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

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## **Decision**

**Matter of:** Medical Matrix, LP

**File:** B-299526; B-299526.2

**Date:** June 12, 2007

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Kenneth Weckstein, Esq., Shlomo D. Katz, Esq., and Tammy Hopkins, Esq., Epstein Becker & Green, PC, for the protester.

Marcia G. Madsen, Esq., David F. Dowd, Esq., and David B. Robbins, Esq., Mayer, Brown, Rowe & Maw LLP, for SXC Health Solutions, Inc., an intervenor.

Maura C. Brown, Department of Veterans Affairs, 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.

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### **DIGEST**

1. Protest challenging reasonableness of agency's past performance evaluation is denied where challenge is based on assumption that awardee had not previously performed requirements called for in solicitation, which is not supported by record.
  2. Protest alleging that agency improperly failed to consider past performance in connection with its evaluation of proposals under technical evaluation criteria is denied where evaluation scheme included separate technical and past performance evaluation criteria, and did not provide for evaluation of past performance under technical criteria.
  3. Protest that agency failed to recognize that awardee's proposed price was unrealistically low as compared to protester's is denied where record shows that, although protester was incumbent contractor, solicitation called for work not previously performed by protester; price disparity between protester's and awardee's proposals is attributable to this component of the requirement; and awardee has previous experience performing this aspect of the requirement, which agency recognized as basis for price disparity.
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### **DECISION**

Medical Matrix, LP protests the award of a contract to SXC Health Solutions, Inc. under request for proposals (RFP) No. 741-07-05, issued by the Department of Veterans Affairs (VA) for services in connection with providing and managing

pharmaceutical transactions. Medical Matrix asserts that the agency misevaluated proposals and made an unreasonable source selection decision.

We deny the protest.

## BACKGROUND

VA provides pharmacy benefits under three programs that it administers: VA's civilian health and medical program, the spina bifida health care program, and the children of women Vietnam veterans healthcare program. The RFP contemplated the award of a fixed-price contract for a base year, with four 1-year options, to provide various services in connection with these programs. Specifically, the contractor is to provide: retail pharmacy services to the agency's beneficiary population through a nationwide network of pharmacies; a range of pharmacy claims transaction processing services; help desk services, as well as a web site, for the agency's beneficiary population; and various reports that distill information relating to the pharmacy transactions being processed. RFP at 14-27. Offerors were advised that the beneficiary population for the programs was 251,108, that the total number of prescriptions for this group was approximately 3.5 million, and that, of this number, approximately 1.34 million prescriptions would be filled through retail pharmacies, 1 million prescriptions would be filled at the VA mail order pharmacy, and 1.13 million prescriptions were beneficiary-submitted retail or VA in-house treatment initiative paper claims. Id. at 12.

Offerors were advised that award would be made on a "best value" basis, considering technical capability, past performance, and price, with technical capability more important than past performance, and technical capability and past performance together more important than price. RFP at 4. The solicitation specified the following weights for the evaluation factors and subfactors: network access factor (evaluated on a pass/fail basis, with proposals that pass to be scored; 25 percent of the overall evaluation); non-network pharmacy services factor (evaluated on a pass/fail basis, with proposals that pass to be scored; 10 percent); pharmacy benefits management (PBM) services factor (20 percent, with the following 10 subfactors each worth 10 percent of the total points for this factor: program requirements; pharmacy network services; claim and reversal submission to the health administration center ; claim reimbursement and recoupment; help desk and phone access for beneficiaries; website access; reporting; electronic network vendor file; pharmacy ID card plan; and industry participation and knowledge); phase transition plans factor (10 percent); past performance factor (10 percent); and price factor (25 percent, with two equally-weighted subfactors: total evaluated administrative price, and network discount pricing). RFP at 8-10. Proposals also were to be evaluated for risk at the factor and subfactor levels, taking into consideration the offerors' proposed approaches or processes, the degree to which the government might expend resources to monitor or manage the risk of unsuccessful performance, and the amount of PBM-related experience demonstrated by the offeror. RFP at 8-10.

Proposals were to be assigned scores of from 1 point (for a proposal that failed to meet minimum requirements and contained significant weaknesses that were uncorrectable without a major proposal revision) to 4 points (for a proposal that exceeded the agency's minimum requirements in a manner that would be beneficial to the government and contained no weaknesses) for the factors and subfactors. Agency Report (AR), exh. 21, at 10. For the past performance factor, the evaluators could assign scores between whole numbers (e.g., 3.5 points). The past performance scores were defined as follows: 0 points--neutral confidence; 1 point--no confidence; 2 points--marginal confidence; 3 points--satisfactory confidence; and 4 points--high confidence. AR, e.g., exh. 13. The numeric scores were then adjusted to reflect the RFP weightings.

The agency received two proposals, Medical Matrix's and SXC's. After evaluation of the proposals, the agency engaged in discussions with the firms and obtained revised proposals. The agency ultimately made award to Medical Matrix. SXC filed a protest in our Office challenging the award, arguing, among other things, that the agency did not provide adequate discussions. In response to that protest, the agency proposed to take corrective action by reopening discussions and reevaluating proposals; we dismissed the protest as academic in light of the proposed corrective action. (B-298106, Apr. 11, 2006.)

After reopening the acquisition, engaging in discussions, and obtaining revised proposals, the agency conducted a new evaluation. Both firms' proposals received pass ratings for factors one and two (network access and non-network pharmacy services), and each received identical scores of 4 points/low risk under each of the technical evaluation factors and subfactors. AR, exhs. 10, 11. For past performance, Medical Matrix's proposal received a score of 4 points, and SXC's 3.7 points (satisfactory to high confidence). AR, exhs. 12, 13. Medical Matrix proposed a total price of \$613,374,904 (\$[deleted] in development and implementation costs, \$[deleted] in administrative costs, and \$[deleted] in drug costs), while SXC proposed a lower total price of \$553,263,844.88 (\$[deleted] in development and implementation costs, \$[deleted] in administrative costs, and \$[deleted] in drug costs). AR, exh. 22, at 22. On the basis of these evaluation results, the agency made award to SXC, finding that the firm's lower-priced proposal offered the best overall value to the government, considering price and the non-price evaluation factors. After receiving a debriefing from the agency, Medical Matrix filed this protest.

Medical Matrix takes issue with numerous aspects of the agency's evaluation. In reviewing protests of alleged improper evaluations and source selection decisions, it is not our role to reevaluate proposals; rather, we will examine the record to determine whether the agency's judgment was reasonable and in accord with the stated evaluation criteria and applicable procurement laws and regulations. See Abt Assocs., Inc., B-237060.2, Feb. 26, 1990, 90-1 CPD ¶ 223 at 4. We find that the evaluation here was reasonable.

## NON-PRICE EVALUATION

### SXC's Past Performance

At the heart of many of Medical Matrix's arguments is its assertion that SXC lacks the experience and past performance required by the RFP. In this connection, the RFP provided, in relevant part, as follows:

The Contractor shall provide documentation of a minimum of three (3) facilities/contracts, demonstrating that it has been performing the same or similar Pharmacy Network and/or PBM services for a period of no less than 5 years at the [agency's] pharmacy claim volume or greater. If a subcontractor was used to meet the requirements of past performance, the Prime Contractor should have completed at least 50 [percent] of the work for the contract. The Contractor shall provide contact information to be utilized during the evaluation process.

RFP at 29.

According to the protester, SXC is primarily in the business of providing information technology (IT) solutions to firms that actually provide PBM services. The protester maintains that SXC offers licenses for various proprietary software products that it has developed, as well as "hosting" services for IT applications, and that, to the extent SXC does provide PBM services, it has only been doing so since 2004. In support of its position, Medical Matrix points to the past performance references in SXC's proposal, which, it claims, indicate that SXC is selling what the protester describes as application service provider (ASP) versions of its software to other firms that actually provide PBM or pharmacy network services.

The evaluation in this area was reasonable. First, the evidence proffered by Medical Matrix in support of its position is primarily anecdotal and is comprised of portions of annual reports and press releases from SXC that the protester maintains show that SXC is the provider of IT solutions and ASP versions of its software. A reading of the firm's proposal, however (as well as other evidence in the record), supports the agency's conclusion that SXC has experience providing PBM and pharmacy network services. For example, SXC's proposal includes as one of its past performance references a contract the firm has been performing for Blue Cross/Blue Shield of Arizona since 1998. The description of the contract in the proposal states:

SXC Health Solutions is responsible for the complete pharmacy benefit management for Blue Cross Blue Shield of Arizona. SXC is performing as a contractor for 100 [percent] of the services provided under contract. The overall system scope includes pharmacy claims processing, plan benefit management, pharmacy network management,

rebate management, drug utilization review, operational, clinical, and, financial reporting, and help desk support. This plan provides pharmacy benefits to more than 700,000 members and is responsible for the management of more than 4,400,000 transactions.<sup>1</sup> SXC manages and operates the claims processing, rebate management, and, administrative services support for [Blue Cross Blue Shield of Arizona] in our Lombard, Illinois Pharmacy Benefits Management (ASP) Center.

AR, exh. 18, § VI, at 5. The agency relied on this information to conclude that SXC met the past performance requirements. Consistent with SXC's proposal, the record also includes an affidavit in which an SXC senior employee further describes this contract as follows:

As the proposal shows, SXC performs PBM services for BCBSAZ [Blue Cross Blue Shield of Arizona]. We do not license software to BCBSAZ for its use. Rather, as the proposal states, we process the prescription benefit claims, handle rebates, and perform pharmacy network administration services, among the other tasks.

SXC Supplemental Comments, May 14, 2006, exh. B, at 6. SXC's senior employee explained the firm's use of the term ASP in its proposal as follows:

In this regard, SXC sometimes used the term "application service provider" or "ASP" services to refer to its practice of performing PBM services for clients using SXC's resources and personnel [including its ASP processing center in Illinois and other locations], such as claims processing services, as distinct from license arrangements. The term ASP is used less today in general. We used the term ASP to refer to a set of certain PBM services. We did not use it to refer to licenses of our products, in which case the client (rather than SXC) would process the claims. We have also used the term "Pharmacy Benefit Administration" synonymously with "ASP," both in our proposal to the VA and elsewhere. SXC used both terms to refer to PBM services (*i.e.* claims processing, pharmacy network management, benefit plan setup and maintenance, drug utilization and review, financial management/ pharmacy payments, eligibility determination, etc.).

Id. Based on the information in SXC's proposal, as well as the above explanations, we conclude that the record supports the agency's evaluation conclusion that SXC

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<sup>1</sup> This contract is responsive to the RFP requirement that the offer has performed PBM or pharmacy network services for a period of at least 5 years at a volume equal to or greater than the volume called for in the RFP.

does, in fact, have experience as a provider of PBM and pharmacy network services; Medical Matrix has not shown otherwise.<sup>2</sup>

### Altered Scores

Medical Matrix asserts that, in its source selection document, the agency improperly raised the numeric scores given to SXC by the firm's past performance references. In this regard, the record shows that, in preparing the source selection document, the contract specialist made minor upward adjustments to three of the numeric scores assigned to SXC in its past performance surveys; the unadjusted scores averaged 3.55 points, while the adjusted scores averaged 3.7 points.

The scoring changes were unobjectionable. For example, the score assigned SXC's proposal for its Blue Cross Blue Shield of Arizona contract under the assignment of appropriate personnel element of the past performance survey was 2.5 points. AR, exh. 12, at 10. The source selection document states that this score was raised to 3 points because the original score was assigned based solely on the performance of new (as opposed to tenured) employees; there was a learning curve for new employees; there were no comments relating to any unresolved or ongoing contractual issues; the volume of work under the Blue Cross Blue Shield of Arizona contract was much greater than that being solicited; and the score under this element was comparatively inconsistent with the scores assigned under other elements of the past performance survey. AR, exh. 22, at 11. This contemporaneous explanation provides a rational basis for the adjustment in the point score for this reference. The other minor changes made to SXC's past performance numeric scores are similarly supported. Further, the record shows that, while the contract specialist made the changes, the source selection official expressly concurred in the changes based on all of the facts presented to him. AR, exh. 26. Accordingly, we conclude that this aspect of the evaluation was reasonable.<sup>3</sup>

### Comparative Past Performance Evaluation

Medical Matrix alleges that it was unreasonable for the agency to assign SXC a past performance score that was so close to the score assigned to Medical Matrix

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<sup>2</sup> As discussed further below, the record shows that Medical Matrix and SXC each had one prior contract--rather than three, as specified in the RFP--that was for a duration of at least 5 years and was at a volume comparable to that under the solicitation. However, the record shows that the agency did not apply this criterion as a pass/fail requirement for either offeror. Medical Matrix does not challenge the evaluation in this regard.

<sup>3</sup> In any case, source selection officials are not bound by numeric scores assigned by evaluators. Calspan Corp., B-258441, Jan. 19, 1995, 95-1 CPD ¶ 28 at 10.

(3.7 points relative to its own 4 points). The protester asserts that it has far more experience providing PBM services as compared to SXC, noting that it has been performing these services for VA for more than 13 years. The protester therefore concludes that it was unreasonable from a comparative standpoint to have assigned the proposals scores that were so close together.

We find that the agency treated both offerors reasonably when evaluating their past performance references, and that its comparative evaluation conclusion (that the two offerors were relatively close in their respective past performance) was unobjectionable. Both firms included four specific examples of past performance in their proposals, and for both, only one example met all of the criteria outlined in RFP for past performance (at least 5 years of PBM or pharmacy network services at the agency's claim volume). With respect to SXC, the volume and type of services provided under its Blue Cross Blue Shield of Arizona contract since 1998 met the RFP's criteria. SXC's remaining three references, while reflecting a volume of transactions far in excess of the volume contemplated under the subject RFP (and also reflecting the full spectrum of services contemplated under the RFP), were for contracts SXC performed for less than 5 years, with the oldest contract dating from only 2002. AR, exh. 18, § 5, at 6-8.

As for Medical Matrix, the record shows that, as the incumbent, it has been performing most of the services being solicited under the RFP at a similar volume since 1992; the protester, like SXC, thus was found to have one contract meeting the RFP's past performance criteria of having performed PBM or pharmacy network services for a period of at least 5 years at the volume contemplated under the solicitation. AR, exh. 6, vol. II, at 115-16. Its remaining references, while reflecting past performance over an adequate period of time, were for PBM or pharmacy network services contracts at a dramatically lower volume than that contemplated under the solicitation. *Id.* at 116; AR, exh. 20, app. 2, at 9-10. The record thus shows that, while Medical Matrix may arguably have been performing these services for a somewhat longer period of time, SXC has performed these services at a far greater volume than required by the RFP. We conclude that, in view of these considerations, the agency reasonably assigned the two offerors similar past performance scores. Accordingly, this aspect of Medical Matrix's protest is without merit.

#### Technical Proposal Scoring

Medical Matrix asserts that the agency erred in assigning SXC's proposal the maximum score of 4 points under various technical evaluation factors and subfactors. According to the protester, the RFP required offerors to provide specific examples of how the solicitation's various tasks had been accomplished for the same or similar contracts in the past. RFP at 6. Medical Matrix maintains that the portions of SXC's proposal addressing the statement of work lack the required examples of instances where it performed the various PBM services in the past, and

concludes that it thus was unreasonable for VA to assign SXC's proposal the maximum score in these areas of the technical evaluation.<sup>4</sup>

Medical Matrix misconstrues the terms of the solicitation. The language on which it relies appears in the solicitation's general instructions for the preparation of technical proposals, RFP at 6, not in the evaluation provisions. As discussed above, the RFP included separate technical capability and past performance factors, and did not state that information regarding performance on prior contracts would be used to evaluate proposals under the technical capability factors. To the contrary, each technical evaluation factor and subfactor provided that the evaluation would be based on the offerors' written proposals, and required offerors to provide a plan to address the element of the requirement being evaluated. (For example, evaluation factor 3 provided: "Factor 3: PBM Services (20 [percent])--Evaluation based on written proposal. Provide a clear plan to meet all of the requirements of this section." RFP at 8.) In light of this evaluation scheme, the agency reasonably evaluated the proposals under the technical factors without reference to information regarding offerors' performance of prior contracts. See Raymond Assocs., LLC, B-299496, B-299496.2, May 29, 2007, 2007 CPD ¶ \_\_ at 5-6. SXC's failure to provide this information in the portion of its proposal responding to the statement of work thus did not require that its proposal be downgraded under the technical capability evaluation factors.<sup>5</sup>

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<sup>4</sup> In a related allegation, the protester asserts that the agency improperly assigned low risk ratings to SXC's proposal based on a finding that the firm has more than 20 years of experience. (The RFP stated that, in assessing proposal risk, the agency's evaluation may also be affected by the amount of experience in performing PBM-related services demonstrated by the offeror. RFP at 8.) In support of its assertion, Medical Matrix proffered SXC's articles of incorporation to show that the firm was only incorporated in 1995. Medical Matrix's Supplemental Comments, May 14, 2007, exh. 1. However, SXC has submitted evidence showing that in 2001 it acquired another concern, ComCoTec, Inc., which was established in 1981; it is ComCoTec's experience--in addition to SXC's own--that comprises the firm's more than 20 years of experience. SXC Supplemental Submission, May 24, 2007, attach. Thus, SXC had a basis to claim in its proposal that it possessed more than 20 years of experience performing PBM-related services, and the agency's evaluation conclusion in this respect was reasonable. See, Ecompex, Inc., B-292865 et al., June 18, 2004, 2004 CPD ¶ 149 at 5.

<sup>5</sup> We point out as well that, as illustrated by our discussion above relating to the agency's evaluation of past performance, the SXC proposal did, in fact, include information showing examples of the firm having previously performed the various tasks called for under the statement of work under similar prior contracts.

## PRICE

Medical Matrix asserts that the agency did not adequately evaluate SXC's proposed price. The protester focuses principally on SXC's administrative price, which was approximately \$[deleted], or approximately \$[deleted] lower than its own proposed administrative price of approximately \$[deleted]. Medical Matrix asserts that, based on this comparison to its own pricing as the incumbent, SXC's administrative price was unrealistically low, and that the agency improperly failed to consider that this low price reflected a lack of understanding of the requirement.<sup>6</sup>

We find no merit to this aspect of the protest. The RFP provided as follows regarding price realism:

Proposals that are unrealistic in terms of technical capability or are unrealistically high or low in cost will be deemed reflective of an inherent lack of technical competence or indicative of a failure to comprehend the proposed requirements and will be rejected.

RFP at 7. While the protester is correct that SXC's proposed administrative price is approximately \$[deleted] lower than its proposed administrative price (which was almost identical to the government's estimate of \$[deleted] for the administrative component of the requirement<sup>7</sup>), the contemporaneous record contains a rational explanation for the disparity. Specifically, the record shows that the primary difference in the two firms' administrative pricing was in the requirement for "non-network," or Medicare Part D Plan benefit, services. RFP at 18. SXC's administrative price for non-network services was approximately \$[deleted] over the life of the contract (AR, SXC Cost Proposal, exh. 18), while Medical Matrix's was approximately \$[deleted] (AR, exh. 19, app. 3). The non-network/Medicare services requirement is a new component of the agency's requirement that was not included under Medical Matrix's prior contract (and, in fact, is a relatively new aspect of PBM services that the record shows Medical Matrix has no experience providing, AR, exh. 3, at 46; AR, exh. 9 at 4). In contrast, SXC's proposal reflects that the firm has provided these services for numerous clients (one of which was an SXC past performance reference). AR, exh. 18, § 2, at 1-4; § 5, at 8.

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<sup>6</sup> Medical Matrix also alleges broadly that SXC's pricing was so low that it should have been found unreasonable. This argument is without merit; it is well-established that price reasonableness in a fixed-price setting relates to whether a firm's prices are too high, not too low. Sterling Servs., Inc., B-291625, B-291626, Jan. 14, 2003, 2003 CPD ¶ 26 at 3.

<sup>7</sup> The record shows that the government estimate was developed based on historical costs incurred by the agency purchasing these services from Medical Matrix. AR, exh. 22, at 22.

The agency recognized these considerations in evaluating the proposals and making its source selection. Specifically, the source selection authority stated with regard to the provision of non-network services:

Medical Matrix stated in their proposal that they are preparing for connectivity and will be ready for testing as mandated. They have an action plan, and will be ready to go when [Medicare Part D] is ready to go. They were rated as low risk on this based on their history and understanding of the requirements. However, SXC has already implemented the Medicare Part D program, and in fact were the first vendor approved to process Med D claims. They have been doing these since January, 2006. In my judgment, as this is a new requirement, SXC clearly has the advantage. Like Medical Matrix, the [agency] has no experience with Med D, so SXC's experience would be a big benefit to the [agency].

AR, exh. 22, at 17. The source selection authority went on to discuss these considerations in the context of analyzing the offerors' administrative prices:

Taking out the development and implementation fee, SXC's administrative costs for the 5 years are \$[deleted]; Medical Matrix's are \$[deleted], a difference of about \$[deleted] . . . . While Medical Matrix could be seen as having the upper hand in estimating this work as they are the current contractor, the additional work added into this contract as opposed to what is in the [Medical Matrix] MOU would negate that. SXC has been doing similar work to what this solicitation requests, so they have good knowledge of the market.

AR, exh. 22, at 22. It is apparent from these statements that the agency was aware that the disparity in the two offerors' prices was attributable to their pricing for the non-network/Medicare services, and that it determined that SXC's lower administrative pricing was reliable--as opposed to indicative of a lack of understanding--because that firm, unlike the protester, had performed this work in the past, and therefore had "good knowledge of the market." This conclusion is reasonable on its face, and the protester has not shown otherwise. It thus provides no basis for us to question the evaluation.

The protest is denied.

Gary L. Kepplinger  
General Counsel