DECISION THE COMPTROLLER GENERAL
OF THE UNITED STATES
WASHINGTON, D.C. 20548

FILE: B-217016 **DATE:** December 11, 1984

MATTER OF: Integrity Management International, Inc.

DIGEST:

1. GAO furnishes views on court suit where United States District Court for the Northern District of California has requested an opinion. Views are based solely on court record transmitted to GAO.

2. Bid for base period's and option periods' services is not mathematically unbalanced on its face where base period's price is only 15 percent higher than option periods' prices; moreover, examination of bidder's post-bid-opening explanation as to why base period price was higher confirms conclusion that bid is not mathematically unbalanced. Bidder would not receive a windfall if options are not exercised.

3. Even if low bid contained unbalanced prices for high-volume items as compared with low-volume items, there is no indication that estimates for items were erroneous; consequently, low bid may be accepted.

4. GAO will not consider whether bid is materially unbalanced where bid is found not to be mathematically unbalanced.

The United States District Court for the Northern District of California has requested our opinion in a case pending before the court, Integrity Management International, Inc. (IMI) v. The Honorable John O. Marsh, Jr., Secretary of the Army, Civil Action No. C-84-6900 EFL, which involves the propriety of a laundry service contract awarded to East Coast Support Services, Inc. (East Coast), for a base year period (October 1, 1984, to September 30, 1985), plus up to 2 additional option years. Our knowledge of the facts and issues involved in this civil action is derived solely from the court record which has been furnished to us.

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IMI argues that its low, overall bid was improperly rejected as "unbalanced" by the Department of the Army, Fort Bragg, North Carolina, because IMI's base year price was approximately 15 percent higher than either of its prices for the option years and because the Army considered East Coast's bid--the next low, overall bid--to be more advantageous given that East Coast would be the lowest bidder for 29 of the 36 months of contemplated services.

We conclude that IMI's bid should not have been rejected.

The IFB stated that award would be made to the bidder providing the lowest total price for all 3 years. Bidders were warned that a bid might be found nonresponsive if it was "materially unbalanced as to prices for basic and option quantities."

Eight bids were received as of bid opening on September 21, 1984. The low bidder was allowed to withdraw its bid. The prices submitted by IMI and by East Coast, the next lowest bidders, were, as follows:

	Base Year	1st Option Year	2nd Option Year	Total Bid Price
IMI	$590,706.99	$511,448.91	$513,616.53	$1,615,772.43
East Coast	$565,624.26	$529,624.26	$529,624.26	$1,624,872.78

On October 12, 1984, IMI was informed that its bid had been rejected as nonresponsive because of the contracting officer's determination that its bid was unbalanced as between the base year and the option years. IMI says that it was told at the same time that award had been made to East Coast.

Our Office has recognized that unbalanced bidding entails two aspects. The first is a mathematical evaluation of the bid to determine whether each bid item carries its share of the cost of the work plus profit or whether the bid is based on nominal prices for some work and enhanced prices for other work. However, we have recognized that a difference of 25 to 50 percent between the base bid and the bid on the option years does not necessarily render a bid mathematically unbalanced. Applicators, Inc., B-215035, June 21, 1984, 84-1 C.P.D. ¶ 656; Propserv Incorporated, B-192154, Feb. 28, 1979, 79-1 C.P.D. ¶ 138. The second aspect--material unbalancing--involves an assessment of the cost impact of a mathematically unbalanced bid. A bid is

materially unbalanced if there is a reasonable doubt that
award to the bidder submitting the mathematically unbalanced
bid will result in the lowest ultimate cost to the govern-
ment. Consequently, a materially unbalanced bid may not be
accepted. Reliable Trash Service, B-194760, Aug. 9, 1979,
79-2 C.P.D. ¶ 107.

As to mathematical unbalancing, the record shows that
the Army determined that IMI's bid was mathematically
unbalanced because IMI's base bid was 15 percent higher than
its option prices. On October 27, 1984, the Army's con-
tracting officer further found that IMI had "enhanced" its
bid for items 51, 66, and 68 (washing, ironing, and folding
of bed sheets, turkish bath towels, face or hand towels).
The contracting officer further noted that IMI had doubled
its unit prices for these items 2 days before bid opening in
an amended bidding schedule without explanation. Neverthe-
less, IMI had not changed other prices for similar items
found in comparable, but low volume, items 52, 67, and 69
(bed sheets, turkish bath towels and hand or face towels to
be dyed as well as washed, ironed, and folded). Conse-
quently, the contracting officer concluded that IMI's prices
for items 51, 66, and 68 were "enhanced to the extent that
the unit prices [for these items] did not accurately reflect
the actual cost of the work [involved]."

As to the 15-percent difference between IMI's base
period and option period prices, the Army's finding that
this variance constituted mathematical unbalancing was
incorrect under the Propserv decision, above.

In Propserv, the lowest bid priced the basic contract
term and 3 option years at $18,000, $14,000, $13,000, and
$12,000, respectively; in percentage terms, these
base/option period price differentials amounted to 27, 40,
and 50 percent. The low bidder did not offer any explana-
tion as to why its bid contained these differentials. Nor
did the procuring agency suggest any reason for the dif-
ferentials. We rejected the protester's allegation that
these circumstances rendered the low bid mathematically
unbalanced.

Moreover, we conclude that IMI's post-bid-opening
explanations of why it bid the 15-percent differential do
not otherwise contradict our conclusion that IMI's bid is
not mathematically unbalanced since those explanations show
that IMI would not obtain a windfall if all options are not
exercised. IMI explained that additional first year costs
caused the difference and that the 15-percent differential

(amounting to about $80,000) consisted of the following
elements: (1) $22,000 to move IMI's "most experienced"
laundry contract manager and his family from Hawaii to North
Carolina; (2) $12,000 to move IMI's proposed assistant
manager (who would be needed for 1 year) and his family from
California to North Carolina plus the assistant manager's
salary ($27,500) for 1 year; (3) $3,300 under the acceler-
ated depreciation accounting method for the first year
depreciation of vehicles; (4) $12,000 in higher labor costs
for the first year compared with the option years when labor
efficiency would be higher and labor costs would, presum-
ably, be less; (5) $2,500 for additional corporate travel
expenses and incidental startup costs related to the first
year. The above costs are properly allocable to the first
year, and IMI would not receive a windfall should the
options not be exercised. Consequently, these post-bid-
opening explanations confirm our conclusion that IMI's bid
is not mathematically unbalanced. See Roan Corporation,
B-211228, Jan. 25, 1984, 84-1 C.P.D. ¶ 116 at page 4.

As to the 100-percent variation in unit prices bid for
items 51, 66, and 68 compared with the unit prices bid for
items 52, 67, and 69, we have held that, if the government's
estimate for the individual items involved is a reasonably
accurate representation of actual anticipated needs, an
admittedly mathematically unbalanced low bid may be
accepted. Edward B. Friel, Inc., 55 Comp. Gen. 231 (1975),
75-2 C.P.D. ¶ 164. In other words, a mathematically
unbalanced bid is to be rejected as materially unbalanced
only where there is doubt with respect to the IFB's require-
ment estimates. Where the estimates are in doubt, a bidder
could gamble that requirements will be very different from
those stated and that, therefore, bid unbalancing would not
damage its interest while possibly resulting in a disadvan-
tageous price to the government. Applying these concepts,
even if the prices for items 51, 66, and 68 rendered IMI's
low bid unbalanced, IMI's bid may be accepted since there is
no indication in the record that the high-volume estimates
for the items were other than reasonable.

Given our conclusion that the base/option price
differential in IMI's bid does not render the bid mathemat-
ically unbalanced on its face, we need not consider the
Army's argument that, because IMI's bid would not become low
until the 30th month of the 36 months of contemplated
services, IMI's bid was materially unbalanced. Under our
decisions (see, for example, Roan Corporation, above, at
pages 4-5), we do not consider the issue of material
unbalancing unless we have first determined a bid to be

mathematically unbalanced--a determination which we cannot
make about IMI's bid insofar as its base period/option
period price differential is concerned.

   Consequently, it is our view that IMI's bid was
improperly rejected.

                              Milton J. Socolar

                              Comptroller General
                              of the United States