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Comptroller General
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United States General Accounting Office
Washington, DC 20548

Decision

Matter of: Science Applications International Corporation

File: B-290971, B-290971.2, B-290971.4, B-290971.5

Date: October 16, 2002

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Thomas P. Barletta, Esq., Daniel C. Sauls, Esq., Robert A. Bailey, Esq., and Paul R. Hurst, Esq., Steptoe & Johnson, for Veridian Engineering, Inc., an intervenor.
Joseph Boggs, Esq., Naval Air Warfare Center, for the agency.
Tania Calhoun, Esq., and Christine S. Melody, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

1. Protest that contracting agency's evaluation of management and technical proposals was unreasonable is denied where the record shows that the evaluation was reasonable and consistent with the stated evaluation criteria; disagreement with an agency's evaluation does not render it unreasonable.

2. Protest that contracting agency improperly rejected and adjusted upward protester's proposed direct labor rates and its proposed escalation rate is denied where the record shows that the agency's methodology and rationale for both its rejection of the proposed rates and its upward adjustments are reasonable under the circumstances.

DECISION

Science Applications International Corporation (SAIC) protests the award of a contract to Veridian Engineering, Inc. under request for proposals (RFP) No. N68936-01-R-0079, issued by the Department of the Navy, Naval Air Warfare Center Weapons Division (NAWCWD), to obtain scientific, technical, administrative, and research, development, test, and evaluation services. SAIC argues that the Navy improperly evaluated management, technical, and cost proposals and conducted an improper cost/technical tradeoff analysis.

We deny the protests.

The solicitation was issued on January 10, 2002, to acquire the services and materials necessary to support the analysis, design, development, test, integration, deployment and operations of information technology systems and services that sustain the research, development, test and evaluation, and business/administrative functions in support of the Naval Air Warfare Center Weapons Division. RFP § C.1.0.1. The effort, known as the STARS contract, combines work remaining under the Business and Administrative Support Services (BASS), Scientific and Engineering Support Services (SESS), and Network Support Services (NSS) contracts. Id. § C.1.0.2. SAIC is the incumbent prime contractor for the BASS and SESS contracts.

The RFP contemplated the award of a cost-plus-award-fee indefinite-delivery/indefinite-quantity contract over a 5-year period to be performed principally at sites located in China Lake and Point Mugu, California. RFP Statement of Work (SOW) ¶ 1.1.1. The level of effort to perform the contract was estimated at 2,740,080 hours of direct labor, including authorized subcontract labor, with an option for as many as 155,100 additional labor hours. RFP § B, at 4-5. A chart in section B of the RFP estimated the composition of the total hours by labor category--professional, specialist/technical, and clerical/administrative--and classification. Id. at 5. The RFP advised offerors that, for proposal and evaluation purposes, they must use the number of hours per labor category, per year, as set forth in this chart. RFP § L, at 74. The agency reserved the right to award the contract on the basis of initial offers, without conducting discussions, and cautioned offerors that their initial offers should contain their best terms. RFP § M, at 83.

Award was to be made to the offeror whose proposal offered the greatest value to the government considering the following evaluation factors: management and technical, past performance, and cost/price. Id. Of the three basic evaluation areas, the management factor, technical factor, and past performance factor were of equal importance and, when combined, were significantly more important than cost/price. A summary rating was to be determined; that is, both the management and technical approach and processes (oral presentation) factors and their subfactors were to be evaluated based on the synergism of the data presented and given one qualitative rating and one proposal risk rating for the combined factors. Id. at 84.

A cost/price analysis was to be conducted on cost proposals to ensure the proposed pricing was realistic, fair, and reasonable. Proposed costs would also be evaluated for realism to determine if the costs proposed were realistic for the work to be performed; reflected a clear understanding of the solicitation requirements; and were consistent with approaches in the offeror's management/technical proposal. Id. at 86. Pertinent cost information would be used to arrive at the government determination of realistic costs; if proposed costs were considered to be unrealistic, they might be adjusted upward or downward to reflect more realistic costs. Id.

The Navy received proposals from four offerors by the February 12, 2002 closing date, including those from SAIC and Veridian.[1] Each offeror made its oral presentation, and management and technical proposals were evaluated by the management/technical evaluation team (M/TET); past performance proposals were evaluated by the past performance evaluation team (PPET) and cost proposals were evaluated by the cost evaluation team (CET). Each team provided final summary reports to the contracting officer and briefed the competitive award panel (CAP). After this meeting, the M/TET drafted a tradeoff analysis report for the CAP, and the CAP drafted its report showing the following final evaluation results:

	SAIC	**Veridian**
Management/Technical	Satisfactory Moderate Risk	Highly Satisfactory Low Risk
Past Performance Risk	Very Low	Very Low
Proposed Cost **Evaluated Cost**	$[DELETED] $[DELETED]	$163,429,753 $[DELETED]

The CAP report included a detailed "best value" analysis of each proposal and recommended award, without conducting discussions, to Veridian. After reviewing the reports of each team and the CAP, as well as the business clearance memorandum, the source selection authority (SSA) concurred with the CAP's conclusion that Veridian's proposal exceeded the minimum requirements and contained enhancing features in a manner that would "most" benefit the government. Source Selection Decision (SSD) at 2. She found that Veridian's management proposal contained numerous strengths in all areas evaluated, and its technical presentation provided a straightforward coherent process in which all of the pieces were organized and integrated, ensuring successful execution of the program through well-defined life cycle tailoring. Veridian was the only offeror receiving a management/technical rating of highly satisfactory and, based on its experience, there was essentially no doubt that Veridian would successfully perform the required efforts in an exemplary manner.

The SSA also stated that she had considered the cost differences between Veridian and the other offerors, and went on to address their relative merits. The SSA stated that SAIC's management and technical proposals were adequate, but there were noted weaknesses in both areas with associated risks and no enhancing features that would benefit the government. She also stated that the cost evaluation indicated a number of noncompliances with the solicitation requirements, and that its understatement of labor and escalation rates and the direct charging of management tasks were of further concern. Since management, technical expertise and past performance were the most critical factors in this source selection and significantly

[1] We intend to issue a decision resolving the protests of another unsuccessful offeror separately.

more important than cost/price, the SSA found that the additional costs associated with Veridian's superior proposal were warranted. Id.

SAIC argues that the Navy improperly evaluated management and technical proposals, improperly evaluated its cost proposal, and conducted an improper cost/technical tradeoff analysis. For the reasons below, we deny the protests.

EVALUATION OF MANAGEMENT/TECHNICAL PROPOSALS

An agency's method for evaluating the relative merits of competing proposals is a matter within the agency's discretion, since the agency is responsible for defining its needs and the best method for accommodating them. NLX Corp., B-288785, B-288785.2, Dec. 7, 2001, 2001 CPD ¶ 198 at 4. Where an evaluation is challenged, our Office will not reevaluate proposals but instead will examine the record to determine whether the agency's judgment was reasonable and consistent with stated evaluation criteria and applicable statutes and regulations. Lear Siegler Servs., Inc., B-280834, B-280834.2, Nov. 25, 1998, 98-2 CPD ¶ 136 at 7. The fact that the protester disagrees with the agency does not render the evaluation unreasonable. ESCO, Inc., B-225565, Apr. 29, 1987, 87-1 CPD ¶ 450 at 7. As illustrated by the following examples, and with one exception,[2] our review of the record, including written proposals, oral presentations, and the pleadings, provides us no basis to find the evaluation unreasonable.[3]

SAIC's Management Proposal

The management factor was comprised of seven subfactors. The M/TET concluded that SAIC's management proposal was adequate with noted weaknesses and/or risk in several areas. M/TET Report at 5. Specifically, while SAIC's proposal was evaluated as having several strengths, it was evaluated as having a significant weakness under the subcontracting/teaming plan subfactor, and various weaknesses under other subfactors.

Offerors were required to submit a subcontracting/teaming plan meeting various requirements. Among other things, "[t]o assure further development of small business concerns, the work distributed to small business [SB] and small

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[2] As discussed in detail below, we conclude that it was unreasonable for the agency to assign a weakness to SAIC's proposal in the area of key personnel commitments. We also conclude, however, that SAIC's overall evaluation would not have changed even if this area had not been identified as a weakness.

[3] Although we do not here specifically address all of SAIC's complaints about the evaluation of its management and technical proposals, we have considered all of them and find that they afford no basis to find the Navy's evaluation unreasonable.

disadvantaged business [SDB] will be required to be distributed in a proportionate manner between the labor groups (Professional; Specialist/Technical; and Clerical/Administrative)." RFP § L, at 69.

Again, for proposal and evaluation purposes, offerors were required to use the number of hours per labor category, per year, as set forth in a chart in section B of the RFP. Id. at 74. That chart estimated the composition of the base hours by labor category. The professional category was allocated 35.6 percent of the hours; the specialist/technical category was allocated 17.8 percent of the hours; and the clerical/administrative category was allocated 46 percent of the hours. See RFP § B, at 4.

SAIC's proposal included a chart purporting to demonstrate that its planned distribution of SB/SDB work among the labor groups indicated a proportional assignment of work. This chart shows that, of the hours SAIC allocated to SB/SDBs, 17 percent were allocated to the professional category, 13.6 percent to the specialist/technical category, and 69 percent to the clerical/administrative category. See SAIC Management Proposal at I-41.

The M/TET evaluated SAIC's proposal as having a significant weakness because it did not distribute the SB/SDB work in a proportionate manner among the three labor groups, but assigned the hours most heavily to the clerical/administrative category. M/TET Report at 8. The M/TET stated that the distribution of hours did not meet the intent of the solicitation, which was to ensure the continued development of small business concerns in professional/technical areas.[4] Id. The M/TET found that SAIC's plan presented a moderate risk based on its proposed distribution. Id.

SAIC argues that the RFP did not identify specific proportions that were expected and that its distribution of a substantial number of subcontracting hours to small businesses in each category fully satisfied the RFP's requirements. We do not agree.

The requirement to distribute SB/SDB work "in a proportionate manner between the labor groups" cannot be divorced from the RFP requirement to use the number of

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[4] SAIC's assertion that the worksheets of two evaluators are inconsistent with this finding is unavailing. Consensus ratings may not be those initially awarded by individual evaluators, but may properly be determined after discussions among evaluators, which are meant to, among other things, correct mistakes or misperceptions that may have occurred in the individual evaluations. Brisk Waterproofing Co., Inc., B-276247, May 27, 1997, 97-1 CPD ¶ 195 at 2 n.1. Where, as here, an agency uses a consensus evaluation approach, the consensus evaluation is controlling, and the fact that there may be inconsistencies among the individual evaluators' initial findings is irrelevant in assessing the reasonableness of the overall evaluation. SWR, Inc., B-286229, B-286229.2, Dec. 5, 2000, 2000 CPD ¶ 196 at 6 n.5.

hours per labor category as set forth in the chart in section B of the RFP and the relative allocation of those hours among the labor categories. While we do not think the agency could reasonably require offerors to track the exact percentages of hours allocated in that chart--and do not find that the Navy so evaluated proposals--the only reasonable interpretation of the solicitation is that the distribution of SB/SDB hours in a "proportionate manner" should correspond with the proportional allocation of overall hours among the labor groups in order to further develop small business concerns. That is, the agency did not want the contractor to relegate SB/SDBs disproportionately to clerical or administrative work. Veridian and the other two offerors interpreted the solicitation in this manner, and, indeed, Veridian furthered the intent of the requirement by proposing [DELETED] hours for the more highly paid labor categories and [DELETED] hours for the clerical/administrative labor category. SAIC's distribution of hours is clearly not consistent with the RFP's allocation of hours or the intent of the requirement. SAIC has given us no basis to find the application of the requirement irrational, and no basis to question the agency's finding of a significant weakness here.

Under the key personnel plan subfactor, the M/TET found that SAIC's proposal contained four weaknesses and that its plan posed a moderate risk.

The first weakness is associated with the commitments of SAIC's proposed key personnel. The RFP stated that the evaluation of offerors' proposed key personnel plans would consider, among other things, "the probability of a long-term commitment of the Key Personnel performing the functional descriptions . . . ." RFP § L, at 68. For each of the key personnel proposed, the offeror was required to provide signed resumes; "[i]ncluded with the resume, will be a written agreement from the potential employee to work for the offeror effective at contract award." Id.

SAIC proposed three key personnel--the [DELETED], the [DELETED], and the [DELETED]. Their resumes indicated that all three were currently working in a managerial capacity for SAIC on its incumbent contract(s). The following statement was included at the bottom of each resume: "I testify that all above information is accurate and that I am fully committed long-term to the successful performance of SAIC's STARS Program." SAIC Management Proposal at I-35a to I-35c. There is no additional written agreement.

The M/TET concluded that SAIC did not include written agreements from its proposed key personnel to work for the firm effective at award and considered this to be a weakness. The M/TET acknowledged that the resumes stated these key personnel were committed to the long-term successful performance of SAIC's STARS program, but found that this statement did not evidence the probability of a long-term commitment of employment. M/TET Report at 7. SAIC asserts that the only way to interpret the statements in these resumes from incumbent managerial personnel is as a long-term commitment to work with SAIC in performing the STARS contract if it were to receive award. We agree.

The purpose of RFP requirements such as those found here is to preclude an offeror from proposing an impressive array of employees, being evaluated on that basis, and receiving award, even where the persons proposed had never committed themselves to the offeror and had no intention of doing so. Xeta Int'l Corp., B-255182, Feb. 15, 1994, 94-1 CPD ¶ 109 at 9. This solicitation included the additional requirement to demonstrate that the key personnel expressed a commitment to the offeror's performance of the solicited contract.

The resumes submitted by SAIC confirmed that its proposed key personnel were currently employed by SAIC in managerial capacities on the predecessor contracts to the STARS Program, and those resumes expressly provided that these individuals were "fully committed long-term to the successful performance of SAIC's STARS Program." As a general matter, an agency must only be reasonably assured that the key employees are firmly committed to the offeror, Laser Power Techs., Inc., B-233369, B-233369.2, Mar. 13, 1989, 89-1 CPD ¶ 267 at 14, and we have found this type of information sufficient to satisfy a solicitation requirement for documentation showing commitment and/or availability. Potomac Research Int'l, Inc., B-270697, B-270697.2, Apr. 9, 1996, 96-1 CPD ¶ 183 at 3; see also Intermetrics, Inc., B-259254.2, Apr. 3, 1995, 95-1 CPD ¶ 215 at 14. Again, this solicitation included the additional requirement to demonstrate that the proposed key personnel expressed a commitment to the offeror's performance of the STARS contract. In view of the fact that SAIC's proposed key personnel are currently performing managerial duties for SAIC in support of the predecessor contracts to the STARS program, we believe that the language in their resumes was sufficient to provide the agency reasonable assurances of the requisite commitment.

Notwithstanding our concern about the reasonableness of the evaluation of this area, however, SAIC has given us no basis to conclude that its overall evaluation would have been affected absent identification of this weakness, which was one of four under the key personnel subfactor and which was not specifically addressed in the CAP report, the M/TET's trade-off analysis report, or the SSD. Calspan Corp.--Recon., B-255268.2, July 5, 1994, 94-2 CPD ¶ 6 at 2-3.

A second weakness is associated with SAIC's identification of its management structure. Offerors were required to describe the management and administrative organization for the performance of the contract, and to include a functional organizational chart with management titles and functional descriptions. RFP § L, at 68. Offerors were to submit a resume for each of the key personnel proposed, and the evaluation of each offeror's key personnel plan was to consider the commitment of the key personnel "performing the functional descriptions below" and other key personnel deemed essential. Id. The phrase "functional descriptions below" refers to the RFP's statement that key personnel formed a local organizational management team comprised of: the local organization manager (LOM) responsible for overall performance of the contract; managers responsible for nine technical functions; and managers responsible for nine administrative functions. Id. at 68-69.

The M/TET found that SAIC did not clearly identify the managers responsible for all of the various technical functions as required, and that this made it difficult to determine who was responsible for these functions below the LOM and technical performance manager (TPM) level. M/TET Report at 7. The M/TET found that the administrative positions were similarly inadequately addressed. This was considered a weakness. Id.

SAIC asserts that it did identify the responsible managers for the various technical and administrative areas--the LOM, TPM, and chief information technology officer. SAIC explains that its approach was to increase management efficiency by [DELETED]. SAIC also argues that the agency ignored its proposal of functional team leaders responsible for the technical program.

SAIC's proposal was not downgraded because it failed to propose a separate manager for each function, but because the Navy found that SAIC did not clearly identify whether any manager was responsible for performing all of the various technical and administrative functions. SAIC's proposal did state that the LOM focused on the administrative aspects of contract performance and was the [DELETED], but two organizational charts in its proposal contain conflicting information regarding her responsibility for the RFP's administrative functions, and their titles do not correlate with those of the administrative functions, making it unclear whether she is responsible for performing all of them. SAIC Management Proposal at I-28 and I-31. Similarly, while SAIC stated that the TPM was the [DELETED], and that the technical program would be executed under his direction through three identified functional team leaders, a review of the titles of the teams, which do not correlate with the titles of the technical functions, does not clarify whether all technical functions are included therein and, hence, whether the functional team leaders will be performing all of them. Id. at I-28. As a result, we have no basis to question the reasonableness of the agency's assessment of a weakness in this area.

Under the cost and quality control plan subfactor, offerors were required to describe, in detail, the processes and constraints they would implement to contain the costs of labor, materials, other direct costs, and burdens to keep the cost to the government minimized and quality maximized. RFP § L, at 70. The M/TET identified two weaknesses and found a moderate risk in SAIC's proposal. M/TET Report at 8.

The M/TET found that SAIC's proposal "marginally described" processes and constraints it would implement to contain costs, labor, materials, other direct costs, and burdens to keep the cost to the government minimized and quality maximized. Id. The M/TET stated that SAIC did not describe processes or constraints to contain administrative labor costs and, "in fact, they proposed approximately [DELETED] direct hours and [DELETED] indirect hours for the [DELETED]; [DELETED] direct hours and [DELETED] indirect hours for the [DELETED]; and [DELETED] direct and [DELETED] indirect hours for the [DELETED] for these 'traditionally' indirect functions with no explanation of how they would provide this much added value directly to the task orders." Id. The M/TET found that "[t]hese high salary costs at the task order level will negatively impact the ability to afford technical work on the task order. Additionally, if that many direct hours are charged to the task orders, it is not known how the indirect functions will be performed. This does not support or imply an effort to maximize cost efficiencies and is considered a weakness." Id.

SAIC argues that the RFP did not prohibit this approach, and that if the Navy thought that direct charging of management personnel was inherently inefficient, it should have amended the RFP to reflect this concern. It is clear from the record, however, that the Navy's concern was not that the approach was inherently inefficient, but that SAIC had failed to explain how the approach would provide added value to the task orders and how the indirect functions would be performed. Under the circumstances, we have no basis to conclude that the Navy's concern was unreasonable.

Evaluation of Technical Proposals

The "technical approach and processes (oral presentation)" factor was comprised of eight subfactors. The agency planned to evaluate offerors' responses to a sample task scenario with a combination of slides and an oral presentation, which was to include a response to the sample task and address the offeror's knowledge, understanding, and capability to perform the scope of the requirements in the SOW, as well as explain the processes and resources it would use to meet the requirements. The M/TET found that although the operational concept SAIC presented was its strong point, there were weaknesses and/or risks noted in all other areas of the technical presentation except the life cycle, which was adequate. M/TET Report at 5. The Navy identified several weaknesses in SAIC's proposal, some of which were significant.

The first set of significant weaknesses concerned product integrity. The RFP required the offeror to explain how product integrity would be controlled during development and what would be done to ensure that the project delivered the correct product suited to the needs of the government. RFP § L, at 71. The M/TET concluded that SAIC's response to the product integrity task did not include all the appropriate functions. The M/TET stated that, although SAIC touched on various issues, it did not address product integrity organizational independence; there was no evidence of independent report authority for the function; and there did not appear to be a test plan, integration testing, or any mention of requirements traceability. The M/TET considered these significant weaknesses. M/TET Report at 11.

SAIC argues that the Navy's concerns about its product integrity organizational independence are unfounded, as it proposed the use of an independent [DELETED] organization that would operate at a level of authority above SAIC's [DELETED] assigned to the task orders, and it proposed an independent [DELETED] that would report directly to SAIC's [DELETED] after [DELETED] the data, processes, and products being used and created by SAIC's systems, hardware, and software engineers. However, as the Navy explains, SAIC's proposed [DELETED] function was organizationally aligned below the [DELETED], and the Navy found this did not indicate independence. With respect to SAIC's [DELETED], the Navy states that SAIC did little more than identify a [DELETED] at an organizational level below the [DELETED]. Under the circumstances, we cannot find the Navy's concerns about the independence of SAIC's product integrity function to be unreasonable.[5]

The second set of significant weaknesses concerns risk analysis. The M/TET found that SAIC's risk analysis was marginally appropriate for its plan because it did not address schedule, budget or personnel skill risks, its proposed plan assumed 100 percent success and performance on schedule through to completion, and there was no evidence of a mitigation strategy other than weekly meetings. The M/TET found that these were significant weaknesses and posed high risk. M/TET Report at 11.

SAIC argues that its oral presentation included charts identifying the major risk items associated with execution of the sample task. For each risk item, SAIC provided a rationale for the existence of the risk, an initial risk rating, an assessment of the potential technical, cost or schedule impacts of the risk, a mitigation strategy, and a resulting risk rating based upon the implementation of its proposed mitigation strategy. SAIC also points to other slides and accompanying narrative to bolster its position that it provided a comprehensive risk analysis plan and process.

The Navy contends that SAIC's discussion of its risk analysis approach during the oral presentation amounted to ad hoc brainstorming which was simply random risk identification, with no indication of the existence of systematic processes or standards. Citing some of the same slides cited by SAIC, the Navy asserts that the protester did not provide information in its slides relating to approach, process, or documentation, but talked about how it did risk analysis while showing a slide listing some of its risk examples. Our review of the slides cited by SAIC, and the

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[5] As for the Navy's concern that there did not appear to be a test plan, integration testing, or requirements traceability, SAIC argues it proposed to use procedures that followed [DELETED] guidelines, which set forth procedures relating to test plans, integration testing, and requirements traceability, and that its proposal includes references to testing efforts. The Navy acknowledges that these areas were "touched upon," but we cannot disagree with the agency's view that SAIC's references do not address the agency's concerns.

accompanying oral presentation, indicates that this information addresses the topic of risk analysis in a summary manner, but we do not find unreasonable the Navy's conclusion that it did not constitute the comprehensive explanation of a risk analysis process reasonably sought by the agency.

The Navy also contends that SAIC restricted the scope of its risk items and mitigation to purely technical items and listed no risks for any other area, such as cost, schedule, budget or personnel skills. In addition, the Navy asserts that all references on SAIC's charts to cost and schedule were in the context of the impact of the four technical risks, as opposed to being identified or considered as risks in their own right. SAIC argues that the Navy's "bright line" between an identified risk item and its impact is irrational, since cost and schedule problems will often be caused by difficulties in technical areas. However, SAIC's proposal made the distinction between risk items and their impact; if the firm intended the Navy to understand that it considered cost and schedule risks to be risks in their own right, it was obligated to make its intentions clear.[6] Since it did not do so, we find the Navy's position reasonable.

SAIC also argues that the Navy evaluated SAIC's and Veridian's offers in a disparate fashion by failing to attribute significant weaknesses to Veridian's proposal under the risk analysis subfactor despite identified problems with its response.

In evaluating Veridian's proposal, the M/TET stated that the risk analysis was not addressed in much detail and that, although Veridian noted risk management and risk analysis, it did not provide much detail about contingency plans and mitigation. The M/TET stated that the continuous risk management process indicated that risks were addressed [DELETED] and, if needed, reviewed and addressed [DELETED]. Early identification of problems through [DELETED] was the firm's mitigation. M/TET Report at 18. SAIC contends that Veridian's efforts to address risk analysis consisted of two slides, one of which did little more than list generic categories of potential risks, such as cost, schedule, and performance, and then listed generic elements that make up part of any risk analysis, and the second of which made a brief attempt to discuss risk with slightly greater specificity but did not approach the detail in SAIC's slides.

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[6] SAIC also argues that it emphasized the firm's proven "reachback" capabilities that allow it to draw on its base of 40,000 employee-owners to find personnel with expertise to address particular technical difficulties, thus addressing the issue of personnel skill risks. While there is an acknowledged nexus between SAIC's reachback capability and its risk analysis approach, SAIC itself did not tie reachback to personnel skill risks but referred to it in the context of lowering cost and schedule risk. Under the circumstances, we have no basis to question the reasonableness of the Navy's evaluation.

The Navy asserts that, although Veridian's proposal did not deserve and did not receive a strength, it did not deserve a weakness. Unlike SAIC, Veridian offered an approach--a continuous risk management process--for risk analysis and mitigation, and also identified areas other than technical where risk would be expected. The Navy explains that Veridian's proposal used assumptions that diminished the value of its examples and, as the M/TET noted, Veridian did not address contingency plans mitigation in as much detail as desired, which was why its proposal was rated as merely adequate with no strengths. Our review of the record confirms that the Navy did not treat the proposals unequally but reasonably evaluated them based on their different contents.

Next, the agency identified weaknesses associated with SAIC's schedule. The M/TET found that SAIC's schedule reflected an inappropriate scheduling process, as it did not identify products and budget checkpoints, tasks were presented as though all items were independent, and no critical path analysis was identified. The M/TET acknowledged that SAIC's project engineer stated these were interdependent tasks, but found that no further discussion or details were provided. The M/TET concluded that, without an appropriate scheduling process, the project was at risk for going over schedule and/or cost and that this was a weakness. M/TET Report at 10.

SAIC argues that the Navy improperly failed to attribute significant weaknesses to Veridian's proposal despite identified problems with its schedule. The M/TET found that Veridian's schedule was aggressive and appeared unrealistic, but attributed that to the lack of detail provided in the sample task and not to Veridian's ability to use adequate tools to provide an accurate schedule. M/TET Report at 18. SAIC asserts that the Navy made excuses for Veridian that it did not make for SAIC, but fails to note the remainder of the M/TET's evaluation, where it concluded that "Veridian used the right processes, followed them and demonstrated a good overall understanding that would allow [it] to properly schedule complex problems." Id. The focus of the evaluation was not on the schedule provided but on whether the offeror used the appropriate scheduling process. Unlike in the case of SAIC, the M/TET concluded that Veridian used the appropriate process and we find the Navy's evaluation in this area unobjectionable.

Finally, the Navy identified a weakness under the program management plan subfactor, the major factor considered with regard to the oral presentation. The M/TET found that SAIC thought through the technical aspects of the problem but did not focus on the programmatic part as required in the problem and concluded that this was a weakness. M/TET Report at 10. SAIC's argument that it devoted specific attention to demonstrating its proposed approach by providing a highly detailed breakdown for the development of one element and proposed that all elements would include this level of detail does not get to the heart of the Navy's concern here. As the M/TET stated in its cost trade-off analysis report, "SAIC used examples at a very detailed level showing they could apply [the appropriate] processes. However, in jumping from the high level to detail, SAIC failed to discuss significant elements of the comprehensive plan." Cost Trade-off Analysis Report at 1. While SAIC disagrees with the Navy's conclusions, our review of its proposal provides us no basis to question the reasonableness of the Navy's finding.

Enhancements

SAIC argues that the Navy improperly failed to properly consider its proposal of a [DELETED] and its employee ownership and [DELETED] as "enhancements" or "enhancing features." In considering proposals on a subfactor-by-subfactor basis, the Navy found that SAIC's proposal contained isolated strengths in some areas, including strengths associated with SAIC's [DELETED], employee ownership, and benefits package. The Navy explains that these strengths were viewed as a simple "plus" to the requirement. In considering both the management and technical factors together with all of their subfactors "based on the synergism of the data presented" to assign one qualitative rating, RFP § M, at 84, the Navy did not think that these isolated strengths combined in a such a way that they should be deemed an enhancement.[7] Given their inherently subjective nature, agency evaluators' judgments about the qualitative differences which result in finding a certain feature a "strength" versus an "enhancement" are not subject to legal objection unless a clear showing of unreasonableness is made, see CAS, Inc., B-260934.2, B-260934.3, Sept. 12, 1995, 95-2 CPD ¶ 239 at 6; SAIC has not made this showing.

EVALUATION OF COST PROPOSALS

SAIC argues that the Navy improperly evaluated its cost proposal. The protester primarily contends that the Navy's rejection and upward adjustment of its proposed direct labor rates and escalation rate were unreasonable.

Where an agency evaluates proposals for the award of a cost-reimbursement contract, an offeror's proposed estimated cost of contract performance should not be considered controlling, since the offeror's estimated costs may not provide valid indications of the final actual costs that the government is required, within certain limits, to pay. Advanced Communication Sys., Inc., B-283650 et al., Dec. 16, 1999, 2000 CPD ¶ 3 at 5. Accordingly, a cost realism analysis must be performed when a cost-reimbursement contract is contemplated in order to determine the probable cost of performance for each offeror. Federal Acquisition Regulation (FAR) § 15.404-1(d)(2). A cost realism analysis is the process of independently reviewing and evaluating elements of each offeror's proposed cost estimate to determine whether the proposed cost elements are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the methods of performance and materials described in the offeror's technical proposal.

[7] Veridian also proposed a [DELETED] and [DELETED], neither of which was deemed an enhancement to its proposal.

FAR § 15.404-1(d)(1). Because the agency is in the best position to make this cost realism determination, our review is limited to determining whether its cost evaluation was reasonably based and not arbitrary. NV Servs., B-284119.2, Feb. 25, 2000, 2000 CPD ¶ 64 at 7.

Direct Labor

For proposal and evaluation purposes, offerors were required to use 17 specific labor categories and the number of hours per labor category, per year, as set forth in a chart in section B of the RFP. This chart referenced attachment 3 to the RFP, "Employee Qualification--Generic Leveling Criteria," which provided a mechanism for offerors to determine the overall skill level for each position based upon Office of Personnel Management guidance, to align each position with a like position under the federal government's general schedule (GS), and to ascertain the GS mean rate per hour applicable to each position. Offerors were required to insert proposed hourly labor rates for each category into a table. In conducting its cost realism analysis, the Navy planned to consider pertinent cost information, including Defense Contract Audit Agency (DCAA)-recommended rates for such costs as direct labor, historical data, in-house data for similar contracts, comparison to other proposals, and information from other government sources. RFP § M, at 86.

In its cost proposal, SAIC explained that it mapped the direct labor classifications of current employees on the SESS/BASS contracts to the labor categories in the RFP. For the [DELETED] labor categories, SAIC mapped its [DELETED] to the RFP's labor categories. SAIC's [DELETED] differ from the RFP's labor categories. In two cases, an RFP labor category corresponded to [DELETED], while in all other cases each RFP labor category corresponded to [DELETED]. In the latter cases, SAIC developed and proposed a [DELETED] based upon [DELETED]. These exempt rates were based upon SAIC's [DELETED]. For the [DELETED] labor categories [DELETED], SAIC mapped [DELETED] to the RFP's labor categories. In four cases, an RFP labor category corresponded to [DELETED], while in five cases, each RFP labor category corresponded to [DELETED]. In those cases, SAIC developed and proposed a [DELETED]. These rates were based upon [DELETED]. SAIC Cost Proposal at IV-9 and app. A. SAIC's cost proposal did not explain how it mapped any of the RFP's labor categories to its current BASS/SESS contract labor categories and [DELETED] or to the [DELETED].

The Navy cost analyst's description of her methodology for analyzing direct labor costs begin with an explanation of the use of RFP attachment 3 as an objective standard against which to compare such costs. To prepare the attachment, the agency extracted historical data from the BASS/SESS contracts, considered "grade creep," and mapped the current BASS/SESS labor categories by function to the labor categories in the RFP and distributed them to reflect the federal government's GS equivalent pay grade/rate realistic for today's environment. SAIC Cost Realism Analysis Report at 4.

The cost analyst stated that all four proposals said that the majority of the incumbent workforce would be hired for the STARS contract. She explained that rates derived from attachment 3 would be used as the basis for determining cost realism because they represented the best estimate of the most probable cost for direct labor in the absence of any other information. Id.

In this regard, the cost analyst went on to describe her analysis of SAIC's proposed direct labor rates. She first recounted SAIC's explanation for its development of those rates and stated that the DCAA had taken no exception to them since they were based on its [DELETED] and the [DELETED] and since the calculations were mathematically accurate. The cost analyst then aligned the labor categories used on the BASS/SESS contracts with the government-anticipated alignment for the STARS contract and the RFP labor categories, and calculated a weighted composite rate for each STARS labor category based on the most recent invoice rates from the BASS/SESS contracts. She entered the attachment 3 labor rates onto the spreadsheet for comparative purposes.

Since SAIC's cost proposal did not provide a match from its normal labor category nomenclature to the nomenclature in the RFP, the contracting officer sent two clarification questions to SAIC. The Navy asked SAIC to provide a chart showing the correlation between the STARS proposed labor categories, current BASS/SESS contract labor categories and the [DELETED], and to provide a chart showing the correlation between the STARS proposed labor categories, current BASS/SESS contract labor categories and the [DELETED]. In response, SAIC provided two charts identifying by title which of its labor categories (or the [DELETED]) comprised the rates, but provided no other supporting rationale, such as the bases for its mapping or for the weights assigned to the various [DELETED].

Upon receipt of the information from SAIC, the cost analyst performed a similar calculation using SAIC's mapping of the BASS/SESS labor categories to the STARS labor categories. Specifically, she compared the estimated rates for the STARS labor categories based on wages being paid under the BASS/SESS contracts and the Navy's alignment of the BASS/SESS labor categories to the STARS labor categories; the estimated rates for the STARS labor categories based on wages being paid under the BASS/SESS contracts and SAIC's mapping of the BASS/SESS labor categories to the STARS labor categories; SAIC's proposed rates as set forth in its cost proposal for each of the STARS labor categories; and the rates derived from attachment 3.

The cost analyst noted that there were differences between the weighted composite rates using the government mapping compared to the SAIC mapping due to differences between how the government and SAIC aligned the BASS/SESS labor categories, and few matches between the invoiced rates, the proposed rates and the attachment 3 rates. The cost analyst stated that, in many cases, the SAIC mapping moved incumbent employees into labor categories at lower levels than the government mapping. She also stated that use of the [DELETED] allowed SAIC to propose current employees at rates lower than they were currently paid. In its proposal, SAIC had stated that the salaries and benefits of its employees would be unaffected by its efforts to prepare a competitive proposal. The cost analyst stated that, if SAIC intended to maintain the same salaries and benefits as stated, the labor costs shown in its proposal were significantly understated. As a result, the cost analyst generally adjusted SAIC's proposed direct labor rates upward consistent with the rates derived from attachment 3. Id. at 5.

SAIC argues that the Navy's rejection of its proposed direct labor rates was unjustified. SAIC argues that the Navy's conclusion that its proposed rates were significantly lower than its actual rates under the BASS/SESS contracts is invalid because the Navy did not accurately map the BASS/SESS labor categories to the RFP's labor categories. SAIC states that, "[h]ad the analyst understood the significance of SAIC's [DELETED], the analyst would have recognized that the BASS/SESS labor classification codes could not be mapped directly to the STARS labor categories without knowing the [DELETED]. Because there were significant differences between the BASS/SESS contract profiles and STARS, a direct mapping of specific BASS/SESS employees to STARS was not appropriate." SAIC Sept. 23 Comments, attach. B ¶ 11. SAIC also argues that the analyst ignored the fact that a substantial number of SAIC personnel employed under BASS/SESS will not be employed under STARS; the fact that SAIC's workforce will change over the life of the contract; and the fact that, even if the Navy were to select a particular current SAIC employee and compare his rate to the proposed rate for an RFP category, such an analysis would be misleading since these are [DELETED] based upon the expected distribution of hours among [DELETED].

Despite the fact that SAIC was on notice that award might be made without discussions, and despite the fact that SAIC itself was in possession of all of the considerations it has raised during the course of these protests that might explain why its rates under the BASS/SESS contracts might differ from the rates it proposed here, SAIC provided none of these explanations to justify its proposed direct labor rates in its cost proposal. Given the information it had, we cannot find that the Navy unreasonably rejected SAIC's proposed direct labor rates as unrealistic. See AmerInd, Inc., B-248324, Aug. 6, 1992, 92-2 CPD¶ 85 at 7; Source One Mgmt. Inc., B-278044.4, B-278044.6, June 12, 1998, 98-2 CPD ¶ 11 at 10 n.9.

SAIC next argues that because the attachment 3 rates are based upon government employee salaries, and not the rates paid or to be paid by contractors in China Lake,[8]

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[8] Undercutting SAIC's position on this point is the fact that two of the other offerors, [DELETED], relied on the direct labor rates in attachment 3 to estimate their labor costs.

they are not a reasonably derived estimate of labor rates for comparable labor categories, are not based on relevant historical experience, and do not provide a relevant objective standard against which proposed rates may be compared. SAIC argues that the Navy mechanically and irrationally applied the approximate federal labor rates in attachment 3 to determine SAIC's evaluated direct labor cost.

An agency need not achieve scientific certainty in analyzing costs proposed by offerors, or conduct an in-depth cost analysis. Instead, any methodology used by an agency must only be reasonably adequate and provide some measure of confidence that the rates proposed are reasonable and realistic in view of other cost information reasonably available to the agency from its own and outside sources. Radian, Inc., B-256313.2, B-256313.4, June 27, 1994, 94-2 CPD ¶ 104 at 7; see also E.L. Hamm & Assocs., Inc., B-280766.5, Dec. 29, 1999, 2000 CPD ¶ 13 at 7. A reasonably derived estimate of direct, unburdened labor rates for comparable labor categories can provide an objective standard against which the realism of proposals can be measured. United Int'l Eng'g, et al., B-245448.3 et al., Jan. 29, 1992, 92-1 CPD ¶ 122 at 11. However, an agency may not mechanically apply that estimate to determine evaluated costs. In instances where an estimate has limited applicability to a particular company, an absolute reliance on estimates could have the effect of arbitrarily and unfairly penalizing the firm and depriving the government of the benefit available from such a firm. Accordingly, in order to undertake a proper cost realism evaluation, the agency must independently analyze the realism of an offeror's proposed costs based upon its particular approach, personnel, and other circumstances. Id. Our review of the record shows that, under the circumstances of this procurement, the agency's use of attachment 3 as an objective standard against which to measure the realism of offerors' direct labor rates was unobjectionable.

The Navy explains that the majority of the services under the contract will be provided at China Lake, which is in a small, geographically isolated community. Coupled with this geographic isolation is the fact that the Navy is the largest employer in the area. The Navy explains that these facts--the overwhelming presence of the Navy as an employer, the geographic isolation of the locale, and the limited size of the labor pool--have historically resulted in market forces demonstrating that competitive pay rates are set in relation to Navy salaries and that, to attract and retain qualified employees, contractors must provide salaries and compensation comparable to that provided by the federal government in the area. The Navy states that it developed the metric in attachment 3 as an aid in identifying and classifying occupational skill levels required by the contract and estimating associated direct labor rates tied to approximate federal government pay rates.[9]

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[9] Although SAIC objects that the metric is not based upon historical experience, the actual rates, the RFP contemplated the use of a wide range of pertinent cost information. RFP § M, at 86. Historical data can be a useful tool in estimating future costs, but it is not necessarily determinative. See CWIS, LLC, B-287521, July 2, 2001, (continued...)

The particular circumstances of this procurement reinforce the reasonableness of the Navy's methodology. Again, the RFP specified the labor categories and hours that all offerors were required to use, and each offeror proposed to retain between 90 and 95 percent of the existing BASS/SESS workforce at their existing wage and benefits levels. As a result, all offerors proposed essentially the same labor pool and the same labor hours at essentially the same wage and benefits levels. Under such circumstances, an agency may properly apply an objective standard such as that used here to determine evaluated costs, provided that its application does not ignore an offeror's particular approach, personnel, or other unique circumstances. See United Int'l Eng'g, et al., supra.

As discussed above, the Navy's cost analyst only turned to the rates derived from attachment 3 after conducting a detailed analysis of SAIC's proposed direct labor rates along with in-house data it had for the SESS/BASS contracts and other information, see Booz-Allen & Hamilton, Inc., B-275934.2, May 29, 1997, 97-1 CPD ¶ 222 at 5, and after ascertaining that there was nothing unique about SAIC's proposal that would preclude the reasonable application of the rates derived from attachment 3. See SAIC Cost Realism Analysis Report at 6. SAIC has not shown that it offered a particular approach rendering application of the metric unreasonable, and its arguments that its proposed personnel are somehow unique are unpersuasive. Considering all of the circumstances present here, we cannot find the agency's methodology unreasonable.

Escalation Rates

Offerors were required to state the escalation rate used for each year and the basis for the rate. The contracting officer would use an escalation factor of 3.5 percent unless the offeror provided an acceptable rationale for a different rate. If the offeror proposed a higher or lower escalation factor, it was to provide supporting explanation. RFP § L, at 74. Acceptance of a proposed rate that was lower or higher than 3.5 percent had to be supported by a narrative substantiating its use. RFP § M, at 87. The RFP explicitly stated that "[t]he burden of proof as to cost credibility rests with the offeror." RFP § M, at 65.

SAIC proposed an annual escalation rate of [DELETED] percent and stated that the rate had been audited and accepted by the DCAA and was based on actual cost data. SAIC stated that its escalation rate might appear low, but was appropriate in the context of its bid code system and had been constant for well over 10 years. SAIC

(...continued)
2001 CPD ¶ 119 at 4-5; Sabreliner Corp., B-284240.2, B-284240.6, Mar. 22, 2000, 2000 CPD ¶ 68 at 8.

Cost Proposal at IV-9. SAIC also submitted forward pricing rates noting an escalation rate of [DELETED] percent per year.

In evaluating SAIC's proposed escalation rate, the cost analyst acknowledged that the DCAA had taken no exception to SAIC's proposed escalation rate, and that the rate was based on forward pricing rates. The cost analyst explained, however, that the NAWCWD experience with SAIC on the current contracts reflected an escalation factor of approximately [DELETED] percent per year. Based on the agency's recent experience with SAIC, the 3.5 percent factor was considered to be more realistic for this effort and was used in the cost realism analysis. SAIC Cost Realism Analysis Report at 6. The cost analyst's reference to the NAWCWD experience with SAIC refers to advice from the BASS/SESS contracts ordering officer, who stated that SAIC and the Navy had used the [DELETED] percent escalation factor to negotiate task order bid rates for those contracts. This advice was supported by letters from SAIC indicating recent escalation of [DELETED] percent on the BASS/SESS contracts, and sampling data taken from those contracts. The Navy states that since recent actual data reflecting the rates the Navy was actually paying SAIC on contracts in the same geographic area for similar work was a much better indicator of what the government could expect to pay than were SAIC's proposed rates, it reasonably decided to use the 3.5 percent rate set forth in the solicitation.

SAIC argues that the letters cited by the Navy do not reflect actual historical rates, but refer to then-future periods of performance and, in one case, "maximum" labor rate ranges, and that the sampling data used by the Navy is misleading. However, the RFP put the burden on the offeror to present supporting explanation for its proposed escalation factor, and SAIC's cost proposal provided none of the explanation it now provides. The fact that the rate was included in its recommended forward pricing rates, and that the DCAA took no exception, is not dispositive. Contracting agencies are not bound by such recommendations since they are only advisory. Purvis Sys. Inc., B-245761, B-245761.2, Jan. 31, 1992, 92-1 CPD ¶ 132 at 10. Although SAIC could well be correct in its prediction about future cost escalation, it is the Navy, not SAIC, that must bear the risk if actual rates increase during performance. AmerInd, Inc., supra at 8; see also Infotec Dev., Inc., B-258198 et al., Dec. 27, 1994, 95-1 CPD ¶ 52 at 5. With this concern in mind, and given the information in its possession, the RFP's explicit instructions, and SAIC's incomplete supporting explanation, we find reasonable the Navy's decision to apply the 3.5 percent escalation factor to SAIC's proposed labor costs.

TRADEOFF AND SOURCE SELECTION DECISION

Source selection officials in negotiated procurements have broad discretion in determining the manner and extent to which they will make use of technical and cost evaluation results. Mevatec Corp., B-260419, May 26, 1995, 95-2 CPD ¶ 33 at 3. In exercising that discretion they are subject only to the tests of rationality and consistency with the established evaluation criteria. Id. While the selection official's judgment must be documented in sufficient detail to show it is not arbitrary, a failure to specifically discuss every detail regarding the relative merit of the proposals in the selection decision document does not affect the validity of the decision if the record shows that the agency's award decision was reasonable. Development Alternatives, Inc., B-279920, Aug. 6, 1998, 98-2 CPD ¶ 54 at 9.

In her source selection decision, the SSA states that her consideration of which proposal offered the best value included a review of the proposed and evaluated costs of each offeror as documented in the CET report, as well as a review of the reports prepared by the M/TET, PPET, and the CAP, as well as the business clearance memorandum. Each of these reports contains detailed information documenting the agency's evaluation of each aspect of each proposal, including their strengths and weaknesses and relative costs. The SSA concurred with the CAP report's recommendation for award to Veridian, and restated a summary of its detailed findings. The SSA went on to explain that she had considered the cost differences between Veridian and the other offerors' proposals, and described comparative differences among the proposals in relatively general terms. The SSA concluded by saying that the

> combination of the superior technical expertise and sound management approach proposed by Veridian will provide the government the best value toward meeting mission requirements with the least amount of risk. Given that management, technical expertise and past performance were the most critical factors in this source selection and significantly more important than cost/price, the additional costs associated with Veridian's superior proposal are warranted.

SSD at 2.

SAIC argues that the SSA failed to identify and document the specific strengths justifying selection of Veridian's higher cost proposal and failed to mention any of SAIC's strengths, and further argues that the SSA's consideration of cost differences is conclusory. SAIC asserts that the record shows that Veridian's proposal was selected just because it had the highest management/technical rating and because the non-cost factors were more important than cost.

For a proper tradeoff, the record must show that the SSA was aware of the technical advantages of the awardee's proposal, and specifically determined that those advantages were worth the awardee's higher cost. 4-D Neuroimaging, B-286155.2, B-286155.3, Oct. 10, 2001, 2001 CPD ¶ 183 at 11. There is no requirement that an agency restate each of an offeror's strengths when comparing proposals, and nothing unreasonable about the decision to not elevate any of these strengths to the tradeoff decision. Medical Dev. Int'l, B-281484.2, Mar. 29, 1999, 99-1 CPD ¶ 68 at 14. The record shows that the SSA reviewed all of the detailed reports which, when combined, described the technical advantages of Veridian's proposal, compared the technical advantages and disadvantages of all proposals, and outlined the cost differences between proposals. The record also shows that the SSA made a specific determination that Veridian's technical advantages were worth its higher cost. While a source selection decision can certainly be more detailed than that here, a lack of detail does not, alone, affect the validity of the award decision where, as here, the SSA fully considered all of the underlying evaluation documentation in concluding that the awardee's technical advantages warranted its higher cost, and where there is no basis in the record to question the reasonableness of that judgment. Digital Sys. Group, Inc., B-286931, B-286931.2, Mar. 7, 2001, 2001 CPD ¶ 50 at 12; see also Arctic Slope World Servs., Inc., B-284481, B-284481.2, Apr. 27, 2000, 2000 CPD ¶ 75 at 15.

The protests are denied.

Anthony H. Gamboa
General Counsel