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## Decision

**Matter of:** CACI Technologies, Inc.

**File:** B-409147; B-409147.2

**Date:** January 27, 2014

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### **DIGEST**

In a task order competition, agency's cost realism analysis is unobjectionable where the agency adjusted awardee's evaluated costs upward consistent with salary survey data that was consistent with the firm's ceiling rates under its indefinite-delivery/indefinite-quantity contract.

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### **DECISION**

CACI Technologies, Inc., of Chantilly, Virginia, protests the issuance of a task order to DRS Technical Services, Inc., of Herndon, Virginia, under request for task execution plan (RTEP) No. R2-3G 0607, issued by the Department of the Army for services to support the Department of the Navy's Norfolk Ship Support Activity (NSSA). The protester challenges the agency's cost realism analysis.

We deny the protest.

### **BACKGROUND**

The RTEP was issued to 18 vendors holding indefinite-delivery/indefinite-quantity (IDIQ) contracts under the Army's Rapid Response Third Generation (R2-3G)

program,<sup>1</sup> and provided for the issuance of a 1-year cost-plus-fixed-fee task order. AR at 2; RTEP amend. 4, at 1. The Army Contracting Command-Aberdeen Proving Ground (ACC-APG), which administers the IDIQ contracts, issued the RTEP on behalf of NSSA for a variety of program management, technical, industrial, and administrative support services. AR at 2; RTEP amend. 4, at 1; see RTEP, attach. 1, Task Order Performance Work Statement ¶ 1.1. The solicitation stated that the task order would be issued on a lowest-price, technically acceptable basis. RTEP amend. 4, at 8.

The RTEP provided detailed instructions for the submission of technical and cost proposals. Technical proposals were to include, among other things, manpower allocations for 26 labor categories specified in the RTEP. Id. at 3. In their cost proposals, for the 26 labor categories, vendors were to quote labor rates not to exceed the vendor's IDIQ ceiling rates. Id. at 6. Cost proposals also were to contain supporting data, such as salary survey data, to support proposed labor rates, as well as any information necessary to determine the realism of the vendor's proposed costs. Id. at 4-6. Along with a complete cost proposal, each vendor was to submit a "sanitized" version of its cost proposal, which deleted all costs and prices but ensured that the total level of effort proposed under its technical proposal was included in the cost proposal. Id. at 2, 3, 7.

The RTEP stated that the agency would evaluate whether a vendor's costs were fair, reasonable, and/or realistic, and that realism would be determined in accordance with Federal Acquisition Regulation (FAR) §§ 15.404-1(c), (d). Id. at 9. Vendors were advised that their proposed costs could be adjusted to realistic levels for evaluation purposes. Id. The solicitation stated that the agency would conduct a risk assessment of unrealistically low costs and labor rates during the evaluation. Id. at 8.

The Army received proposals from two vendors--CACI (the incumbent) and DRS. AR at 3. Both vendors' initial cost proposals were evaluated for realism; however the agency could not determine their most probable cost because the proposals did not include sufficient data to support their various cost elements. See, e.g., AR, Tab 8b, Pre-Negotiation Mem. at 6, 8, 12, 23, 28-30. CACI's and DRS's initial proposals were found unawardable, and the agency conducted discussions with both vendors. Id. at 30-31; AR at 3; see Tab 6c, CACI Discussions at 1-5; Tab 8c, DRS Discussions, at 1-4.

DRS and CACI revised their proposals, and both were determined to be technically acceptable. Revised cost proposals were evaluated as follows:

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<sup>1</sup> The R2-3G program provides critical equipment and engineering services for federal agencies worldwide. Agency Report (AR) at 2.

	CACI	DRS
Total Proposed Cost	\$49,682,890	\$31,075,972
Most Probable Cost	\$49,682,890	\$43,497,984

AR, Tab 9, Decision Document, at 3. The independent government cost estimate (IGCE) for the task order was \$49,834,184. AR, Tab 4, IGCE, at 1.

As noted in the above chart, the agency “[took] no exception to” and did not make any adjustments to CACI’s proposed costs. AR, Tab 9, Decision Document, at 10. In contrast, the agency found DRS’s proposed costs to be unrealistic, so it upwardly adjusted the firm’s costs by approximately \$12.4 million.<sup>2</sup> Id. at 11. In explaining this adjustment, the agency noted that most of the adjustment (approximately \$8.2 million) was made to DRS’s direct labor rates, with additional smaller upward adjustments to subcontractor labor, overhead, materials, and handling. Id. The agency explained that DRS’s proposed labor rates averaged between the [DELETED] percentiles from salary survey data available at payscale.com. The agency found these rates to be unrealistically low and instead utilized the 75<sup>th</sup> percentile from the salary survey data provided by DRS from payscale.com. Id. In selecting the 75<sup>th</sup> percentile, the evaluators considered that this percentile was in line with DRS’s ceiling rates, which are the maximum rates that DRS is permitted to charge under its IDIQ contract.<sup>3</sup> AR, Tab 8f, Cost Evaluation Emails, at 2.

DRS’s total evaluated price was determined to be approximately \$6.2 million lower than CACI’s price. Since both proposals were found to be technically acceptable, the agency selected DRS for issuance of the task order. This protest followed.

## DISCUSSION

CACI protests the agency’s cost realism analysis, arguing that the Army arbitrarily picked the 75<sup>th</sup> percentile labor rate from DRS’s salary survey data and had no basis to determine the probable cost of DRS’s proposal. CACI complains that the agency failed to consider the IGCE and historical costs in assessing realism. CACI also argues that DRS’s low proposed costs should have resulted in a finding that DRS’s

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<sup>2</sup> The agency determined that DRS’s proposed labor hours and mix were acceptable. AR, Tab 9, Decision Document, at 11. The rates, however, were found to be unrealistically low. Id.

<sup>3</sup> The agency also noted that it “never had serious performance or cost issues” with DRS in the past, even though the firm has “consistently underbid” prior contracts. In addition, the agency stated that the firm’s cost controls in connection with the IDIQ contract “help[] negate the concerns of the low price and the large delta between proposed cost and Government most probable cost.” AR, Tab 8f, Cost Evaluation Emails, at 1-2.

technical approach was technically unacceptable. As discussed below, we find no merit to these allegations.

When an agency evaluates proposals for the issuance of a cost-reimbursement order, the agency must perform (and the RTEP required here) a cost realism analysis to evaluate the extent to which an offeror's proposed costs are realistic for the work to be performed.<sup>4</sup> See FAR § 15.404-1(d); Am. Tech. Servs., Inc., B-407168, B-407168.2, Nov. 21, 2012, 2012 CPD ¶ 344 at 5. When performing a cost realism analysis, an agency is required to consider the realism of a firm's proposed costs in light of the firm's unique technical approach. Exelis Sys. Corp., B-407673 et al., Jan. 22, 2013, 2013 CPD ¶ 54 at 7. Based on the results of this cost realism analysis, an offeror's proposed costs should be adjusted when appropriate. FAR § 15.404-1(d)(2)(ii). This evaluation requires the exercise of informed judgment by the contracting agency; because the contracting agency is in the best position to make this determination, we review an agency's judgment in this area only to see that the agency's cost realism evaluation was reasonably based and not arbitrary. Am. Tech. Servs, Inc., supra; Sci. Applications Int'l Corp., B-406460, B-406460.2, June 7, 2012, 2012 CPD ¶ 181 at 4.

Here, the protester objects to the agency's selection of the 75<sup>th</sup> percentile of the labor rates from survey data available on payscale.com, especially since these rates were lower than the IGCE. CACI contends that the agency was not permitted to rely solely on payscale.com, but should have considered the IGCE and historical costs.<sup>5</sup>

As discussed above, the agency selected the 75<sup>th</sup> percentile labor rates because they were in line with DRS's IDIQ contract ceiling rates. AR, Tab 8f, Cost Evaluation Emails, at 2; see also Tab 7m, DRS Cost Proposal, R2-3G Ceilings/ Salary Survey (showing ceiling rates in line with 75<sup>th</sup> percentile of payscale.com). That is, these rates reflected an approximation of the highest costs that the agency would have to pay under the task order.<sup>6</sup> The fact that the IGCE or historical data may reflect

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<sup>4</sup> We note that the RTEP contemplated a competition among IDIQ contract holders, resulting in the issuance of a task order. While generally these competitions are governed by FAR Part 16 and not FAR Part 15, the RTEP here expressly required a cost realism analysis in accordance with FAR Subpart 15.4. E.g., RTEP amend. 4, at 5, 9.

<sup>5</sup> CACI contends that the evaluators failed to consider in its cost realism evaluation that DRS's final proposal revisions reallocated the labor mix between the prime and subcontractors. However, the record shows that the agency, in fact, considered this. AR, Tab 9, Decision Document, at 11.

<sup>6</sup> The RTEP reinforced that the labor rates proposed for the task order could not exceed the ceiling rates under the IDIQ contract. RTEP amend. 4, at 6.

higher rates does not require the agency to use those rates here, where DRS was contractually limited to charging significantly lower rates.

We also find no merit to CACI's argument that the agency is not permitted to rely solely on [payscale.com](#). We have previously found unobjectionable an agency's use of [payscale.com](#) to determine the realism of labor rates. See, e.g., KinetX Aerospace, Inc., B-406798 et al., Aug. 21, 2012, 2012 CPD ¶ 303 at 13. The RTEP here contemplated reliance on salary survey data, such as data from [payscale.com](#). See RTEP amend. 4, at 6. The protester has not shown, much less asserted, that the [payscale.com](#) data relied on was inaccurate or unreliable. In addition, as discussed above, the [payscale.com](#) percentile selected by the agency for evaluation purposes was in line with DRS's ceiling rates, so it cannot be said to be unrealistically low.<sup>7</sup> Accordingly, we find the agency's use of [payscale.com](#) data reasonable here.

Finally, CACI contends that DRS's unrealistically low rates evidences a lack of understanding of the requirements, reflects inconsistencies and contradictions between DRS's technical and cost proposals, and should have resulted in a finding that DRS's technical proposal was unacceptable.

As a preliminary matter, the RTEP did not contemplate that the technical team would review labor rates in evaluating the technical approach. Indeed, the RTEP instructed that costs were not to be included in the technical proposals. RTEP amend. 4, at 1. Rather, the RTEP provided that the evaluators would review vendors' sanitized cost proposals to ensure that the total level of effort was accounted for in the cost proposals. See id. at 2, 3, 7. Based on its review of the technical proposals and sanitized cost proposals, the evaluators reasonably determined that the labor hours and mix for both DRS and its subcontractors were acceptable. AR, Tab 11, Decision Document, at 11; Tab 8d, DRS Final Technical Evaluation, at 2. Contrary to CACI's argument, there is no evidence of any inconsistencies or contradictions between DRS's technical and cost proposals in the record.

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<sup>7</sup> In any event, contrary to the protester's assertion, the agency's cost realism analysis was based on more than just DRS's salary survey data. The record reflects that the agency used cost analysis procedures available under FAR § 15.404-1(c), which the solicitation cited (RTEP amend. 4, at 9). For example, the agency verified DRS's proposed costs with the agency's cost/price officials (FAR § 15.404-1(c)(2)(i) (verification of cost data)); considered DRS's past practices with regard to cost controls (FAR § 15.404-1(c)(2)(ii) (effect of offeror's current practices on future costs)); and obtained additional cost data from DRS's proposed subcontractors (FAR § 15.404-1(c)(2)(v) (incomplete cost data)). See AR, Tab 8f, Cost Evaluation Emails, at 1-2; Tab 8c, DRS Discussions, at 2-3.

The RTEP provided that unrealistically low rates would be considered in a risk assessment. RTEP amend. 4, at 8. However, CACI has not shown that the low rates pose significant risk here or evidence a lack of understanding of the requirements. The agency recognized DRS's history of underbidding, but noted also that the agency had "never had serious performance or cost overrun issues" with DRS in the past, and that the firm has in place cost controls that "help[] negate the concerns of the low price." AR, Tab 8f, Cost Evaluation Emails, at 1-2. In addition, DRS's ceiling rates minimized the risk that costs would exceed what was estimated by the total evaluated price. See id. Based on this record, we find the agency's determination to be reasonable.

In sum, CACI was not selected because its evaluated price was more than \$6 million higher than DRS. We find nothing unreasonable about this selection decision.

The protest is denied.

Susan A. Poling  
General Counsel