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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

Decision

Matter of: HBC Management Services, Inc.

File: B-408885.2

Date: May 9, 2014

Brad S. Miller, Esq., Cooper Morrison & Associates, LLC, for the protester.
Col. Barbara Shestko, Michael G. McCormack, Esq., Michelle D. Coleman, Esq., and Maj. Reagan H. Beaton, Department of the Air Force, for the agency.
Heather Weiner, Esq., and Jonathan L. Kang, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

Protest challenging the agency's price realism evaluation is denied where the agency reasonably concluded that the awardee's price was realistic, and a more in-depth price analysis was not required by the solicitation.

DECISION

HBC Management Services, Inc., of Honolulu, Hawaii, protests the award of a contract to Ke'aki Technologies, LLC, also of Honolulu, Hawaii, under request for proposals (RFP) No. FA5215-13-R-0002, by the Department of the Air Force, for technical control services. HBC alleges that the Air Force's price realism analysis of Ke'aki's proposal was unreasonable.

We deny the protest.

BACKGROUND

The solicitation was issued on March 8, 2013, as a competitive set-aside under the Small Business Administration's 8(a) set-aside program. The RFP sought on-site support for long-haul communication activities; testing communications services; minor maintenance repair to circuit and communications equipment; end-to-end support service; and Defense Information Systems Network transport support, at the Joint Base Pearl Harbor-Hickam, in Hawaii. RFP, Performance Work Statement (PWS), at 3. The RFP anticipated the award of a fixed-price contract for a base year, with three 1-year options. RFP at 7, 43.

The RFP provided for award on a best-value basis, considering three factors: (1) technical acceptability; (2) past performance; and (3) price. RFP at 45. The technical acceptability factor included the evaluation of two subfactors on a pass/fail basis: (1) experience, and (2) management approach/staffing plan. Id. To be considered for award, a proposal was required to receive a rating of acceptable under both technical acceptability subfactors. Id. For purposes of award, the past performance factor was "approximately equal" to the price factor. Id.

As relevant here, under the price factor, the RFP stated that the agency would evaluate "an offeror's price for each contract line item number (CLIN) . . . and the bottom line price to determine reasonableness and completeness." Id. at 46. In addition, the solicitation stated that "[t]he price evaluation will document the reasonableness of the proposed total evaluated price." Id. The RFP also advised that, "[t]he Government reserves the right to perform cost/price realism assessment of proposed cost/price by assessing the compatibility of proposed cost/price with proposal scope and effort," and that "[a]n offer may be rejected if the Contracting Officer determines that unbalanced pricing poses an unacceptable risk to the Government." Id.

On April 15, the Air Force received proposals from nine offerors. Contracting Officer (CO) Statement at 2. After evaluating the proposals, the agency awarded a contract to Tribalco, LLC. Id. Thereafter, HBC protested the award to Tribalco to our Office, arguing that the agency failed to perform an adequate price realism analysis.[1] Id. As a result of the protest, the Air Force took corrective action, which included terminating the award, and issuing amendment 0004 to the RFP. Id. Based on the agency's corrective action, our Office dismissed the protest as academic.

After requesting revised proposals, the Air Force received proposals from seven offerors, including from HBC and Ke'aki. Id. The source selection evaluation board (SSEB) first evaluated all of the proposals for technical acceptability. Agency Report (AR), Tab 9, Source Selection Decision Document (SSDD), at 1. Although the SSEB found that Ke'aki's proposal was the only technically acceptable proposal, the SSEB concluded that the remaining proposals were potentially eligible to be awarded a contract, pending a successful Certificate of Competency review by the SBA, and therefore were rated unacceptable "with correction potential," and kept in the competition. Id. The agency conducted a performance confidence assessment for each offeror, and both HBC and Ke'aki received past performance ratings of substantial confidence. Id. at 2. The Air Force evaluated offerors' prices, and found that HBC's and Ke'aki's proposed prices were reasonable and realistic. Id. The total evaluated price for Ke'aki's proposal was $8,241,514, and for HBC's proposal was $8,494,323. AR, Tab 8, Price Evaluation Analysis, at 18. Ultimately, the

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[1] This protest was docketed as B-408885.

source selection authority selected Ke'aki as the best value offeror because Ke'aki was the "low-priced technically acceptable offeror and received a 'Substantial' performance confidence assessment rating." AR, Tab 9, SSDD, at 2.

The Air Force provided HBC with a debriefing on February 18, 2014. This protest followed.

DISCUSSION

HBC asserts that the Air Force's price realism analysis was unreasonable because it failed to account for various labor-related costs and risk. Specifically, HBC argues that the agency's price realism analysis should have considered additional costs imposed by the applicable Collective Bargaining Agreement (CBA), which the protester argues are not included in the employees' base wage rates. The protester also contends that the agency's price realism analysis should have assessed the implications of Ke'aki's approach of providing its program manager at no cost. For the reasons discussed below, we find that the Air Force's evaluation of price realism was reasonable and consistent with the RFP.

Where an RFP contemplates the award of a fixed-price contract or a fixed-price portion of a contract, an agency may, as here, provide in the solicitation for the use of a price realism analysis to measure an offeror's understanding of the requirements or to assess the risk inherent in a proposal. Puglia Eng'g of California, Inc., B-297413 et al., Jan. 20, 2006, 2006 CPD ¶ 33 at 6; Star Mountain, Inc., B-285883, Oct. 25, 2000, 2000 CPD ¶ 189 at 2. Our Office has repeatedly held that the depth of an agency's price realism is a matter within the sound exercise of the agency's discretion and our review of a price realism analysis is limited to determining whether it was reasonable and consistent with the terms of the solicitation. Smiths Detection, Inc.; Am. Sci. & Eng'g, Inc., B-402168.4 et al., Feb. 9, 2011, 2011 CPD ¶ 39 at 17; Grove Resource Solutions, Inc., B-296228, B-296228.2, July 1, 2005, 2005 CPD ¶ 133 at 4-5; Citywide Managing Servs. of Port Washington, Inc., B-281287.12, B-281287.13, Nov. 15, 2000, 2001 CPD ¶ 6 at 5; Star Mountain, Inc., supra, at 6.

As discussed above, the RFP stated that the Air Force would evaluate proposed prices for completeness, reasonableness and realism. RFP at 46. With regard to price realism, the RFP stated that the agency would "assess[] the compatibility of proposed cost/price with proposal scope and effort." Id. The solicitation did not provide that the Air Force would engage in any specific method of price or cost analysis.

In performing its price evaluation following corrective action, the agency first estimated the minimum unburdened direct labor costs required to perform the base year work under the contract. AR, Tab 7, Price Realism Analysis, at 2. In calculating these costs, the agency estimated the minimum number of personnel required to perform the work, as well as the minimum number of hours per year to perform the requirements of the performance work statement (PWS). Id. The SSEB determined that 13 full time equivalents (FTEs), consisting of 10 watch standers, 1 program manager, 1 node site coordinator, and 1 communications control officer, was the minimum number of laborers needed based on the PWS requirements to properly execute and sustain mission readiness.[2] Id. The agency then calculated the minimum number of hours per year that were required for each of these labor categories to properly perform all of the requirements of the PWS. Id. at 2-3. Using the wage rates from the agency's previous contract for these services, plus a 2 percent escalation for fiscal year 2013, the agency calculated the approximate minimum unburdened direct labor cost required to perform the base year of the PWS requirements. Id. at 3.

Next, the agency compared its estimate for the minimum unburdened direct labor cost for the base year against each offeror's proposed base year price. AR, Tab 8, Price Evaluation Analysis, at 10-11. The RFP did not require the offerors to provide a breakdown of their pricing. Accordingly, to compare the offerors' proposed pricing with the agency's minimum estimate, the agency subtracted the minimum unburdened labor cost estimate from each offeror's proposed pricing, and then assessed whether the difference would be able to cover the offeror's overhead, general & administrative expense (G&A), and profit. Id. at 10-11. For example, in analyzing Ke'aki's proposed prices for realism, the agency subtracted the estimated minimum unburdened direct labor cost for the base year ($841,527.60) from Ke'aki's proposed base year pricing ($1,332,958.68), and concluded based on its experience that the remaining amount ($491,431.08 or 37 percent) was sufficient to cover overhead, G&A, and profit. Id. at 18-19. The agency also found the 2 percent escalation rate proposed by Ke'aki for each option year price to be sufficient, and therefore, found Ke'aki's total proposed price to be realistic. Id.

In challenging the agency's evaluation, HBC argues that the agency's price realism analysis was deficient because the Air Force also should have considered additional labor-related costs relating to the CBA beyond the employee's base wage rates, as well as the implications of Ke'aki's approach of providing its program manager at no cost. The agency responds that such an in-depth analysis was not required, and that its price realism analysis adequately assessed whether the offerors' proposed prices were compatible with their proposed effort, as required by the solicitation. AR at 8-9.

As discussed above, the RFP did not state that the agency would perform the type of realism analyses sought by the protester, i.e., an analysis of whether the offeror's proposed labor costs included all possible costs under the CBA. Although HBC

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[2] Both HBC and Ke'aki proposed 13 FTEs. AR, Tab 5, Ke'aki Technical Proposal, at 4; id., HBC Technical Proposal, at 5.

ultimately believes that a more detailed realism assessment was necessary, as also noted above, the extent of a price realism analysis is within the sound exercise of the agency's discretion and agencies are free to use a number of techniques in assessing price realism. Smiths Detection, Inc.; Am. Sci. & Eng'g, Inc., supra, at 17. With regard to HBC's assertion that Ke'aki did not price its proposal to cover all required costs under the CBA, the protester merely speculates that Ke'aki's proposal did not include these costs. We note that the protester does not expressly state whether its own proposal--which had a total evaluated price of only 3% more than Ke'aki's total evaluated price--included the CBA costs. Further, as discussed above, the RFP did not require offerors to provide a breakdown of their proposed pricing.

In addition, while the protester may complain that the agency did not verify the feasibility of Ke'aki's proposed price with regard to the awardee's proposal to provide its program manager at no cost, there is no obligation in a price realism analysis to verify each and every element of an offeror's costs. Indeed, nothing about an obligation to review prices for realism bars an offeror from proposing--or an agency from reasonably deciding to accept--a below-cost offer. Optex Sys., Inc., B-408591, Oct. 30, 2013, 2013 CPD ¶ 244 at 5-6.

In sum, the record demonstrates that the agency found that Ke'aki's proposed pricing was realistic for the requirements of the PWS and compatible with the proposal scope and effort. We have no basis to question this determination, and the protester has not shown that the agency's methods for assessing price realism were unreasonable or inconsistent with the requirements of the solicitation.

The protest is denied.

Susan A. Poling
General Counsel