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Decision

Matter of: Trandes Corporation

File: B-411742.5

Date: June 22, 2016

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DIGEST

Protest arguing that an agency's cost realism analysis, performed during a reevaluation of proposals, was improperly based on outdated cost information, is denied where the record does not support the protester's allegations.

DECISION

Trandes Corporation, of Lanham, Maryland, protests the issuance of a task order to Honeywell Technology Solutions, Inc., of Columbia, Maryland, under request for proposals (RFP) No. N00024-13-R-3184, issued by the Department of the Navy, Naval Air Warfare Center Aircraft Division, for field engineering services in support of the Fleet Area Control and Surveillance Facility (FACSFAC), comprised of the FACSFAC air control tracking system and the FACSFAC Navy Scheduling System, located at various FACSFAC sites. RFP, Statement of Work (SOW), at 24. Trandes primarily argues that the agency improperly relied on outdated cost data when it performed its cost realism analysis.

We deny the protest.

BACKGROUND

On July 30, 2014, the RFP was issued pursuant to Federal Acquisition Regulation (FAR) Part 16, to contract holders under the Navy's SeaPort-e indefinite-

delivery/indefinite-quantity multiple-award contract.¹ The RFP provided for a cost-plus-fixed-fee task order for field engineering services at various FACSAC sites for a base year and 4 option years. RFP, amend. 3, at 3, 79.

The RFP advised that the task order would be issued on a best-value basis, considering technical, past performance, and cost/price evaluation factors. RFP at 94. The technical factor was considered to be the most important, and consisted of the following subfactors, listed in descending order of importance: understanding the work, workforce, and management plan. Past performance was considered to be more important than cost/price. Technical and past performance, when combined, were stated to be significantly more important than cost/price. Offerors were advised that the importance of cost/price would increase as the proposals became more equivalent under the technical and past performance factors. Id.

With respect to cost/price, the RFP stated that a cost realism analysis would be performed to determine whether the overall costs proposed (1) were realistic for the performance of the work required, (2) reflected an understanding of the requirements, and (3) were consistent with the various elements of the offeror's technical proposal. RFP at 95 (§ 4.1). The RFP also informed offerors that the agency would use various forms of cost information, including government audit agency rate recommendations, to verify offerors' proposed costs as part of the realism analysis. Id. (§ 4.1.2). The RFP also stated that no downward cost adjustments would be made, but upward adjustments would be made if the rates were found to be unrealistically low. Id. at 96 (§ 4.1.6).

The agency received proposals from Trandes (the incumbent) and Honeywell, which were evaluated by the agency's technical evaluation team (TET) and cost evaluation team (CET).

As relevant here, in its initial proposal, Trandes provided indirect rates for fringe, overhead, and general and administrative (G&A) costs that were significantly lower than its historical and proposed fiscal year (FY) 2014 rates. AR, Tab 21, Trandes's Cost/Price Analysis and Cost Realism Report (Trandes's Final Cost Report), February 26, 2016, at 6. Because of these differences, the CET referred Trandes's proposal to the Defense Contract Management Agency (DCMA) for further analysis.

¹ SeaPort-e is the Navy's electronic platform for acquiring support services in 22 functional areas including engineering, financial management, and program management. See <https://www.seaport.navy.mil/> (last visited June 22, 2016). This procurement is a follow-on to an existing task order, currently being performed by Trandes. Agency Report (AR), Tab 13, Source Selection Decision Document (SSDD), at 1. Since the value of this task order is in excess of \$10 million, this procurement is within our jurisdiction to hear protests related to the issuance of task orders under multiple-award contracts. 10 U.S.C. § 2304c(e)(1)(B).

AR at 4. DCMA reviewed the proposed base-year indirect rates and, except for the materials-handling fee, found all of them to be “significantly lower than what their historical financial information supports.” AR, Tab 17, DCMA Initial Trandes Cost Analysis, Oct. 30, 2014, at 2, 5-6. With respect to Trandes’s proposed G&A rates, the DCMA not only considered these rates unrealistic, based on historical data, but found them to be based on rate-control measures that were unrealistically “aggressive.” Id. at 5. DCMA determined that it would be appropriate to apply Trandes’s projected FY 2014 rates, except for the overhead rates, and made this recommendation, as shown below. Id. at 5.

Subsequently, during discussions in March 2015, the agency raised with Trandes its concerns about the protester’s unrealistic proposed indirect rates when it sent Trandes a discussion letter, noting the agency’s and DCMA’s concerns about what the agency and DCMA considered to be unrealistically low fringe, overhead and G&A costs in Trandes’s proposal. AR, Tab 18, Trandes’s Discussion Letter, attach. 1, at 4. Trandes responded with its final proposal revisions (FPR) on March 25, 2015. AR, Tab 19, Trandes FPR. Trandes’s FPR included projected indirect costs for 2015, 2016 and 2017. Id. at 218-223.

The CET sent Trandes’s FPR to DCMA for additional review, particularly noting the pages where Trandes explained its rationale for its drastic reductions. AR, Tab 20, DCMA E-mails, April 9, 2015, at 2-15. These explanations addressed Trandes’s development of its indirect rates, as well as its revised provisional rates for FY 2015, FY 2016, and FY 2017. AR, Tab 19, Trandes’s FPR, Vol. 4, at 190-195. For example, Trandes projected a reduction in its FY 2015 indirect rates by [deleted] percent from those incurred in 2014, and [deleted] percent from the FY 2011 amounts. Id. at 193. Similarly, the protester predicted that its FY 2016 indirect expenses would have an [deleted] percent reduction from those incurred in 2011. Id.

DCMA’s second review included consideration of Trandes’s predictions and all of these rates. AR, Tab 21, Trandes’s FPR Cost Report, at 8. DCMA did not change its initial recommendations, noting that it remained concerned that the indirect rates were unrealistic. DCMA did note that its assessment would change if the agency included in the RFP a clause delineating maximum allowable indirect rates. Id. DCMA stated that this was necessary because this procurement involved a cost-reimbursement contract, and there was “no way the government could ensure [that Trandes] would implement [its aggressive rate control] measures after contract award.” AR, Tab 20, DCMA E-mails, April 9, 2015, at 1.

After review the CET stated as follows:

The Contract Specialist has reviewed the offeror’s justification and agrees with the concerns noted in DCMA’s assessment. Although the offeror provided an outline of their cost cutting measures, the

Government would be taking a substantial risk by assuming that the offeror would be successful at significantly reducing their indirect rates. DCMA suggested the use of [a section] H clause to cap the offeror's indirect rates as a way to mitigate the risks; however, in order to include this clause it would have to be done as a bilateral modification after award, [and there is no guarantee that Trandes would agree to such a clause after award].

AR, Tab 21, Trandes's FPR Report, at 9.

The CET adopted the DCMA's recommendations concerning G&A and material handling costs. AR, Tab 21, Trandes's FPR Cost Report, at 9. The CET accepted Trandes's proposed fringe and overhead rates for FY 2014 because they were fairly comparable to historical rates and the DCMA recommendation.² *Id.* The table below shows Trandes's historical indirect rates from FY 2011 through 2013, its FY 2014 projected rates, those proposed by Trandes in its initial proposal, DCMA's initial recommendation, the protester's FPR rates, and the final cost realism amount.

Indirect Rate	Fringe-Gov't Site	Overhead-Gov't Site	G&A	Material Handling
FY 2011	[deleted]%	[deleted]%	[deleted]%	[deleted]%
FY 2012	[deleted]%	[deleted]%	[deleted]%	[deleted]%
FY 2013	[deleted]%	[deleted]%	[deleted]%	[deleted]%
FY 2014 Projected Rate	[deleted]%	[deleted]%	[deleted]%	[deleted]%
Initial Base Year Proposed Rate	[deleted]%	[deleted]%	[deleted]%	[deleted]%
FPR Proposed Rate	[deleted]%	[deleted]%	[deleted]%	[deleted]%
DCMA Recommendation	[deleted]%	[deleted]%	[deleted]%	[deleted]%
Cost Realism Position	[deleted]%	[deleted]%	[deleted]%	[deleted]%

Trandes's Final Cost Report, Feb. 26, 2016, at 6, 11.

² The CET, however, used Trandes's FPR overhead rate amount for its cost realism position, even though the DCMA recommendation amount was lower, because, as noted above, the RFP states that "downward cost realism adjustments will generally not be made." RFP at 96.

The following provides a summary of the evaluation results after FPRs were submitted:

		Trandes	Honeywell
Technical		Good	Outstanding
	Understanding the Work	Outstanding	Outstanding
	Workforce	Good	Outstanding
	Management Plan	Good	Good
Past Performance		Substantial Confidence	Substantial Confidence
Cost/Price			
	Proposed	\$21,953,339.62	\$24,851,118.00
	Evaluated	\$26,573,191.51	\$27,723,870.28

Program Contracting Officer's (PCO) Statement at 1.

The source selection authority (SSA) issued a source selection decision with a tradeoff analysis, concluding that Honeywell's more highly-rated technical approach warranted paying its associated price premium. Accordingly, the SSA selected Honeywell to receive the task order, which it issued in June 2015. AR, Tab 13, Source Selection Decision Document (SSDD), at 7. After a debriefing, Trandes filed its initial protest.

Trandes's initial protest raised multiple challenges to various aspects of the Navy's technical evaluation of both its and Honeywell's proposals. Primary among Trandes's assertions was that the Navy waived certain mandatory education or experience requirements for Honeywell's proposed key personnel. Trandes also challenged the agency's best-value tradeoff and cost realism analyses, and argued that Honeywell's subcontractor had an unmitigated organizational conflict of interest that should have required Honeywell to be excluded from the competition. We sustained a portion of the protest concerning the agency's evaluation of Honeywell's key personnel, and denied the remainder of the protest grounds. Trandes Corp., B-411742 et al., Oct. 13, 2015, 2015 CPD ¶ 317 at 5.

In the decision, we recommended that the agency re-examine the RFP's key personnel qualification requirements to determine whether they accurately reflected the agency's needs. Trandes Corp., supra, at 10. We recommended that if the agency determined that the requirements overstated (or otherwise failed to reflect) the agency's minimum needs, the agency should amend the RFP to reflect its actual needs; re-open discussions, if necessary; obtain and evaluate revised proposals; and make a new source selection decision. Id.

In response to our prior decision, the agency amended the RFP with respect to the qualifications for a particular engineering technician position, and limited offerors' revisions to addressing this amendment.³ Trandes again protested, arguing that the narrow scope of the agency's corrective action provided Honeywell an unfair advantage, and excluded Trandes from meaningfully competing. Trandes also argued that the limited proposal revisions would result in the agency making award based on stale pricing. In this regard, Trandes contended that the agency might make the new award based on its prior cost realism evaluation. We denied the protest, noting with respect to costs that both Trandes and Honeywell had extended the validity of their cost proposals, and that any allegation concerning an update of the cost realism evaluation was premature. Trandes Corp., B-411742.4, Feb. 22, 2016, 2016 CPD ¶ 61 at 7-8.

After receiving revised proposals, the contracting officer determined that another cost realism analysis was not necessary for several reasons, including, for example, the fact that two extensive analyses, referenced above, had been concluded only 7 months before; and, as noted above, both Trandes and Honeywell had confirmed the validity of the costs of their proposals through March 7, 2016. PCO Statement at 2; see also AR, Tab 22, Trandes Extension Letter.⁴ On March 2, 2016, after preparing a new cost report and SSDD, the agency again issued the task order to Honeywell, and this protest followed.

DISCUSSION

Trandes challenges the re-issuance of the task order, contending that the agency improperly failed to perform an updated cost realism analysis, improperly evaluated both offerors' technical proposals, and consequently conducted a flawed best-value analysis.⁵ Protest at 8-13.

³ During the implementation of the corrective action, on November 7 and 15, 2015, Trandes confirmed the validity of its proposed rates and extended its proposal commitment through March 7, 2016. PCO Statement at 2; see also AR, Tab 22, Trandes Extension Letter.

⁴ The CET prepared a final cost report on February 26, 2016, which stated that the cost evaluation remained unchanged because Trandes reaffirmed the cost proposal it had submitted earlier. Trandes's Final Cost Report, Feb. 26, 2016, at 2.

⁵ The agency requested dismissal of the protest, which we partially granted on March 24, 2016. On that date, we dismissed as untimely Trandes's protest allegations concerning the agency's technical evaluations, leaving only the protest grounds concerning the agency's cost realism evaluation, and the ensuing best-value determination. Trandes Corp., B-412742.5, Mar. 24, 2016, Notice of Partial Dismissal.

Trandes asserts that the cost realism analysis was unreasonable because it was based on outdated cost data. Protest at 9-11. Trandes argues that the agency relied on a DCMA report from 2014 that had itself relied on data from FY 2011 through FY 2013. Id. at 10. The protester contends that the agency should have considered Trandes's actual 2015 indirect rates, which, according to Trandes, were lower than the rates it identified in its proposal; and that the cost realism analysis's reliance on earlier, projected rates therefore prejudiced Trandes.⁶ Id. at 10-11.

In response, the agency challenges the factual accuracy of Trandes's allegations that the agency failed to update its cost realism evaluation before awarding the current contract, and improperly relied on information from 2011-2013. AR at 3, 9. The Navy asserts, in contrast to the protester's claims, that the CET and DCMA reviewed and considered information provided by Trandes concerning proposed indirect rates for FY 2014 through FY 2017, as noted above. Id. at 3-6. Additionally, the agency notes that Trandes twice confirmed the validity of its pricing. Id. at 7-8.

When an agency evaluates a proposal for the award of a cost-reimbursement contract, the agency must perform a cost realism analysis to evaluate the extent to which an offeror's proposed costs are realistic for the work to be performed. FAR § 15.404-1(d); Excelis Sys. Corp., B-407673 et al., Jan. 22, 2013, 2013 CPD ¶ 54 at 7 (considering FAR Part 15 cost realism standards in a FAR Part 16 task order protest); Hanford Env'tl. Health Found., B-292858.2, B-292858.5, Apr. 7, 2004, 2004 CPD ¶ 164 at 9; Tidewater Constr. Corp., B-278360, Jan. 20, 1998, 98-1 CPD ¶ 103 at 4. In performing a cost realism analysis, an agency is not required to verify each and every item or achieve scientific certainty in determining the most probable cost. SGT, Inc., B-294722.4, July 28, 2005, 2005 CPD ¶ 151 at 7. Based on the results of the cost realism analysis, an offeror's proposed costs should be adjusted when appropriate. FAR § 15.404-1(d)(2)(ii). An agency is not required to conduct an in-depth cost analysis, see FAR § 15.404-1(c), or to verify each and every item in assessing cost realism; rather, the evaluation requires the exercise of informed judgment by the contracting agency. Cascade Gen., Inc., B-283872, Jan. 18, 2000, 2000 CPD ¶ 14 at 8. 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. Hanford Env'tl. Health Found., supra at 8-9. A protester's disagreement with the outcome does not render the evaluation unreasonable. TriWest Healthcare Alliance Corp., B-401652.12, B-401652.13, July 2, 2012, 2012 CPD ¶ 191 at 18.

⁶ We note that the two actual 2015 rates (overhead and G&A) Trandes cites in its protest and comments show only a [deleted] percent and [deleted] percent reduction, respectively, from those used by the agency in its cost realism analysis. Protest at 11; Comments at 10. We further note that, of the four categories of indirect rates Trandes expressly protested only the G&A rate.

Here, as discussed above, the record establishes that the agency performed various analyses reviewing multiple fiscal years from 2011 through 2017 regarding cost realism and proposal risk in the context of both Trandes's initial proposal and its FPR. Specifically, after receiving Trandes's initial proposal, the agency considered historical data (FY 2011-FY 2013) and Trandes's projected FY 2014 indirect rates, and sought an independent review from DCMA. Trandes's FPR included provisional indirect rates for FY 2015 through FY 2017, and the record shows that DCMA and the CET considered them in finding that they did not match the historical data and presented significant risk. AR, Tab 21, Trandes's FPR Cost Report, at 6-9. In addition, as noted above, the CET adopted Trandes's proposed lower rates for overhead and fringe for FY 2014, and only upwardly adjusted for G&A and material handling. Id. at 9. Finally, also as noted above, Trandes specifically confirmed its costs past the task order issuance date. On this record, we find reasonable the agency's reliance on the analysis contained in the Trandes FPR Cost Report, submitted approximately 11 months before the latest task order issuance. See, e.g., American Tech. Sys Inc., B-407168, B-407168.2, Nov. 21, 2012, 2012 CPD ¶ 344 (10 or 11 month period between cost realism analysis and task order issuance).

Trandes also argues that the best-value determination was flawed. In this regard, the protester contends that had a proper cost analysis been performed, using more recent indirect rates, its cost advantage over Honeywell would have been much greater than what was shown by the agency's prior analysis. Protest at 12; Comments at 8-9.

Trandes's and Honeywell's cost proposals were evaluated for cost realism at the same time and, with adjustments, Trandes's costs were lower than Honeywell's.⁷ The record, however, indicates that even if the agency had considered Trandes's actual 2015 rates, which evidenced only limited reductions, it does not appear that the more recent indirect rates would have resulted in a significant difference in evaluated costs. As noted above, these actual 2015 overhead and G&A rates, reflect only a [deleted] percent and [deleted] percent difference, respectively, from those used in the cost realism analysis. Protest at 10-11; Comments at 10. On this

⁷ In both its protest and comments, Trandes challenges the cost realism analysis of Honeywell's indirect costs on the same basis: that the analysis was based on outdated information. Protest at 9; Comments at 6-7. We find no merit in the protester's assertions. The record indicates that, like Trandes's proposal, Honeywell's proposal was reviewed by DCMA twice. Furthermore, Honeywell also committed to its proposal costs through March 7, 2016. Honeywell Final Cost Report, Feb. 26, 2016, at 3. We note that after the cost realism analysis, Honeywell's evaluated costs were increased to \$27,723,870.28, more than \$1.2 million higher than Trandes's evaluated costs. AR, Tab 13, SSDD, at 3.

record, Trandes has not demonstrated that it has been prejudiced as a result of the lack of a third cost realism analysis. Accordingly, Trandes's challenges to the agency's cost evaluation and best-value determination provide no basis to sustain the protest.

The protest is denied.

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General Counsel