustments under the economic price adjustment clause in calculating evaluated prices. In these circumstances, we find that SCI has made no showing that the evaluation was flawed such that SCI was prejudiced because the agency did not consider the effect of possible economic

price adjustments. See MetaMetrics, Inc., B-248603.2, Oct. 30, 1992, 92-2 CPD ¶ 306 (competitive prejudice is an essential element of a viable protest; where no prejudice is shown or is otherwise evident, our Office will not sustain a protest).

COST REALISM

The solicitation provided for the agency to undertake a cost realism analysis of proposals to determine whether the overall costs in a proposal were realistic for the work to be performed, reflected a clear understanding of the requirements, and were consistent with the various elements of the offeror's technical proposal. SCI alleges that the agency did not perform a cost realism analysis; the protester argues that a thorough analysis would have showed that Metric's firm, fixed price of \$49.8 million, which was 31.4 percent lower than the independent government estimate of \$72.6 million, was unrealistically low. The Air Force reports, on the other hand, that it in fact evaluated the realism of the proposed prices and costs and found Metric's proposal to be based upon realistic costs for the work to be performed and to reflect a clear understanding of the solicitation requirements.

The contracting agency is in the best position to make a cost realism determination, and our review of an agency's exercise of judgment in this area therefore is limited to determining whether the evaluation was reasonable. 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.

We find nothing unreasonable in the cost evaluation here. The Air Force has explained that its technical evaluators reviewed in detail the proposed labor hours and quantities and types of materials for consistency with the technical proposals and the program requirements. Although Metric's price was significantly below the government estimate, SCI's target price was also significantly below the estimate, and the agency noted that the estimate reflected to some extent a prior sole-source contract with a contractor located in a high-cost area and paying higher labor rates and subcontractor costs. The Air Force attributed the difference in Metric's and SCI's prices largely to three

²The agency had already made what it described as "a very conservative" 10-percent reduction in estimated cost to partially account for relying on the prior sole-source contract.

factors. First, the agency noted that although Metric had proposed 9.2 percent more labor hours than SCI, Metric was located in a low-cost area and its labor rates were significantly lower than SCI's--according to the agency, SCI's composite unburdened labor rate was approximately 50 percent higher than Metric's. Second, Metric, unlike SCI, proposed to forego profit on approximately 95 percent of the contract work. Third, Metric, again unlike SCI, proposed to capitalize STE rather than directly charge the government for the equipment.

SCI has failed to establish that Metric's proposal did not reflect realistic costs for the work to be performed or a clear understanding of the solicitation requirements. We note that Metric's proposed material costs (\$33.3 million) were nearly identical to SCI's (\$33.4 million), and that, as noted by the agency, Metric actually proposed 9.2 percent more labor hours. Although SCI questions the agency's failure to verify the reasonableness of Metric's direct and indirect rates as set forth in its proposal, an agency is not required to conduct an in-depth analysis or to verify each item in conducting a cost realism analysis. See Motorola, Inc., B-247937.2, Sept. 9, 1992, 92-2 CPD ¶ 334; PRC/VSE Assocs. Joint Venture, B-240160 et al., Oct. 30, 1990, 90-2 CPD ¶ 348. There is no evidence that Metric's direct and indirect rates were unreasonable or inconsistent with Metric's historical experience, given Metric's location in a low-cost area. There thus is no basis for questioning the cost realism analysis.

MISTAKE

SCI argues that the Air Force acted unreasonably in not reducing the evaluated cost of its proposal after discovering during the evaluation of BAFOs that SCI had made a unilateral mistake, proposing additional hours under certain time-and-materials line items, which increased its price by \$363,999. However, the discrepancy in SCI's proposal was noted in the agency's Proposal Analysis Report and, according to the agency, was briefed to the source selection authority. The source selection authority states that he took the error and the resulting increase in SCI's price into account in selecting Metric, but that even with a reduction of \$363,999 in Metric's evaluated price advantage (\$9.5 million relative to SCI's target price and \$12 million relative to SCI's ceiling price), Metric's remaining substantial price advantage more than offset SCI's "slight advantage" with respect to proposal risk. SCI has made no showing to the contrary.

ST/STE

SCI argues that the solicitation included a requirement to price and deliver title to ST/STE used to perform the contract. The statement of work required the contractor to "obtain or fabricate, and document the necessary ST/STE to assist in the manufacture and test of the GPS range equipment." The solicitation instructed offerors to support requirements for ST/STE by identifying the item and stated that "[p]roposals which indicate ST/STE as an item of cost must contain rationale describing the characteristics of the ST/STE verifiable as ST/STE or capital industrial facility items." A line item (Contract Line Item No. (CLIN) 0028) was included in the solicitation's schedule of supplies and services for entering a price to provide ST/STE in accordance with the listing. While Metric's (and the third offeror's) BAFO did not include a price for CLIN 0028, since Metric proposed to capitalize the necessary ST/STE and the third offeror already possessed it, and SCI likewise proposed to capitalize some general purpose items of test equipment, SCI proposed to charge the government \$1,573,555 for other, program-unique items of test equipment under CLIN 0028. SCI argues that Metric's offer to capitalize, rather than price and deliver title to, STE used in performing the contract rendered its proposal unacceptable. The Air Force, on the other hand, maintains that the solicitation afforded offerors the opportunity either to capitalize ST/STE used in performing the contract or, in the alternative, to propose the ST/STE as an element of cost to be paid for by the government, in which case title to the ST/STE would vest in the government.

We need not resolve this dispute. SCI's proposal included \$1,573,555 for program-unique items of test equipment. As noted above, however, Metric's evaluated price advantage was \$9.5 million relative to SCI's target price and \$12 million relative to SCI's ceiling price. The source selection authority states that even assuming SCI had proposed to capitalize the ST/STE, and not included the \$1,573,555 in its proposal as a direct charge to the government, Metric's remaining substantial price advantage more than offsets SCI's slight advantage with respect to proposal risk. In these circumstances, we cannot conclude that the alleged waiver of the ST/STE requirement resulted in competitive prejudice to Metric. See MetaMetrics, Inc., supra.

SCI raises additional arguments concerning the evaluation, but our review of the record shows these arguments to be without merit. For example, SCI argues that it was improper for the agency to compare Metric's firm, fixed price with SCI's target price or ceiling price, since this failed to take into account SCI's rating of low proposal risk, and the consequent likelihood that SCI would underrun its target

cost. However, according to the agency, the evaluators determined that the protester's target price was consistent with the proposed technical effort and represented the most probable cost to the government; it thus provided an appropriate basis for comparison. Further, the Air Force states that it generally defines an evaluation rating of "low" proposal risk as merely indicating that a proposal "[h]as little potential to cause disruption of schedule, increase in cost, or degradation of performance"; a low risk rating does not necessarily indicate a likelihood of underrunning the proposed cost. SCI has offered no evidence showing any reasonable likelihood of a substantial underrun in costs relative to its proposed target cost.

The protest is denied.

/s/ Ronald Berger
for Robert P. Murphy
General Counsel