AGENCY FAILURE TO EVALUATE ESCALATION RATES IN COST REALISM ANALYSIS

In a source selection for a task order for engineering support services under the Navy's Seaport-e Indefinite Delivery, Indefinite Quantity ("IDIQ") contract, the Government Accountability Office ("GAO") concluded that the Navy failed to evaluate the protester's proposed escalation rates when considering cost realism. *Sayres & Assoc. Corp.,* B-418374, March 30, 2020.

The solicitation was issued on a cost plus fixed fee basis, and was to be awarded based on a best-value tradeoff basis, considering technical and management, past performance and total evaluated cost. The solicitation stated that the agency would perform a cost realism of the offeror's costs, and then adjust costs to derive the most probable cost to the government. The solicitation further encouraged offerors to propose a reasonable and realistic escalation factor, and also indicated that if there was an absence of historical rates supporting an offeror's escalation rate, the government would use current market data to evaluate the offeror's proposed escalation.

The Cost evaluation team reviewed Sayres' cost proposal and made an upward adjustment of $2.2 million. The agency did not accept Sayre's proposed escalation, and instead applied the market rate (known as the IHS Global Insight rate). Sayres argued that it provided detailed historical data for the past five years, and this information substantiated its escalation rate.

Although it only reviews a cost realism analysis to determine that it is "reasonably based," the GAO concluded that the contemporaneous record failed to establish the reasonableness of the agency's rejection of Sayres' labor escalation rate. The GAO found that the agency never actually assessed whether the supporting data adequately supported Sayres' escalation rate—but merely stated in response to the protest that the substantiating data had never been provided to the Agency. After the protest, the Agency asserted that Sayres's substantiating information was "unverified," something not required by the terms of the RFP. GAO held that the contemporaneous record was silent as to why the information that Sayres provided was inadequate.

The GAO also noted that the Agency had failed to conduct a best value tradeoff. The problem was that initially, the awardee's proposal had both a lower total evaluated cost and higher technical ratings and no tradeoff was required. If the Agency had accepted Sayres's proposed escalation rate, Sayres's price would have been lower than the awardee's price, thereby requiring the agency to perform a tradeoff analysis. The GAO recommended that the Agency document a new cost realism evaluation and source selection.

Takeaway. It is difficult to show that a cost realism analysis is wrong, if it has been performed properly. But if a cost realism analysis is not reasonable, as in this case, you can successfully protest it.

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