

DECISION

W. H. ...
119473

**THE COMPTROLLER GENERAL
OF THE UNITED STATES
WASHINGTON, D. C. 20543**

FILE: B-203095

DATE: September 20, 1982

MATTER OF: Prospective Computer Analysts

DIGEST:

1. Agency is not required to notify offeror during discussions that its cost is too high.
2. Cost realism analysis which used agency cost estimates and historical labor rates to compare with proposed costs and which compared technical and cost proposals of each offeror to assure compatibility was reasonable.
3. Agency decision to evaluate protester's proposed professional compensation escalation rates at 8 percent per year instead of the offered 6 percent because agency considered that 8 percent was more realistic was not unreasonable. In any event, evaluation had no impact on the award of the contract.

Prospective Computer Analysts (PCA) protests the award of a cost-plus-fixed-fee (CPFF) level of effort contract to Support Systems Associates, Incorporated (SSAI), under request for proposals (RFP) No. N00421-81-R-0012, issued by the Naval Air Station (Navy), Patuxent River, Maryland. The contract is for engineering support services in support of the in-service engineering program for automatic test equipment.

PCA protests that during discussions the Navy failed to inform it that its costs were excessively high even though other offerors were informed of cost proposal deficiencies and then awarded to a technically lower rated, lower cost offeror. PCA also alleges that the awardee's lower costs were unrealistic. PCA further contends that the Navy improperly evaluated the professional salary and fringe benefit escalation rates in its proposal.

We deny the protest because there is no requirement for a contracting agency to inform an offeror during discussions that its costs are too high and because we find that the Navy's cost realism analysis of the awardee was rationally based. Also, the Navy's evaluation of PCA's professional salary and fringe benefit escalation rates was reasonable and, in any event, had no effect on the outcome of the competition.

The solicitation evaluation and award criteria provided that technical factors would be valued at least three times the value of cost factors. The solicitation contained the following statements regarding cost and award criteria:

"Cost Factors, Including Cost Realism - Although cost is the least important evaluation factor, it is an important factor and should not be ignored. The degree of its importance will increase with the degree of equality of the proposals in relation to the other factors on which selection is to be based. Furthermore, costs will be evaluated on the basis of cost realism. Cost realism pertains to the offeror's ability to project costs which are reasonable and which indicate that the offeror understands the nature of the work to be performed.

"Award Criteria - Award of the contract resulting from this solicitation will be made to the firm whose proposal is judged to represent the greatest value to the Government in terms of technical and cost, rather than to the proposal offering the lowest estimated total cost plus fee. However, if technical proposals are judged to be essentially equal, the Government reserves the right to make award based on the lowest evaluated total cost plus fee."

The solicitation also contained a clause providing that the compensation (salary and fringe benefits) proposed for professionals would be evaluated to determine if the proposed compensation plans would be likely to ensure recruitment and retention of high quality professionals. The clause stated that unrealistically low compensation for professionals may be viewed as reflecting the offeror's lack of understanding of the complexity of the contract requirements.

Sixteen proposals were received. After technical evaluations of the initial offers, five firms were considered technically acceptable and in the competitive range, but one of them ceased doing business. Written requests for clarifications were sent to the four remaining offerors, pointing out deficiencies in technical and cost proposals, as necessary. This was the extent of discussions. The revised technical proposals were evaluated, resulting in the following scores:

<u>Offeror</u>	<u>Technical Score</u>	<u>Offered CPFF</u>
PCA ManTech International Corp. (ManTech)	72	\$1,088,704
SSAI Advanced Technology, Inc. (ATI)	65.5	736,772
	66	646,567
	54	900,170

A cost realism analysis was performed for each offeror. This analysis resulted in an evaluated CPFF for each offeror, which essentially is the Navy's projection of the CPFF based on the offeror's proposal. Cost points were awarded based on the evaluated CPFF, with the highest score (25 points) awarded to the lowest evaluated CPFF. Additionally, "Greatest Value Scores" (GVS), upon which award would be based, were calculated by adding the technical and cost scores. The result of that analysis was:

<u>Offeror</u>	<u>Evaluated CPFF</u>	<u>Technical Score</u>	<u>Cost Score</u>	<u>GVS</u>
SSAI	\$679,738	66	25	91
ManTech	767,050	65.5	22.15	87.65
PCA	1,088,704	72	15.6	87.6
ATI	960,588	54	17.7	71.7

Based on these results, ATI was eliminated from the competitive range. Best and final offers were requested from the other offerors. SSAI and ManTech confirmed their revised offers. PCA reduced its proposed CPFF to \$995,573. An additional cost realism analysis was performed on PCA's CPFF, resulting in an evaluated CPFF of \$1,023,304, a revised cost score of 16.6, and a revised GVS of 88.6. Award was made to SSAI because its GVS was highest.

PCA contends that other offerors were advised of deficiencies in their cost proposals, yet PCA was not advised that its costs were considered excessively high.

PCA points to the following statement in the so-called "Pre-Negotiation Clearance," a summary of the competition up to best and final offers, as evidence that its high CPFF was a deficiency requiring discussions:

"This company [PCA] will only be considered for award if the cost premium is significantly reduced as a result of best and final offers."

According to PCA, Defense Acquisition Regulation (DAR) § 3-805.3 (DPC #76-7, April 29, 1977) requires the contracting agency to notify offerors of deficiencies like this during discussions and to permit them to correct the deficiencies.

The Navy states that PCA's costs were not considered deficient, but were considered realistic based on its technical proposal. The cost deficiencies noted in other proposals resulted from the cost realism analysis, which showed that certain costs had been underestimated based on technical proposals and had to be adequately explained. The Navy points out that DAR § 3-805.3 does not require the contracting agency to notify an offeror when its cost is too high, but permits it to do so. According to the Navy, the statement in the Pre-Negotiation Clearance referred to by PCA was prior to asking for best and final offers and was nothing more than a recognition of the state of the competition up to that point.

We agree with the Navy. Contracting agencies are not required to notify an offeror if its cost is considered too high, vis-a-vis other offerors. DAR § 3-805.3; Fischer Engineering and Maintenance Company, Inc. - International Industrial Company, Ltd., B-179193, April 1, 1974, 74-1 CPD 158; B-175974, December 19, 1972. This is unlike the situation where the offeror's proposed costs are significantly different than the Government estimate and, therefore, are considered deficient. Consolidated Service, Inc. of Charleston, B-183622, February 18, 1976, 76-1 CPD 107. Here, PCA's costs were essentially the same as the Government estimate generated by the cost realism analysis of its proposal. The fact that the costs were higher than other offerors' costs does not require discussions.

PCA alleges that SSAI's lower costs were not realistic. As evidence, PCA points to a statement in the Pre-Negotiation Clearance that "only the CPFF amount proposed by PCA was considered to be a realistic projection of costs as initially proposed." PCA contends that

SSAI should have incurred a penalty for having an unrealistic CPFF. PCA also alleges that the cost realism analysis of SSAI's proposed CPFF was deficient because the Navy did not verify that the labor rates in SSAI's cost proposal were the actual labor rates of the key personnel listed in SSAI's technical proposal. PCA further contends that the Navy cost realism technique of using a prior contract for comparison is improper because the labor mix might be different than for this contract.

The Navy reports that the technical and cost proposals of each offeror were compared to verify that the cost proposal properly reflected the technical proposal. According to the Navy, the only exception taken to SSAI's costs was in the area of burden rates for the option years. This resulted in the \$38,311 difference between SSAI's proposed CPFF and the Navy's projected CPFF based on SSAI's proposal. The Navy considers this difference to be insignificant and SSAI's proposed CPFF to be reasonable and realistic. Additionally, the Navy states that it compared SSAI's proposed labor rates with the best information available, a recent similar contract for which rates had been verified by the Defense Contract Audit Agency.

We have consistently held that a contracting agency's analysis of competing cost proposals involves the exercise of informed judgment, and we will not disturb a cost realism determination unless it is not supported by a reasonable basis. Grey Advertising, 55 Comp. Gen. 1111, 1133 (1976), 76-1 CPD 325. We have specifically approved the use of Government cost estimates in evaluating cost realism, Vinnell Corporation, B-180557, October 8, 1974, 74-2 CPD 190, and have stated that evaluated costs rather than proposed costs provide a sounder basis for determining the most advantageous cost proposal. 52 Comp. Gen. 870 (1973). Additionally, the procuring agency's judgment as to the methods used in developing the Government's cost estimate is entitled to great weight. Dynatrend, Inc., B-192038, January 3, 1979, 79-1 CPD 4.

The solicitation did not specify that the cost realism determination would be performed in any specific manner. In accordance with the above-cited cases, we find that the Navy's development of independent cost estimates, comparison of technical and cost proposals, and comparison of labor rates with a previous contract's

verified rates fall well within the range of discretion permitted a contracting agency in evaluating cost realism. Also, given the inherent imprecision in cost evaluation, it was reasonable for the Navy to find that SSAI's costs were realistic, even though there was a slight variation between the proposed and evaluated CPEFF's.

Finally, PCA argues that the Navy improperly failed to accept its best and final offer's reduction in the escalation rates for professional compensation. PCA originally offered an 8-percent yearly compensation escalation rate for wages and a 2-percent rate for fringe benefits. In its best and final offer, PCA lowered the 8-percent rate to 6 percent based, it asserts, on recent historical experience.

The Navy response is that it considered the 8-percent rate more realistic. The Navy points out that acceptance of the 6-percent rate would have a minimal impact on the cost difference between SSAI and PCA and, consequently, no impact on the award.

Our standard of review for this cost factor is the same as that stated above regarding cost realism, that is, whether the agency determination was reasonable. PCA has done no more than disagree with the Navy's decision and has not shown that it was unreasonable. In any event, we agree with the Navy that the impact on the PCA's cost of accepting the 6-percent figure would be minimal.

The protest is denied.

Harry K. Can. C. C. C.
Comptroller General
of the United States