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Comptroller General  
of the United States

United States Government Accountability Office  
Washington, DC 20548

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## Decision

**Matter of:** Science Applications International Corporation, Inc.

**File:** B-408270; B-408270.2

**Date:** August 5, 2013

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### DIGEST

Protest challenging the agency's cost evaluation is denied where the record demonstrates that the agency reasonably adjusted proposed costs based on information provided in the offerors' proposals.

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### DECISION

Science Applications International Corporation, Inc. (SAIC), of McLean, Virginia, protests the issuance of a task order to SRA International, Inc., of Fairfax, Virginia, under request for proposals (RFP) No. N00024-12-R-3421 issued by the Department of the Navy, Military Sealift Command, for information technology services to support afloat operations. SAIC challenges the Navy's cost and technical evaluations and selection decision.

We deny the protest.

### BACKGROUND

The Navy's Military Sealift Command is responsible for providing ocean transportation of equipment, fuel, supplies, and ammunition to sustain U.S. forces worldwide. Within the Military Sealift Command, the Command, Control, Communications and Computer Systems (C4S) Directorate is responsible for

information technology systems both afloat and ashore. RFP, Performance Work Statement (PWS) § 2, Background.

The RFP, issued under Federal Acquisition Regulation subpart 16.5, sought proposals from firms holding Seaport-E multiple-award contracts to provide C4S afloat operations and program management services to the Military Sealift Command, including technical support services for various C4S, communications, navigation, electronic, networking computer and telecommunications systems aboard the Military Sealift Fleet Support Command fleet of ships worldwide. PWS § 3, Objectives. The RFP contemplated the issuance of a cost-plus fixed-fee task order for a base year and two option years. Offerors were informed that the selection decision would be on a best value basis, considering probable cost and the following non-cost factors (in descending importance): technical, past performance, and socioeconomic considerations.<sup>1</sup> RFP amend. 4, at 55-56. The non-cost factors, when combined, were stated to be significantly more important than cost, with cost becoming more important as the ratings for non-cost factors approached equality. Id. at 56.

With respect to costs, the RFP informed offerors that the Navy would assess the realism of proposed costs and determine a probable cost for each offer. Id. Offerors were instructed to propose labor rates for a number of specified labor categories using the level of effort (labor hours) identified by the RFP for each labor category. Id. at 42. Offerors were further instructed, as relevant here, to include documentation establishing the accuracy of proposed direct labor rates, such as the most recent payroll run for current, named employees; signed letters of intent that indicate an agreed-upon annual salary for named, new hires; current or prior fiscal year forward pricing rate agreements or forward pricing rate recommendations if proposing unnamed existing personnel; labor category averages, including data supporting the averages; or a comprehensive description of the methodology used to establish the proposed direct labor rate if the other sources of information were not used. Id. at 43-44.

Offerors were also cautioned that “to the extent proposed costs appear unrealistic, the Government may infer either a lack of understanding of the requirements, increased risk of performance, or lack of credibility on the part of the Offeror.” Id. at 60.

The Navy received proposals from four offerors, including SAIC and SRA (the incumbent).<sup>2</sup> SAIC’s and SRA’s proposals were evaluated as follows:

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<sup>1</sup> The technical factor had two, equally-weighted subfactors: technical capability and management. RFP amend. 4, at 55-56.

<sup>2</sup> The requirement was previously competed under a different solicitation, under which a task order was issued to SAIC. SRA protested to our Office, and the Navy  
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	<b>SAIC</b>	<b>SRA</b>
Technical	Outstanding	Outstanding
Past Performance	Substantial Confidence	Substantial Confidence
Socioeconomic Considerations	Exceptional	Exceptional
Proposed Cost	\$65,145,927	\$56,461,556
Probable Cost	\$76,704,426	\$74,436,946

Agency Report (AR), Tab 17, Source Selection Decision, at 2; Tab 16, SAIC Cost Evaluation, at 1, SRA Cost Evaluation, at 1. The agency's adjectival ratings were supported by narrative discussion that identified each proposal's strengths and weaknesses. See AR, Tab 15, Technical Evaluation Worksheets for SAIC and SRA. Numerous strengths and no weaknesses were identified in SAIC's and SRA's proposals. As relevant here, the evaluators concluded that SRA's proposal demonstrated a strong technical approach and a thorough understanding of all requirements, and that SRA's proposed staffing plan (to use its incumbent workforce) was capable of sustaining robust quality service. Id., Technical Evaluation Worksheet for SRA, at 4, 15.

In its cost realism analysis, the agency increased SRA's proposed costs by \$17,975,390. Most of this increase (\$12,890,140) reflected the agency's adjustment of SRA's proposed non-key personnel labor rates to the labor rates currently used under the incumbent contract.<sup>3</sup> The Navy recognized that SRA's proposed rates for non-key personnel were consistent with the forward pricing rates on file with the Defense Contract Audit Agency. These forward pricing rates, however, were substantially lower than the actual rates being paid to these

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took corrective action, resulting in our dismissal of the protest as academic. Systems Research and Applications Corp., B-406775, B-406775.2, July 25, 2012. The Navy issued the current solicitation, conducted discussions, and obtained revised proposals from the four offerors. See Contracting Officer's (CO) Statement at 2-3.

<sup>3</sup> The Navy found SRA's proposed labor rates for key personnel to be realistic. AR, Tab 16, SRA Cost Evaluation, at 1.

incumbent staff. AR, Tab 16, SRA Cost Evaluation, at 1-2. In this regard, the cost evaluators noted:

Throughout its proposal, SRA presents the high qualifications and planned retention of incumbent non-key personnel as strengths. However, it is not realistic to retain incumbent personnel in light of the substantially reduced wages SRA proposes. With the exceptions of the Technical and Junior Technician labor categories, the proposed base period rates for non-key personnel are adjusted to match the corresponding bridge contract rate or median estimate.

Id. at 3.

The agency also increased SAIC's proposed costs by \$11,558,499. As relevant here, with respect to the proposed labor rates for non-key personnel, SAIC identified three sources for its proposed labor rates: Service Contract Act wage determinations, forward pricing rate recommendations, and actual labor rates. The Navy accepted Service Contract Act wage determination rates for the labor categories that SAIC identified as being subject to the Service Contract Act.<sup>4</sup> The Navy also accepted SAIC's proposed labor rates for those labor categories for which SAIC provided matching codes from the firm's forward pricing rate recommendation. The Navy, however, did not accept the proposed rates for six of the seven labor categories that SAIC stated were based on actual costs.<sup>5</sup> The Navy found for these six labor categories SAIC had not provided any support for its proposed rates. Given SAIC's emphasis on retaining incumbent non-key personnel, the cost evaluators decided for these labor categories to adjust SAIC's proposed rates to the labor rates from the current contract. AR, Tab 16, SAIC Cost Evaluation, at 3-5.

The Navy also questioned the labor rates proposed by two of SAIC's subcontractors, QinetiQ and Atlas Technologies, Inc. The Navy determined that

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<sup>4</sup> The Navy increased labor rates to meet the wage determination rates for four journeyman IT analyst positions where the rates SAIC had proposed were below the Service Contract Act wage determination rates. AR, Tab 16, SAIC Cost Evaluation, at 4.

<sup>5</sup> The six labor categories for which the Navy did not accept SAIC's proposed rates were: Journeyman IT analysts in Souda Bay, Greece, and Rota, Spain; senior IT analyst in Virginia; and subject matter experts in Diego Garcia, Singapore, and Japan. AR, Tab 16, SAIC Cost Evaluation, at 5. The Navy did accept SAIC's proposed rates for the journeyman technician in Bahrain category, because it was higher than the current contract labor rate. Id.

supporting documentation was not provided for these labor rates, and the cost evaluators increased these proposed labor rates to match the estimated median wage rate in the Norfolk, Virginia, area as calculated by Salary.com, a third-party resource for labor rates. Id. at 8-10.

The results of the technical and cost evaluations were provided to the agency's source selection authority (SSA). AR, Tab 17, Source Selection Decision, at 1. The SSA considered the various strengths and risks presented in SAIC's and SRA's proposals, concluding that both firms offered strong proposals that could provide significant benefits. Based upon his consideration of the evaluated technical merit in each firm's proposal and their evaluated probable costs, the SSA determined that SAIC's proposal offered no particular advantage to the government that outweighed SRA's \$2,267,480 (or 3 percent) cost advantage. The SSA selected SRA for the issuance of the task order. Id. at 16-17, 22.

This protest followed a debriefing.<sup>6</sup>

## DISCUSSION

SAIC objects to the agency's cost realism evaluation of SAIC's proposal, arguing that that the Navy mechanically adjusted its direct labor rates to match the incumbent's rates; improperly adjusted the labor rates proposed by SAIC's subcontractors; and failed to conduct meaningful discussions with respect to SAIC's costs. SAIC also complains that the Navy failed to downgrade SRA's technical proposal to reflect the extent to which the agency upwardly adjusted SRA's proposed costs, and that this was inconsistent with the terms of the solicitation. We have considered all of SAIC's various arguments, although we only address the more significant arguments, and find that none provide a basis on which to sustain the protest.

### SAIC Cost Realism Evaluation

SAIC raises multiple challenges to the reasonableness of the Navy's realism analysis of SAIC's cost proposal.<sup>7</sup> First, SAIC argues that the Navy mechanically

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<sup>6</sup> As the value of this task order is in excess of \$10 million, this procurement is within our jurisdiction to hear protests related to the issuance of task orders under multiple-award indefinite-delivery/indefinite-quantity contracts. 10 U.S.C. § 2304c(e)(1)(B).

<sup>7</sup> Several of SAIC's initial objections to the Navy's cost realism analysis were based on the Navy's failure to map the labor categories listed in the RFP to labor categories subject to the Service Contract Act. However, SAIC subsequently withdrew these objections. See SAIC Comments at 2 n.1.

adjusted its direct labor rates for non-key personnel to match the incumbent's rates rather than accepting the protester's proposed rates. SAIC asserts that such an action is irrational given the Navy's acceptance of lower wage determination rates for similar labor categories that are subject to the Service Contract Act. SAIC Comments at 2. For example, SAIC complains that the Navy accepted the Service Contract Act wage determination labor rates for eight journeyman IT analyst positions that SAIC identified as subject to the Service Contract Act (which ranged from \$15.05 in Guam to \$26.83 in Hawaii), but increased the labor rates for two other journeyman IT analyst positions that were not covered by the Service Contract Act from \$[Deleted] to \$32.62 to reflect the incumbent's labor rates for the positions.<sup>8</sup> Id. at 2-3; AR, Tab 16, SAIC Cost Evaluation, at 5.

The Navy explains that it accepted SAIC's proposed costs where SAIC provided supporting documentation. With respect to the labor rates for non-key personnel--such as the journeyman IT analyst positions in Greece and Spain--SAIC asserted that it was proposing actual labor rates, but provided no supporting documentation. Therefore, the Navy considered SAIC's stated intent to capture incumbent personnel and the company's historical [Deleted] percent incumbent employee capture rate in deciding to apply the incumbent's labor rate for those categories. CO's Statement at 14; AR, Tab 16, SAIC Cost Evaluation, at 4-5.

The evaluation of competing cost proposals requires the exercise of informed judgment by the contracting agency. We review an agency's judgment in this area only to see that the agency's cost realism evaluation was reasonably based and not arbitrary. Earl Indus., LLC, B-309996, B-309996.4, Nov. 5, 2007, 2007 CPD ¶ 203 at 8. In performing its cost realism evaluation, an agency must independently analyze the realism of an offeror's proposed costs based upon its particular approach, personnel, and other circumstances; a cost estimation method which mechanically adjusts proposed labor rates fails to satisfy the requirement for an independent analysis of an offeror's proposed costs. See The Jonathan Corp.; Metro Machine Corp., B-251698.3, B-251698.4, May 17, 1993, 93-2 CPD ¶ 174 at 11. The agency's cost realism evaluation need not achieve scientific certainty; rather, the methodology employed must be reasonably adequate and provide reasonable confidence in view of the cost information available to the agency at the time of its evaluation. See Metro Mach. Corp., B-295744, B-295744.2, Apr. 21, 2005, 2005 CPD ¶ 112 at 10-11.

Here, the record supports the reasonableness of the Navy's cost adjustments given the lack of documentation provided to support SAIC's assertion that it was proposing actual costs. The RFP plainly required that offerors document the accuracy of their proposed direct labor rates and identified acceptable forms of

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<sup>8</sup> The two journeyman IT analyst positions are located in Souda Bay, Greece, and Rota, Spain. AR, Tab 25B, SAIC Cost Proposal Attach. S-1, at 7.

documentary support. See RFP amend. 4, at 43-44. SAIC has not identified where in its proposal it provided any documentation to support its proposed labor rates for journeyman IT analyst positions in Greece and Spain, nor explained why these overseas positions should be considered comparable to positions within the United States and its territories that are subject to Service Contract Act wage determinations. As such, we see no inconsistency in the Navy's decision to accept as realistic Service Contract Act rates for positions subject to the Act, while applying incumbent rates for other positions. In the absence of supporting documentation for SAIC's purported actual labor rates for these positions and in light of the protester's representations concerning its intentions to hire the incumbent's employees, we find that the Navy reasonably adjusted these rates to those currently used under the incumbent contract.<sup>9</sup>

Conversely, SAIC also argues that the Navy unreasonably applied labor rates from Salary.com to SAIC's subcontractor costs rather than applying the labor rates from the incumbent contract. In this regard, the protester asserts that the Navy treated it differently than it treated SRA. Supp. Protest at 8. For example, with respect to a subject matter expert proposed by SAIC's subcontractor QinetiQ, SAIC complains that the Navy applied an estimated median labor rate of \$44.00 from Salary.com rather than the current contract's lower rate of \$38.79 for a comparable position.<sup>10</sup> In contrast, the Navy increased SRA's proposed labor rate for a subject matter expert from \$28.40 to the incumbent contract rate of \$38.79 for this position. Id. at 9. Likewise, SAIC complains that the Navy applied the current contract's labor

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<sup>9</sup> SAIC also complains that the Navy did not discuss the agency's increases to SAIC's proposed actual costs for unidentified non-key personnel, and should have, at a minimum, engaged in clarifications concerning the basis for SAIC's proposed labor rates. Supp. Protest at 12-13. SAIC contends that its basis for non-key personnel labor rates--its forward pricing direct labor rates--has remained unchanged since its initial proposal. SAIC Supp. Comments at 3. The Navy responds that SAIC only identified "actual costs" as the supporting basis for several non-key personnel rates for the first time in its final proposal revision and provided no support for the statement. Supp. AR at 4-5. An agency has no obligation to reopen discussions to provide an offeror additional opportunity to revise its proposal where a proposal flaw first becomes apparent in a post-discussion submission. See Raytheon Co., B-403110.3, Apr. 26, 2011, 2011 CPD ¶ 96 at 7. There is also no requirement that an agency use "clarifications" to give offerors an opportunity to correct errors introduced in revised proposals.

<sup>10</sup> QinetiQ had proposed a labor rate of \$[Deleted] for a subject matter expert in the Norfolk, Virginia, area. See AR, Tab 27, QinetiQ Cost Proposal, at 4; Tab 16, SAIC Cost Evaluation, at 9.

rate of \$49.67 for a senior IT analyst proposed by SRA's subcontractor, rather than applying a labor rate from Salary.com.<sup>11</sup> Id. at 11.

The Navy states that it applied a consistent methodology in adjusting labor rates where documentation was not provided to support the proposed rates. The Navy explains that it applied the current contract's labor rates where SAIC and SRA proposed subject matter experts as direct labor, given that both firms indicated an intent to use the incumbent contract staff. Similarly, the Navy used incumbent contract rates for SRA's subcontractor personnel, where these personnel support the current contract. Supp. AR at 3-4. The Navy, however, applied the Salary.com rate for subject matter experts proposed by SAIC's subcontractors because nothing in SAIC's proposal or the subcontractors' submissions indicated an intent on the part of the subcontractors to hire incumbent personnel for that position. Id. at 2.

The Navy's explanation for applying different labor rates to SAIC's and SRA's cost proposals is reasonable, given that the evaluators looked to the content of each offeror's proposal to determine the appropriate basis for adjusting costs.<sup>12</sup> The Navy reasonably recognized that SRA's proposed subcontractors are performing on the current contract and therefore could be expected to utilize the same labor rates currently in use. With regard to SAIC's and its subcontractor's labor rates, the Navy looked to SAIC's proposal and its subcontractors' submissions to support the proposed labor rates; in the absence of such support or indications that the subcontractors also would attempt to hire incumbent staff, we find that the Navy reasonably applied third-party median wage rates for the location.

#### SRA Technical Evaluation

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<sup>11</sup> SAIC did not identify a median labor rate from Salary.com for a comparable position.

<sup>12</sup> SAIC argues that we should not consider the agency's post hoc explanations of its cost analysis. SAIC Supp. Comments at 2. In reviewing an agency's evaluation, we do not limit our review to contemporaneous evidence, but consider all of the information provided, including the parties' arguments and explanations. Remington Arms Co., Inc., B-297374, B-297374.2, Jan. 12, 2006, 2006 CPD ¶ 32 at 10. While we generally give little weight to reevaluations and judgments prepared in the heat of the adversarial process, Boeing Sikorsky Aircraft Support, B-277263.2, B-277263.3, Sept. 29, 1997, 97-2 CPD ¶ 91 at 15, post-protest explanations that provide a detailed rationale for contemporaneous conclusions and simply fill in previously unrecorded details will generally be considered in our review of the rationality of selection decisions, so long as those explanations are credible and consistent with the contemporaneous record. NWT, Inc.; PharmChem Labs., Inc., B-280988, B-280988.2, Dec. 17, 1998, 98-2 CPD ¶ 158 at 16. Here, we find the Navy's explanations to be credible and consistent with the contemporaneous record.

SAIC also complains that the Navy did not consider the technical risk associated with SRA's unrealistic proposed costs, as required by the RFP. Protest at 34. Specifically, SAIC notes that the RFP stated that "to the extent proposed costs appear unrealistic, the Government may infer either a lack of understanding of the requirements, increased risk of performance, or a lack of credibility on the part of the offeror." Id. at 35, citing RFP at 60. SAIC contends that the 32 percent increase in SRA's proposed costs should have led the Navy to conclude that SRA did not understand the work to be performed under the task order. Id. at 34-35.

The Navy disagrees that it was required to downgrade SRA's technical ratings as a result of the agency's cost realism adjustments. AR at 7. The Navy also states, however, that the agency considered risk in the offerors' proposals. Id. at 7-8.

Here, the record indicates that the SSA considered the impact of cost realism adjustments in the technical evaluation, where appropriate. For example, with respect to another offeror's proposal, the SSA noted that, although the technical evaluators assessed a strength in that firm's plan to hire incumbent staff, the cost evaluators increased the firm's proposed costs to reflect that its proposed rates were below that of the incumbent staff. The SSA therefore discounted the strength assessed in that firm's proposal for hiring incumbent staff. See AR, Tab 17, Source Selection Decision, at 9.

In contrast, with respect to SRA's proposal, the SSA recognized the magnitude of the cost adjustment in SRA's proposed costs, see id. at 10, but did not note any associated risk. Rather, the SSA noted that SRA's proposal demonstrated a strong technical approach and thorough understanding of the requirements. Also, the SSA recognized SRA's high employee retention rates and that SRA proposed an incumbent workforce that was already onsite.<sup>13</sup> Id. at 7. The record shows that the Navy recognized the inconsistency between SRA's proposed retention of high quality non-key personnel and the substantially reduced labor rates that SRA proposed in its cost proposal, and adjusted labor rates to match SRA's labor rates on the current contract to better reflect the quality of personnel proposed. AR, Tab 16, SRA's Cost Evaluation, at 3. Where the cost and technical evaluation of a proposal reach contradictory conclusions, the agency generally is required to reconcile the evaluations. See Booz Allen Hamilton, Inc., B-405993, B-405993.2,

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<sup>13</sup> The technical evaluators noted that SRA's retention rate of 87.7 percent for fiscal year 2010 was higher than the industry average of 83.2 percent, and that SRA's retention rate for the current contract year is 88.2 percent, which the evaluators concluded suggests organizational stability and the assurance that trained individuals will perform under the contract. AR, Tab 15, SRA Technical Evaluation, at 17.

Jan. 19, 2012, 2012 CPD ¶ 30 at 11.<sup>14</sup> In our view, the agency's conclusion that SRA's proposal demonstrated an understanding of the work despite the low proposed labor rates appears reasonable, particularly in light of the Navy's experience with SRA as the incumbent.

#### Cost/Technical Tradeoff Decision

SAIC challenges the Navy's cost/technical tradeoff decision on the basis of the alleged errors in the agency's evaluation of cost proposals. Protest at 37. However, this challenge is predicated on SAIC's assertions that the agency improperly evaluated cost proposals and/or failed to downgrade SRA's technical proposal based on the size of the price adjustments to SRA's cost proposal. As discussed above, we found no merit in these assertions. Accordingly, on this record, we find no basis to question the agency's tradeoff decision. See Command Enters, Inc., B-293754, June 7, 2004, 2004 CPD ¶ 166 at 3 (challenge to tradeoff decision denied where challenge is dependent on other, unsubstantiated protest grounds).

The protest is denied.

Susan A. Poling  
General Counsel

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<sup>14</sup> SAIC cites our decision in Wisconsin Physicians Serv. Ins. Corp., B-401063, May 4, 2009, 2012 CPD ¶ 35 as supporting its argument that the Navy improperly failed to downgrade SRA's technical proposal. This case, however, is inapposite. In Wisconsin Physicians, we found that the agency's cost realism analysis was unreasonable for failing to upwardly adjust the awardee's labor rates to match its actual labor rates. We also found that the agency erred in its view that it could not consider the effect of the lower proposed labor rates on the awardee's ability to retain its existing staff. Id. at 14.