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**Comptroller General  
of the United States**

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

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## Decision

**Matter of:** Science Applications International Corporation

**File:** B-407013

**Date:** October 19, 2012

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James J. McCullough, Esq., Brian M. Stanford, Esq., and Karen M. Soares, Esq., Fried, Frank, Harris, Shriver & Jacobson LLP, for the protester.

Keith R. Szeliga, Esq., Jonathan S. Aronie, Esq., Anne B. Perry, Esq., and Franklin C. Turner, Esq., Sheppard, Mullin, Richter, & Hampton LLP, for Harding Security Associates, Inc., an intervenor.

Wade L. Brown, Esq., and Leslie A. Neppert, Esq., Department of the Army, for the agency.

Pedro E. Briones, Esq., Christina Sklarew, Esq., and Guy R. Pietrovito, Esq., Office of the General Counsel, GAO, participated in the preparation of the decision.

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### DIGEST

In a fixed-price procurement which reserved an agency's right to conduct a price realism analysis if necessary, the agency reasonably found the awardee's price realistic and reasonable.

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### DECISION

Science Applications International Corporation (SAIC), of McLean, Virginia, protests the award of a contract to Harding Security Associates, Inc., of McLean, Virginia, under request for proposals (RFP) No. W52P1J-11-R-0050, issued by the Department of the Army for services supporting efforts to counter insurgency and improvised explosive devices (IEDs) in Afghanistan and elsewhere. In essence, SAIC argues that Harding's price is unrealistically low.

We deny the protest.

### BACKGROUND

The RFP provided for the award of a fixed-price, indefinite-delivery/indefinite-quantity contract for a 3-month transition and 9-month base period, and six 6-month

option periods, for a potential 4-year performance.<sup>1</sup> RFP amend. 6 at 3. Offerors were informed that award would be made on a best-value basis considering the following factors, listed in descending order of importance: technical, past performance, and price. RFP §§ M.1, M.7. The non-price factors, when combined, were significantly more important than price. RFP § M.7. The technical factor included the following subfactors, which were of equal importance: mission capability plan; management plan; quality control plan; small business participation plan; and transition plan. Id.

With regard to price, offerors were instructed to clearly identify all cost components included within their labor rates, such as bonuses, indirect costs, and profit. See RFP § L.4.d(6). An offeror's total evaluated price for each base and option period would be determined by adding the total price for all labor categories to the costs for travel, ODCs, and Defense Base Act insurance for that performance period. See id.

As relevant here, the RFP expressly advised potential offerors that the agency did not intend to conduct a price realism analysis. RFP § M.2.a. Specifically, the RFP stated that

[a]ny proposal which is unrealistic will be judged either as exhibiting a lack of competence or a failure to comprehend the Government's requirements and may be so evaluated and rated, or rejected for such reasons. Furthermore, any significant inconsistency between the Technical Proposal and Price Proposal, if unexplained, may be grounds for rejection of the proposal. The Government will evaluate each proposal strictly in accordance with its content and will not assume that performance will include areas not specified in the Offeror's proposal. Nothing in this paragraph is intended as a waiver of the Government's right not to conduct a price realism analysis where none is otherwise required. The decision to conduct such an analysis or not remains within the sound discretion of the Contracting Officer.

Id. (emphasis added). In addition, the RFP stated that the agency intended to rely upon a comparison of competing prices to determine price reasonableness under Federal Acquisition Regulation (FAR) § 15.404-1(b)(2)(i), and would only use other methods if it did not receive adequate competition. See RFP § M.4.d(5). In this

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<sup>1</sup> The RFP also included cost reimbursement line items for other direct costs (ODC), travel, and Defense Base Act insurance. Plug numbers were provided for ODCs and travel, and offerors were informed that these costs would not be evaluated. RFP § A.2.5. The RFP also provided rates that offerors were required to use to calculate insurance costs. RFP § L.7.

regard, the RFP also advised that the agency may use the price analysis techniques and procedures of FAR § 15.404-1(b)(2) to determine price reasonableness and whether the proposals reflected an understanding of the effort required.

The agency received proposals from four offerors, including Harding and SAIC (the incumbent). AR at 2; Tab 21, Source Selection Evaluation Board (SSEB) Report, at 1. The Army included all four proposals in the competitive range and conducted discussions. See AR, Tab 21, SSEB Report, at 4-6. Among other things, Harding and SAIC were both asked to provide further cost information supporting their burdened labor rates. See, e.g., AR, Tab 8-1, SAIC Discussions, at 1; Tab 10-1, Harding Discussions, at 2. In particular, the agency noted to Harding that its overseas labor rates appeared to have [DELETED] and that its proposed base salary for domestic and overseas personnel was [DELETED], even though overseas personnel [DELETED]. See AR, Tab 10-9, Harding Discussions, at 1. The agency expressed concern that this approach might present a performance risk to successfully hiring and retaining personnel. See id. In its response, Harding provided additional details about its compensation model, stating that it has been using the same model successfully in its performance of two similar support contracts with the Army. AR, Tab 10-10, Harding Response to Request for Pricing Information, at 1-2.

Offerors' revised proposals were rated as follows:

	<b>Harding</b>	<b>Offeror B</b>	<b>SAIC</b>	<b>Offeror D</b>
Overall Technical	Good	Acceptable	Outstanding	Good
Past Performance	Substantial Confidence	Substantial Confidence	Substantial Confidence	Substantial Confidence
Total Price	\$176.5 million	\$207 million	\$270.1 million	\$277.7 million

AR, Tab 21, SSEB Report, at 63; Tab 22, Source Selection Advisory Council (SSAC) Award Recommendation, at 4.

The final cost/price proposals were evaluated by the agency's price evaluation team. See AR, Tab 20, Source Selection Plan, at 20; Tab 16, Cost/Price Analysis Memorandum, at 5; Tab 17, Cost/Price Analysis Memorandum Addendum, at 4. The team compared offerors' proposed total prices, including their fully-burdened labor rates and ODCs, to the independent government cost estimate (IGCE), and found they were all lower than the IGCE and within the range of acceptability.<sup>2</sup> See

<sup>2</sup> The agency concluded that, although offerors' prices were lower than the IGCE, the adequate price competition here addressed any concerns about these prices being too low. See AR, Tab 22, SSAC Report, at 5.

AR, Tab 21, SSEB Report, at 67. Proposed prices were also compared to historical monthly prices for the current contract; two offers were found to be below, and two above, the historic monthly price. Again, all were considered to be within the range of acceptability. See id. Noting that each offeror used a somewhat different methodology for paying personnel located overseas, the evaluators analyzed pricing for comparison purposes under one representative labor category, “Journeyman IED & Insurgency Analyst” (selected because this category requires the highest number of personnel and represents 40 percent of all overseas staffing). See AR, Tab 17, Cost/Price Analysis Memorandum Addendum, at 1. Based on this analysis, the evaluators compared offers by indirect rates, including fringe benefits, overhead costs, general and administrative expenses, profit, and what the Army termed “facility capital cost of money.” See id. at 1-3; Tab 22, SSAC Report, at 68.

The agency found all offerors’ prices to be reasonable and realistic, based on their respective technical approaches to executing the requirements. See AR, Tab 22, SSAC Report, at 6. With respect to the adequacy of prices to support an offeror’s approach, the SSAC states that the discussions confirmed that the offerors understood the requirement when developing their price proposals. See id. at 5. The SSAC also stated that any concerns about adequate pricing were alleviated by the offerors’ acceptable and outstanding technical proposal ratings. See id.

Harding’s total evaluated price (\$176,507,092) was determined to be the lowest; SAIC’s total evaluated price (\$270,070,520) was found to be the second highest. AR, Tab 21, SSEB Report, at 67-68. The SSEB and SSAC reviewed offerors’ technical and price proposals, as well as the agency’s technical and price evaluations. See id. at 1-69; AR, Tab 20, Source Selection Plan, at 7-16, 20; Tab 22, SSAC Report, at 1-7. The SSAC specifically considered the price difference between Harding’s and SAIC’s offers, and concluded that the difference was because SAIC’s rate for fees (such as fringe, overhead, and profit) was [DELETED] percent higher than Harding’s and because SAIC added a [DELETED] percent profit to its subcontract costs.<sup>3</sup> See AR, Tab 22, SSAC Report, at 5-6; see also Tab 21, SSEB Report, at 67-68. Further, it found that, while SAIC’s proposed labor rates were higher in comparison to Harding’s, SAIC’s rates included [DELETED], which Harding had priced separately. Id.

The SSAC acknowledged SAIC’s higher technical rating, but concluded that it did not warrant paying a premium of 53 percent (an amount approaching an extra \$100 million) for SAIC’s higher-rated approach. See AR, Tab 22, SSAC Report, at 6. The SSAC concluded that Harding’s lower-rated, but lower-priced proposal

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<sup>3</sup> The agency noted that although all offerors proposed to use subcontractors, only SAIC added a profit rate to the associated cost. See AR, Tab 22, SSAC Report, at 5.

offered the best value to the government and recommended award to Harding. Id. Award was made to Harding, and this protest followed a debriefing.

## DISCUSSION

SAIC argues that despite the agency's statement in the RFP that it did not intend to conduct a price realism analysis, it was, nonetheless, an abuse of discretion not to do so. In this regard, SAIC insists that the RFP required the agency to conduct a price realism analysis to assess whether Harding's prices were based on a clear understanding of the Army's requirements. Protest at 16; Protester's Comments at 2-4, 7-8. The protester also argues that, to the extent that the agency undertook any realism analysis, the agency could not reasonably have concluded that Harding could perform the requirement at its low price. See Protest at 13-17; Protester's Comments at 4, 7. Specifically, SAIC maintains that the agency failed to consider whether Harding's proposed compensation plan would allow it to realistically recruit and retain qualified personnel, or assess the risk that Harding would not be able to staff, mobilize, retain, and surge personnel at Harding's proposed compensation rates. See Protest at 15-21.

The Army maintains that it reasonably evaluated Harding's price proposal and that nothing in the agency's technical, past performance, and price evaluations, or its responsibility determination, indicated financial or performance risk associated with Harding's proposal or inconsistencies between its technical and price proposals. See AR at 3-4. The Army disagrees that the RFP required a price realism analysis, but asserts that, in any event, Harding proposed a reasonable estimate of labor hours per FTE, and the fact that its proposed price was lower than other offerors did not render its technical proposal inconsistent with its price proposal. See id. 3-5. Rather, the Army found that the difference in price primarily reflected SAIC's higher fees. See id.

We do not agree with SAIC's contentions. Where, as here, a RFP contemplates the award of a fixed-price contract, the agency is not required to conduct a realism analysis; this is because a fixed-price (as opposed to a cost-type) contract places the risk and responsibility for loss on the contractor. See R3 Government Solutions LLC, B-404863.2, Sept. 28, 2012, 2012 CPD ¶ \_\_\_ at 4-5; PHP Healthcare Corp., B-251933, May 13, 1993, 93-1 CPD ¶ 381 at 5. In this regard, the RFP expressly advised offerors that the agency did not intend to conduct a price realism analysis, but would instead rely upon a comparison of the offerors' proposed prices. See RFP § M.2.a.

Although the RFP did not require the Army to perform a price realism analysis, the solicitation reserved the agency's right to perform such an analysis, if the agency believed that this was necessary to measure the offerors' understanding of the requirements or to assess the risk in the offerors' proposals. See PHP Healthcare Corp., supra. Here, the record shows that the agency did assess the realism of the

firms' proposed prices.<sup>4</sup> The nature and extent of such an analysis is within the sound exercise of the agency's discretion, which we review for reasonableness and consistency with the solicitation's evaluation criteria. See Rodgers Travel, Inc., B-291785, Mar. 12, 2003, 2003 CPD ¶ 60 at 4.

First, as the RFP indicated, the Army compared the prices received from all four offerors. These fixed prices were received after robust competition.<sup>5</sup> Under these circumstances, there was no requirement to conduct further analysis.

Second, the Army compared offerors' proposed total prices to the IGCE and to historical monthly prices for the current contract. The agency noted that all offerors (including SAIC) proposed prices that were lower than the IGCE, but concluded that because it had received adequate price competition, it did not need to rely only upon the IGCE in its pricing analysis.

Third, the Army compared the offerors' prices and indirect rates for the largest required labor category, including fringe benefits, overhead costs, general and administrative expenses, profit, and "facilities capital cost of money." In addition, both Harding and SAIC were asked in discussions to provide further cost information supporting their burdened labor rates; Harding, in particular, was asked to provide additional information regarding its overseas labor rates, overtime, and base salaries. See, e.g., AR, Tab 8-1, SAIC Discussions, at 1; Tab 10-1, Harding Discussions, at 2.

As a result of its review, the Army concluded that Harding's revised price proposal reflected a realistic approach to performing the work. Although SAIC disagrees with the agency's judgment in this regard, it fails to show that the agency unreasonably found the awardee's price realistic.<sup>6</sup> See, e.g., Environmental Restoration, LLC,

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<sup>4</sup> The Army argues that it did not perform a price realism analysis. This is belied by the contemporaneous record, which documents the agency's determination that all of the offerors' proposed prices were realistic. See AR, Tab 22, SSAC Report, at 5.

<sup>5</sup> SAIC does not contend that there was inadequate price competition here. Adequate price competition exists where two or more responsible offerors submit proposals that satisfy the government's requirements, award is based on a best value determination where price is a substantial factor, and the price of the successful offeror is not unreasonable. See FAR §§ 15.403-1(c)(1); 15.404-1(b)(2)(i).

<sup>6</sup> To the extent that SAIC asserts that the agency could not have undertaken such an assessment because the agency's price evaluation team may not have had access to offerors' technical proposals during its price evaluation, see Protester's Comments at 7-8, the record reflects that the contracting officer, the SSEB, and the SSAC reviewed offerors' technical and price proposals.

B-406917, Sept. 28, 2012, 2012 CPD ¶ 266 at 6-7 (record does not support protester's price evaluation challenges, but shows that agency made detailed comparison of offerors' labor rates to each other's rates, and to rates contained in the current contract and the IGCE, among other things); CC Distributors, Inc., B-406450, B-406450.2, May 25, 2012, 2012 CPD ¶ 177 at 7 (protest of agency's price realism analysis denied where record shows that agency appropriately determined that proposed prices of all offerors were reasonable and realistic based on a comparison of prices with the IGE and prices received).

In its comments on the agency report, SAIC also challenges the Army's identification of certain strengths in Harding's proposal under the management plan and transition plan subfactors.<sup>7</sup> See Protester's Comments at 8-11. In essence, the protester asks this Office to conclude that modest adjustments to the agency's assessment of strengths in Harding's proposal under two evaluations subfactors could have resulted in the selection of SAIC's much higher-priced (almost \$100 million higher) proposal. While we are doubtful that SAIC could have been prejudiced by these two minor concerns, we have reviewed all of the protester's assertions and conclude that the agency has adequately and reasonably justified its selection of Harding's lower-priced, but technically acceptable proposal. Although SAIC disagrees, this does not demonstrate that the agency's judgment was unreasonable. Citywide Managing Servs. of Port Washington, Inc., B-281287.12, B-281287.13, Nov. 15, 2000, 2001 CPD ¶ 6 at 10-11.

The protest is denied.

Lynn H. Gibson  
General Counsel

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<sup>7</sup> SAIC initially protested the evaluation of Harding's proposal under the mission capability plan and quality control subfactors, but did not respond to the agency's arguments in its comments other than to state that it continues to assert that protest ground. We consider this protest ground to be abandoned. Washington-Harris Group, B-401794, B-401794.2, Nov. 16, 2009, 2009 CPD ¶ 230 at 5, n.3.