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**Comptroller General
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**United States Government Accountability Office
Washington, DC 20548**

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Decision

Matter of: ITT Federal Services International Corporation

File: B-296783; B-296783.3

Date: October 11, 2005

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Nancy J. Williams, Esq., Robert J. McKenney, Esq., Song U. Kim, Esq., and Richard C. Bennett, Esq., U.S. Army Corps of Engineers, for the agency.
Scott H. Riback, Esq., and John M. Melody, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

DIGEST

Protest challenging agency's evaluation of proposals is sustained where record shows that (1) agency improperly failed to consider a staffing understatement in awardee's proposal that could have had a material effect on the agency's technical and price/cost evaluation conclusions, and (2) agency's staffing estimates for various program requirements lacked a reasonable basis.

DECISION

ITT Federal Services International Corporation protests the award of a contract to Kellogg, Brown & Root Services, Inc. (KBR) under request for proposals (RFP) No. DACA78-03-R-0033, issued by the U.S. Army Corps of Engineers to acquire logistics support services throughout the Army's European theater of operations. ITT maintains that the agency misevaluated proposals.

We sustain the protest.

BACKGROUND

The RFP contemplated the award of a combination firm fixed-price (FFP), cost-plus-award-fee (CPAF), indefinite-delivery, indefinite-quantity contract to meet a wide range of logistics support requirements for the Army in its European theater of operations for a base period and 4 option periods. The total period of performance

is 58 months, and the maximum dollar value of the contract is approximately \$1.2 billion. The RFP was divided among nine contract line items (CLINS) for each performance period. Four of the CLINS were for specific geographic areas to be supported (CLIN 0002 was for Bosnia, CLIN 0003 for Kosovo, CLIN 0004 for Hungary, and CLIN 0005 for Macedonia), and the remaining five CLINS were for theater-wide requirements such as facilities and equipment. Each CLIN was further divided into numerous sub-line items (SCLIN) that were for particular services to be provided. For purposes of preparing price/cost proposals, offerors were to provide lump-sum pricing for the FFP SCLINS; those lump-sum prices were to be based on historical workload and the performance work statement (PWS), both included in the RFP. As for the CPAF SCLINS, offerors were instructed to provide pricing either on the basis of labor hour estimates included in the RFP (although the labor hours were specified, offerors were required to provide their own labor mix) or, where no labor hours were specified, to provide both staffing and cost information.¹ RFP, § B.

Award was to be made to the firm submitting the proposal deemed to offer the “best overall value” to the government, considering price/cost and two broad non-price/cost considerations—business/management/technical approach and past performance. The RFP advised that the price/cost and business/management/technical approach factors were equal in importance, and that each was significantly more important than past performance, and further, that the past performance and business/management/technical approach factors together were more important than price/cost. These broad evaluation criteria were further divided into numerous subfactors and elements as follows:

¹ Some of the CPAF SCLINS included unpriced contract requirements.

FACTORS	SUBFACTORS	ELEMENTS
(1) Business/Mgmt/Tech Approach	(1) Capabilities	(1) Ability to Respond and Mobilize (2) Depth and Size of the Organization (3) Efficient Utilization and Balance of Resources (4) General Personnel (5) Innovative Technologies
	(2) Technical Requirements	(1) Quality Control (2) Technical Approach (3) Staffing (4) Property Utilization
	(3) Experience	(1) Corporate (2) Team (3) Personnel
	(4) Organization Structure	(1) Teaming Arrangements (2) Organizational Approach (3) Affiliates/Contractual Arrangements (4) Cradle-to-Grave Capabilities
	(5) Management Information System	(1) Program Mgmt/Project Mgmt (Systems) (2) Cost Control FFP/CP (3) Overall Management Plan
	(6) Logistics Management Plan	(1) Approved Purchasing System (2) Administration of Subcontracts/Consent (3) Determination of Adequacy – CAS Disclosure Statement (4) Adequate System for Performing Cost Type
(2) Past Performance	(1) Corporate	(1) Quality of Product/Service (2) Cost Control/Financial Capability (3) Management Systems (4) Business Relations (5) Customer Service (6) Schedule/Timeliness of Performance (7) Management of Key Personnel (8) Awards/Recognition
	(2) Team	(1) Quality of Product/Service (2) Cost Control/Financial Capability (3) Management Systems (4) Business Relations (5) Customer Service (6) Schedule/Timeliness of Performance (7) Management of Key Personnel (8) Awards/Recognition
(3) Price/Cost	(1) Completeness	
	(2) Cost Realism	
	(3) Price Reasonableness	

RFP at 129-30. Within the business/management/technical approach factor, the capabilities subfactor was deemed slightly more important than the technical requirements subfactor, which was deemed significantly more important than the experience, organization structure and management information systems subfactors, which in turn were deemed equal in importance and significantly more important than the logisticis management plan subfactor. RFP at 130. Within the past performance factor, corporate past performance was slightly more important than

team past performance. RFP at 131. Finally, the three subfactors under the price/cost factor were equal in importance. RFP at 132.²

The RFP advised that, under the business/management/technical approach factor, proposals would be assigned adjectival/proposal risk ratings of either exceptional/very low proposal risk, very good/low proposal risk, satisfactory/moderate proposal risk, marginal/high proposal risk or unsatisfactory/very high proposal risk. RFP at 128. (The record shows that, in practice, the agency assigned risk ratings to the proposals at the element level, and then assigned adjectival ratings at the subfactor and factor levels based on the risk ratings assigned. See, e.g. Source Selection Decision Document (SSDD), June 21, 2005, at 7-9.) For the past performance factor, the RFP advised that adjectival/performance risk ratings of exceptional/very low performance risk, very good/low performance risk, satisfactory/moderate performance risk, marginal/high performance risk, unsatisfactory/very high performance risk, or neutral/unknown performance risk would be assigned to the proposals. RFP at 128. Finally, in the price/cost area, proposals were evaluated for completeness, realism and reasonableness. In addition, proposals were assigned a price/cost risk rating of very low, low, moderate, high or very high. Id.

The agency received three proposals (from ITT, KBR, and a third firm) and, after initial evaluations, included all three in the competitive range. The agency then engaged in numerous rounds of discussions and received numerous proposal revisions. After receiving and evaluating the offerors' final proposal revisions (FPR), the agency arrived at the following broad evaluation results:

Factors	ITT	KBR	Offeror A
Business/Management/Technical Approach:	Very Good	Exceptional-Minus	Very Good
Price/Cost (FFP/CPAF)			
Total Proposed	\$221,314,971	\$234,007,948	\$257,399,847
Total Evaluated	\$224,872,080	\$233,292,707	\$260,891,328
Total Evaluated, SSA ³	\$224,639,372	\$234,962,847	\$260,662,913
Price/Cost Performance Risk	Moderate Risk	Low Risk	Low Risk
Past Performance:	Very Good	Very Good Plus	Exceptional

² The elements under the subfactors also were assigned varying weights.

³ The source selection authority (SSA) made several minor adjustments to the offerors' evaluated prices/costs. SSDD at 12-14.

On the basis of these evaluation results, the agency determined that KBR's proposal offered the best overall value to the government. Award was made to KBR, and ITT's protest followed.

ITT challenges the evaluation and award on numerous grounds. We will review a procuring agency's evaluation of technical proposals to ensure that the evaluation was reasonable and consistent with the terms of the solicitation and applicable statutes and regulations. L-3 Communications Westwood Corp., B-295126, Jan. 19, 2005, 2005 CPD ¶ 30 at 5. We have reviewed all of ITT's assertions and, on the basis of the issues discussed below, find that the evaluation was unreasonable in certain respects. The remaining issues are either without merit or academic in light of our recommended corrective action.

ADEQUACY OF PROPOSED STAFFING

The record shows that the predominant consideration in the agency's source selection decision related to the adequacy of ITT's and KBR's proposed staffing. Specifically, the agency found that ITT had understated its staffing in two of the major work areas covered by the RFP,⁴ tactical vehicle/non-tactical vehicle equipment maintenance, non-tactical vehicle transportation motor pool operations (TV/NTV) and program management. With regard to the TV/NTV area, the agency's concern focused on SCLIN 0003CZ, which was the FFP SCLIN for TV/NTV in Kosovo. With regard to the program management area, the agency's concerns focused on SCLIN 0002AAA, the CPAF SCLIN for program management in Bosnia, and SCLIN 0003AA, the FFP SCLIN for program management in Kosovo.

The basis for the agency's conclusions regarding the adequacy of the offerors' staffing was its comparison of the firms' proposed staffing to one of two government-generated estimates. The first of these estimates was the independent government cost estimate (the IGCE standard), and the second was an estimate of the labor hours necessary to perform selected SCLINS that was prepared by the agency's labor services analysis (LSA) group (the LSA standard); the LSA standard was prepared and used by the LSA group for SCLINS for which the group considered the IGCE insufficient or inaccurate. See, e.g., LSA Analysis Report, June 3, 2005, at 1.

The agency compared each offeror's proposed staffing to the estimates to determine whether the staffing was within 15 percent (above or below) of the estimate. Where the agency determined that a firm's proposed staffing was not within 15 percent of the estimate, and also determined that the firm had not offered what the agency

⁴ The agency determined that ITT and KBR also understated their proposed FFP labor hours in other functional areas, but the record shows that the SSA focused primarily on the TV/NTV and program management areas in his decision. SSDD, June 21, 2005 at 25-31.

considered an adequate explanation of how it would accomplish the work given its staffing and technical approach, the agency then measured and “monetized” the difference between the proposed staffing and the estimate. (For example, in evaluating ITT’s proposal, the record shows that the agency determined that the FFP SCLINS had been understated by \$7,878,947 for labor hours and the CPAF SCLINS by \$3,042,962. Addendum to the Price/Cost Evaluation Report on Final Revised Proposals Submitted May 24, 2005, Source Selection Evaluation Board, USAREUR Support Contract, at 6.)

In those instances where the agency was evaluating the FFP aspect of the requirement, it did not add these additional sums to the offerors’ prices. Instead, the record shows that the agency compared the over/understatements of the offerors’ proposed FFP pricing to the firms’ proposed profit on the contract. In those instances where the agency was evaluating the CPAF SCLINS, the agency made a most probable cost (MPC) adjustment to the offeror’s proposed cost. These considerations led the agency to assign risk ratings under the price/cost evaluation factor, and also under the business/management/technical approach factor. (For example, the agency assigned ITT’s proposal a high risk rating under one of the elements of the technical requirements subfactor under the business/management/technical approach factor, and also assigned its proposal a moderate price/cost performance risk rating based on both its comparison of ITT’s profits to the evaluated understatement of its FFP pricing, and its consideration of the evaluated understatement of labor hours under one of the CPAF SCLINS.⁵ SSEB Briefing, June 3, 2005, at 82-85.

Evaluation in the TV/NTV Functional Area, SCLIN 0003CZ

ITT asserts that the agency misevaluated its and KBR’s proposals in the TV/NTV functional area. The record shows that the agency arrived at its estimate of labor hours using historical workload data included in the RFP (Technical exhibit 5.1.3.4-0001), as well as its consideration of the terms of the PWS. The historical workload data was presented in the form of a table that listed six different maintenance activities and provided the number of occurrences for each; when totaled, the historical workload information provided was as follows:

⁵ Under the price/cost factor, the agency’s performance risk rating did not take into consideration over/understatements in the offerors’ CPAF SCLINS. Rather, the price/cost performance risk rating considered only over/understatements in the offerors’ FFP SCLINS, plus the agency’s assessment of the risk associated with the offerors’ accounting systems. Final Source Selection Evaluation Board (SSEB) Briefing, June 3, 2005, at 200.

Task	Occurrences Per Year
CAP Repair and Services	44,700
Tactical Vehicles Repairs and Seervices	43,800
Vehicle Contact Missions	7,230
Vehicle Recovery Missions	1,980
Generators, Light Sets, Radar Equipment	67,560
Wash Racks	49,800

RFP, Tech. exh. 5.1.3.4-0001. The agency then multiplied these numbers by the number of hours it estimated would be required, on average, to accomplish the various tasks, as follows:

Task	Occurrences Per Year	Average Hours Per Occurrence	Total Labor Hours Per Year
CAP Repair and Services	44,700	5	223,500
Tactical Vehicles Repairs and Seervices	43,800	5	219,000
Vehicle Contact Missions	7,230	5	36,150
Vehicle Recovery Missions	1,980	5	9,900
Generators, Light Sets, Radar Equipment	67,560	.8	54,048
Wash Racks	49,800	.2	9,960
		Total:	552,558

LSA Summary Report for Vehicle Maintenance CLINS, June 1, 2005, at 2. The agency then added an additional 34,002 hours to arrive at its estimate of 586,560 labor hours for SCLIN 0003CZ. Id. at 2-3.

In the evaluation, the agency concluded that ITT had understated the hours necessary to perform this functional area by 198,963 hours, LSA Summary Report, supra, at 8, and that this understaffing resulted in its FFP proposal being understated by \$3,068,179. SSEB Briefing, June 3, 2005, at 213. In contrast, since KBR's offer of 570,076 hours was only approximately 3 percent below the estimate, the agency found that its proposed staffing was reasonable and realistic to satisfactorily perform all aspects of the requirement, LSA Summary Report, supra, at 10, and found no price/cost understatement for this aspect of the requirement.

ITT asserts that the agency miscalculated KBR's proposal in this area because, while KBR's total hours were in alignment with the agency's estimate for SCLIN 0003CZ, its calculations were based on fewer occurrences than the number specified in the RFP. Specifically, the record shows that KBR based its proposal on 26,820 occurrences for CAP Repairs and Services (as opposed to the 44,700 occurrences stated in the RFP) and on 32,850 occurrences for Tactical Vehicles Repairs (as opposed to the 43,800 occurrences stated in the RFP). KBR FPR, May 24, 2005, at 6dd-6ee.

The agency concedes that it did not take these understated occurrences into consideration in its evaluation of KBR's proposal, and goes on to calculate that this resulted in an overall understatement in KBR's proposal of 938,561.8 hours over the life of the contract, with a corresponding dollar value of \$4,007,658.80. Supplemental Agency Report, Aug. 31, 2005, at 12. The agency argues, however, that this evaluation error had no effect on the outcome, since both the government's and KBR's staffing calculations were only estimates and, in the final analysis, KBR's proposed staffing was within 15 percent of the government's estimate of total hours, and KBR offered substantially more hours than ITT for this functional area.

The agency's argument misses the point. The fact that KBR's total labor hours number aligned with the agency's estimate for total labor hours was irrelevant, since that number was calculated using a number of occurrences figure lower than that provided in the RFP. Using a lower number of occurrences resulted in an artificially low number for KBR's total labor hours. Since the contractor will have no control over the number of occurrences, that number should have been the same for all offerors--indeed, it appears the agency understood this when it provided a specific figure in the RFP. Based on its own proposal, KBR will need additional hours to perform the work where all occurrences are accounted for; in fact, as the parties acknowledge, KBR would need 938,561.8 more hours to perform all occurrences. Thus, the agency should have concluded that KBR understated its staffing.

We note as well that KBR estimated in its FPR that it would need 6.99 and 6.32 hours, respectively, to perform Tactical Vehicles repairs and services and CAP repair and services, compared to the agency's figure of 5 hours per occurrence in each category. In its preceding proposal revision, KBR estimated that it actually needed some 20 percent more time per occurrence in these areas, and used figures of 8.57 and 7.74 hours per occurrence respectively. KBR FPR, at 6dd-6ee. It appears that KBR's FPR reduction was merely in response to a discussion question in which the agency noted that its staffing in this area was approximately 20 percent above the government estimate. However, KBR's proposal offers no meaningful explanation of how it was able to achieve these further efficiencies in light of its technical approach. Id. This was inconsistent with the instructions in the RFP:

The offeror shall provide a concise narrative summary for each priced CLIN/SCLIN of the contract base program year discussing the technical approach used to satisfy the PWS requirements. The offeror should provide detailed rationale and explanation to support the level of manhours and the skills and skill mixes . . . proposed.

RFP § L.4 (b)(2)(b). The record thus suggests that KBR's staffing in this area may be even further understated than it appears to be from its FPR.

Adequacy of the Government's Labor Estimates

ITT asserts that there is no reasonable basis for the agency's labor hour estimates in the area of program management.⁶ The protester asserts that there is no reasonable explanation of the variance between the two different labor hour standards (the IGCE standard and the LSA standard).⁷ The record shows that the IGCE for labor hours was 377,776 hours for SCLIN 0002AA, and 425,680 hours for SCLIN 0003AA. Amended KTR Program Management Document, May 27, 2005, at 1. These figures were changed to 244,106 hours for SCLIN 0002AAA and 243,214 for SCLIN 0003AA. Id. The protester asserts that the LSA standard for SCLIN 0003AA (the FFP SCLIN for program management in Kosovo) did not take into consideration the fact that the LSA also recomputed and relied on a labor hours standard for SCLIN 0003CZ, the TV/NTV functional area for Kosovo, that was some 742,408 hours per year (356 full time equivalents (FTEs))⁸ lower than the number of hours used in the IGCE standard. According to the protester, the LSA standard for SCLIN 0003AA should have taken into consideration the fact that program management staffing would be dramatically lower given the significantly lower number of FTEs that would have to be managed under the TV/NTV functional area.

⁶ In its initial report, the agency suggested that these assertions were untimely because, during the course of discussions, the agency provided ITT with information that allowed it to determine the number of labor hours used in preparing the government's estimate (specifically, ITT was advised of the percentage by which its proposed staffing was understated relative to the government estimate). Initial Agency Report, Aug. 1, 2005, at 10-11. We find the assertion timely. Without the underlying documents showing how the various estimates were calculated, or the impact that the agency's staffing comparisons had on ITT's technical and cost evaluations, there was no reasonable basis for ITT to have challenged the agency's estimates. ITT raised this issue within 10 days of obtaining this information. 4 C.F.R. § 21.2(a)(2) (2005).

⁷ As noted, the LSA group prepared revised estimates for selected SCLINS. The record shows that the LSA group prepared LSA standards for these two areas, and that the agency ultimately used these standards to make its staffing comparisons.

⁸ We arrive at this number of FTEs by dividing the total number of hours (742,408) by 2,080 hours, a typical work year. We note, however, that the number of hours used by the offerors to compute their staffing differed and were typically lower than this. Accordingly, the protester maintains that the number of FTEs is higher; we need not resolve this question because we find that the 2,080 hour work year provides an adequate measurement for purposes of our discussion.

The protester is correct regarding the agency's calculation of the LSA standard for SCLIN 0003AA. The LSA standard for the TV/NTV function (SCLIN 0003CZ) was reduced substantially below the number of hours used to calculate the IGCE standard. The IGCE standard used a figure of 1,328,968 hours to perform the TV/NTV function, whereas the LSA standard used a figure of 586,560 hours. As noted, this resulted in a reduction in the agency's staffing estimate by approximately 356 FTEs. It follows that, with such a substantial reduction in the number of personnel to be managed, there should have been a corresponding reduction in the number of FTEs estimated by the agency for the program management functional area (i.e. SCLIN 0003AA). However, there is nothing in the record showing that the agency ever considered the impact of its change in the TV/NTV functional area on its estimate for the program management functional area.

The protester also maintains more generally that the record contains no adequate explanation for the change in the government's labor hours estimate (from the IGCE standard to the LSA standard) for SCLINs 0002AAA and 0003AA.

The record shows that, in calculating the number of hours necessary for SCLINS 0002AAA and SCLIN 0003AA, the IGCE standard apparently had included the staffing required for two other SCLINS (SCLINS 004AAA and 0005AAA, the program management functional area SCLINS for Hungary and Macedonia). Amended KTR Program Management Document, May 27, 2005, at 1. The record further shows that there were two variables that were considered by the agency in making these changes, the number of hours per year for FTEs and the number of FTEs overall for each functional area. We find nothing objectionable in the agency's recalculation of the number of labor hours per FTE; because the IGCE standard had used what was subsequently considered an unreasonably high number of hours per FTE, the agency reasonably averaged the offerors' number of hours per FTE to arrive at a revised figure for use in the LSA standard. Id.

However, the agency's explanation for arriving at the number of FTEs required to perform these functional areas is problematic. The record shows that the agency used KBR's proposed staffing approach as the basis for arriving at the distribution of FTEs among the various SCLINS. Specifically, the cognizant agency personnel determined that, because KBR's staffing approach was similar to the IGCE staffing approach, they would use KBR's proposed staffing to arrive at the appropriate number of FTEs for the various program management functional area SCLINS; they concluded that this would provide a more realistic FTE and hour count for the government standard. Amended KTR Program Management Document, May 27, 2005, at 1.

Both the agency and the awardee maintain that there was nothing improper in the agency's actions because, by using KBR's proposed staffing approach as the basis for establishing the agency's evaluation standard, the agency actually reduced the FTEs

under SCLINs 0002AAA and 0003AA more than if ITT's proposed staffing had been used.

The agency's actions were improper. The agency's use of an offeror's staffing approach to arrive at the government's standard was not a reasonable substitute for an agency-generated estimate based on historical workload data and the PWS requirements. While the agency's estimate and the staffing approach proposed in the KBR proposal could be similar, in the absence of an analysis from the agency reconciling the two, there was no reasonable basis for the agency to use the KBR staffing approach as its benchmark for evaluation purposes. Using the KBR staffing approach without such an analysis had the effect of possibly giving KBR an improper competitive advantage since, obviously, KBR's staffing automatically would be deemed acceptable, while ITT's would not.⁹

We note as well that the agency performed this recalculation of the government standard after receiving FPRs. Thus, in addition to the standard being problematic in and of itself, ITT was not afforded the opportunity to align its proposed staffing with the revised LSA standard for program management.

As a final matter, the record shows that the total hours calculation for SCLIN 0002AAA relied upon by the agency in evaluating the offers may have included an error. In this regard, the narrative portion of the Amended KTR Program Management Document concludes that the staffing for this SCLIN may have been calculated on the basis of excessive staffing under one functional code and that, as a consequence, some additional 15 FTE should be removed from the agency's calculations. Specifically, the document states:

Also, the Government's skill mix seemed excessive in the Business/Finance/Accounting functional code and an additional 15 FTEs were removed. This makes the revised Government Standard for SCLIN 0002AAA 207,537.

Amended KTR Program Management Document, May 27, 2005 at 1. This final number, 207,537 hours, is measurably smaller than the number used by the agency for evaluating the proposals under SCLIN 0002AA, 244,106 hours, and the record contains no explanation for this variance.

⁹ As discussed above, that the record shows that the agency's staffing estimate for program management failed to account for reductions in the agency's staffing estimate in the TV/NTV functional area; had the agency performed a proper, independent analysis to arrive at its program management staffing estimate, it may well have accounted for this discrepancy.

In view of the foregoing considerations, we find that the agency's staffing estimates used to evaluate the proposals in the program management functional area were unreasonable.

PREJUDICE

An essential element of every viable protest is prejudice and we will not sustain a protest absent a showing that prejudice has been demonstrated or is otherwise evident. University Research Co., LLC, B-294358 et al., Oct 24, 2004, 2004 CPD ¶ 217 at 10; see Statistica, Inc. v Christopher, 103 F.3d 1577, 1581 (Fed. Cir. 1996). We find that the flaws in these two areas of the agency's evaluation could have affected the outcome of the competition.¹⁰

Cost Evaluation Impact

The record shows that, in evaluating ITT's proposal, the agency found that the firm had understated its FFP costs by approximately \$8.7 million, \$7.8 million of which was attributable to its evaluated understaffing of the requirement. Addendum to the Price/Cost Evaluation Report on Final Revised Proposals Submitted May 24, 2005, Source Selection Evaluation Board, USAREUR Support Contract, at 6. The overwhelming majority of this understatement is attributable to ITT's evaluated understatement of the staffing necessary for SCLINS 0003AA and 0003CZ. SSEB Briefing, June 3, 2005, at 213. In a similar vein, ITT's CPAF cost was increased by an MPC adjustment of approximately \$3.5 million for evaluation and source selection purposes.¹¹ Addendum to the Price/Cost Evaluation Report on Final Revised Proposals Submitted May 24, 2005, Source Selection Evaluation Board, USAREUR Support Contract, at 6. A substantial portion of this (\$3,042,692) is attributable to ITT's alleged understaffing under SCLIN 0002AAA. Id.

¹⁰ We note that, in connection with the protest, the agency has submitted an affidavit in which the source selection official addresses the shortage in KBR's staffing in the TV/NTV area and concludes that this would not have altered his source selection decision. Not only is this affidavit not probative, since it was prepared in the heat of litigation, Gemmo Impianti SpA, B-290427, Aug. 9, 2002, 2002 CPD ¶ 146 at 4-5; Boeing Sikorsky Aircraft Support, B-277263.2, B-277263.3, Sept. 7, 1997, 97-2 CPD ¶ 91 at 15, but it does not address the reasonableness of the agency's estimates for the program management functional area or the impact those estimates had on the source selection decision. Moreover, it does not discuss the impact of this evaluation error on the technical or risk ratings assigned to the proposals.

¹¹ As noted, the SSA made minor adjustments to the agency's final evaluated prices/costs. For ITT, the record shows that the SSA reduced the firm's total by \$232,708 to account for fee added to the firm's offer during the MPC evaluation. SSDD at 13, n. 9.

As noted above, the firms' total evaluated prices/costs were \$224,639,372 for ITT and \$234,962,847 for KBR, a difference of approximately \$10.3 million. Given our conclusion regarding the accuracy of the government's estimate for SCLIN 0002AAA, there is the possibility that there will be a change in the agency's MPC adjustment for ITT's alleged understaffing in this functional area. Any such change could, correspondingly, increase ITT's overall evaluated price/cost advantage; to the extent such a change occurred, the SSA would have to evaluate this in connection with a new best value determination.

In a similar vein, given our conclusion regarding the accuracy of the government estimate for SCLIN 0003AA, there exists the possibility that the agency will make a different determination regarding the adequacy of ITT's staffing in this area; the amount by which its FFP proposal in this area is evaluated as understated therefore could change. Finally, as noted, the agency concedes that it failed to consider approximately \$4 million in understated price/cost in its evaluation of KBR's proposal under SCLIN 0003CZ.

We conclude that the offerors' total evaluated prices could change based upon a proper evaluation using adequate estimates, and that the agency's evaluation of the offerors' understatement of their FFP prices/costs also could change.

Risk Rating/Technical Evaluation Considerations

As discussed, in evaluating the FFP aspect of the proposals, the record shows that the agency found that ITT understated its FFP by approximately \$8.7 million. The agency compared this amount to the firm's total profit of approximately \$13.2 million. Similarly, the agency evaluated KBR as having understated its FFP by \$2.3 million, and compared that figure to KBR's total profit of approximately \$13.7 million.

The record shows that the agency used this comparison, along with its assessment of the offerors' accounting system risk, to arrive at performance risk ratings in the area of price/cost. SSEB Briefing, June 3, 2005, at 200. On this basis, the agency assigned the ITT proposal a moderate price/cost performance risk rating based on its conclusion that ITT had notably understated its FFP hours. *Id.* at 250. (The record also shows that the agency assigned the firm a moderate doubt rating in the area of cost realism because of ITT's alleged understatement of its labor hours. *Id.* at 189, 250.) In comparison, the agency assigned the KBR proposal a low price/cost performance risk rating, but did not take into account its error in evaluating its staffing in the TV/NTV area. *Id.* Given our analysis above, we find there exists a reasonable possibility that the offerors' price/cost performance risk ratings could change in any reevaluation.

The record also shows that, under the technical requirements subfactor of the business/management technical approach factor, the agency assigned ITT a rating of satisfactory. SSEB Briefing, June 3, 2005, at 81. This rating was based in large measure on the agency's assignment of a high risk rating to the ITT proposal under the technical approach element of this subfactor, which in turn was based on ITT's alleged understaffing under both the FFP and CPAF SCLINS. Id. at 82-85. In comparison, KBR received a very good rating under this subfactor, based largely on the agency's conclusion that KBR's staffing was sufficient to meet the requirements. Id. at 88-90. Given our discussion above, we find that there exists a reasonable possibility that these ratings could change in any reevaluation.

On the record before us, we conclude that changes in the evaluation areas discussed above could affect the agency's ultimate source selection decision. Accordingly, we sustain ITT's protest.

RECOMMENDATION

We recommend that the agency reexamine the adequacy of its staffing estimates for all functional areas and revise them as appropriate in light of the discussion above, as well as any other considerations that the agency may think appropriate in light of its reexamination. We further recommend that the agency obtain revised proposals from the offerors, evaluate those proposals, conduct discussions if necessary, and make a new source selection decision on the basis of its reevaluation. If, at the conclusion of these activities, the agency determines that another offeror's proposal offers the best overall value to the government, we recommend that the agency terminate KBR's contract for the convenience of the government and make award to the firm selected, if otherwise proper. Finally, we recommend that ITT be reimbursed the costs associated with filing and pursuing its protest, including reasonable attorneys' fees. 4 C.F.R. § 21.8(d)(1). ITT's certified claim for costs, detailing the time spent and the costs incurred must be submitted to the agency within 60 days of receiving of our decision. 4 C.F.R. § 21.8(f)(1).

The protest is sustained.

Anthony H. Gamboa
General Counsel