



Office of Audits
Office of Inspector General
U.S. General Services Administration

IMPLEMENTATION REVIEW OF CORRECTIVE ACTION PLAN

Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million Report Number A170118/Q/6/P19004 July 23, 2019

Assignment Number A210050
September 15, 2021

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Introduction

We have completed an implementation review of the management actions taken in response to the recommendations contained in our July 2019 audit report, *Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million*, Report Number A170118/Q/6/P19004.

Objective

The objective of our review was to determine whether the Federal Acquisition Service (FAS) has taken the actions as outlined in the corrective action plan for *Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million* (see **Appendix A**). To accomplish our objective, we:

- Reviewed the audit report, *Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million*, Report Number A170118/Q/6/P19004;
- Examined documentation submitted by FAS to support completion of the corrective action plan steps; and
- Interviewed FAS officials.

Background

On January 27, 2006, FAS awarded Contract Number GS-10F-0118S to McKinsey & Company, Inc. (McKinsey). The contract was for 5 years with three 5-year options. Under its contract, McKinsey offered management consulting services to improve performance issues related to strategy, organization, operations, and business technology. McKinsey's contract offered weekly team-based pricing as opposed to hourly labor-category-based pricing. In early 2016, the contracting officer awarded the second contract option, with no change in pricing pending the results of our preaward audit.

During the preaward audit, McKinsey refused to provide the records required to complete the audit; therefore, the audit report advised the contracting officer to require McKinsey to provide the requested information or cancel McKinsey's contract. However, instead of addressing the contractor's lack of cooperation during the preaward audit, a FAS division director (Division Director) awarded the contract pricing with rates that were at least 10 percent higher than those originally proposed by McKinsey. As a result, we had concerns about how the contract pricing was awarded and how pricing was determined to be fair and reasonable. Consequently, we performed a follow-up audit of FAS's administration of this McKinsey contract.

On July 23, 2019, we issued an audit report, *Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million*, to FAS. The objective of

the audit was to determine whether FAS administered Contract Number GS-10F-0118S in accordance with applicable laws, regulations, and policies.

Our audit found that:

- Awarded contract services do not comply with regulations for Federal Supply Schedule contracts.
- The Division Director failed to comply with federal laws, regulations, and GSA policy in awarding the contract pricing.
- The Division Director violated the standards of ethical conduct by advocating on behalf of McKinsey.
- The Division Director impeded the audit of the proposed pricing by failing to take appropriate action to obtain required data to complete the preaward audit.

To address the findings identified in our report, we recommended that the FAS Commissioner:

1. Cancel McKinsey's Contract Number GS-10F-0118S.
2. Cancel McKinsey's Contract Number GS-35F-646GA.
3. Review all FAS contracts with team-based pricing to ensure they comply with Federal Acquisition Regulation requirements.
4. Establish additional controls to ensure contracting staff obtain required audit records to perform audits prior to awarding contract actions.
5. Assess whether the Division Director should be involved in future McKinsey contact or contract actions.
6. Establish additional controls to ensure that FAS contracting staff maintain independent and impartial relationships with FAS contractors in accordance with federal regulations.
7. Take appropriate action to address the Division Director's use of invalid price comparisons, reliance on unsupported information, and violation of standards of ethical conduct.
8. Take appropriate action to address the Washington Branch Chief's actions on the McKinsey Schedule 70 contract award and this audit.

The FAS Commissioner agreed with the concerns outlined in our report and partially agreed with the recommendations.

Results

Our implementation review determined that FAS has taken appropriate corrective actions to address the recommendations. We determined that no further action is necessary.

Audit Team

This review was managed out of the Heartland Region Audit Office and conducted by the individuals listed below:

Michelle Westrup	Regional Inspector General for Auditing
Shane Dunlay	Audit Manager
Shannon McKinzie	Auditor-In-Charge
Sarah Mosca	Management Analyst

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

<p>Audit report number - A170118/Q/6/P19004</p> <p>[Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]</p>	<p>Recommendation Number 001</p>	<p>Proposed Recommendation Completion Date</p> <p>[March 31, 2020]</p>
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Recommendation 001: Cancel McKinsey's Contract Number GS-10F-0118S

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<p><u>Recommendation 001: Action Step 001:</u> Issue a bilateral contract modification against McKinsey's GS-10F-0118S contract to prevent placement of new orders against contract, while contract pricing and terms are renegotiated. If McKinsey declines to accept the bilateral contract modification, FAS will cancel the contract.</p>	<p>001: Copy of signed bilateral contract modification</p>	<p>Completed</p>
<p><u>Recommendation 001: Action Step 002:</u> Notify customer agencies to ensure awareness of concerns about pricing and help them navigate potential implications of actions taken on the contract.</p>	<p>002: Copy of email from Commissioner to customer agencies titled Bilateral Modification to McKinsey Multiple Award Schedule Contracts.</p>	<p>Completed</p>
<p><u>Recommendation 001: Action Step 003:</u></p>	<p>003: Copies of supporting documentation provided</p>	<p>December 31, 2019</p>

<p>Obtain supporting documentation from McKinsey (including key information requested by the OIG as part of March 2016 audit) to be analyzed as part of contract review.</p>	<p>by McKinsey (i.e, CSP, pricing proposal)</p>	
<p><u>Recommendation 001: Action Step 004:</u> Conduct market research to identify pricing methodologies that can be used to determine fair and reasonable pricing for the subject contract, including results of OGP's Team Based Pricing PMR. Establish negotiation objectives.</p>	<p>004: Pre-Negotiation Objectives Memorandum</p>	<p>March 31, 2020</p>
<p><u>Recommendation 001: Action Step 005a:</u> Complete contract negotiations and obtain fair and reasonable pricing and terms and conditions for subject contract. Issue modification to incorporate new pricing and any new terms and conditions.</p>	<p>005a: Price Negotiation Memorandum and signed contract modification incorporating new pricing and T&Cs</p>	<p>March 31, 2020</p>
<p><u>Recommendation 001: Action Step 005b:</u> Issue modification to cancel subject contract if determination for fair and reasonable pricing and terms and conditions cannot be obtained.</p>	<p>005b: Contract Modification canceling contract and Memo to the File.</p>	<p>March 31, 2020</p>

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

<p>Audit report number - A170118/Q/6/P19004</p> <p>[Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]</p>	<p>Recommendation Number 002</p>	<p>Proposed Recommendation Completion Date</p> <p>[March 31, 2020]</p>
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Recommendation 002: Cancel McKinsey's Contract Number GS-35F-646GA

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<p>Recommendation 002; Action Step 001: Issue a bilateral contract modification against McKinsey's GS-35F-646GA contract to prevent placement of new orders against contract, while contract pricing and terms are renegotiated. If McKinsey declines to accept the bilateral contract modification, FAS will cancel the contract.</p>	<p>001: Copy of signed bilateral contract modification</p>	<p>Completed</p>
<p>Recommendation 002; Action Step 002: Notify customer agencies to ensure awareness of concerns about pricing and help them navigate potential implications of actions taken on the contract.</p>	<p>002: Copy of email from Commissioner to customer agencies titled Bilateral Modification to McKinsey Multiple Award Schedule Contracts.</p>	<p>Completed</p>

<p>Recommendation 002; Action Step 003: Obtain supporting documentation from McKinsey (including key information requested by the OIG as part of March 2016 audit) to be analyzed as part of contract review.</p>	<p>003: Copies of supporting documentation provided by McKinsey (i.e, CSP, pricing proposal)</p>	<p>December 31, 2019</p>
<p>Recommendation 002; Action Step 004: Conduct market research to identify pricing methodologies that can be used to determine fair and reasonable pricing for the subject contract, including results of OGP's Team Based Pricing PMR.</p>	<p>004: Pre-Negotiations Objectives Memorandum</p>	<p>March 31, 2020</p>
<p>Recommendation 002; Action Step 005a: Complete contract negotiations and obtain fair and reasonable pricing and terms and conditions for subject contract, including results of OGP's Team Based Pricing PMR.</p>	<p>005a: Price Negotiation Memorandum and signed contract modification incorporating new pricing and T&Cs</p>	<p>March 31, 2020</p>
<p>Recommendation 002; Action Step 005b: Cancel subject contract if determination for fair and reasonable pricing and terms and conditions cannot be obtained.</p>	<p>005b: Contract Modification canceling contract and Memo to the File.</p>	<p>March 31, 2020</p>

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

Audit report number - A170118/Q/6/P19004 [Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]	Recommendation Number 003	Proposed Recommendation Completion Date [December 31, 2019]
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Recommendation 003: Review all FAS contracts with team-based pricing to ensure they comply with Federal Acquisition Regulation requirements.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<p>Recommendation 003; Action Step 001: OGP conduct a Procurement Management Review (PMR) on FAS's award of team-based pricing in the Multiple Award Schedules (MAS) Program to review the procedures Contracting Officers used to support fair and reasonable price determinations for all MAS contracts with team-based pricing as well as their compliance with acquisition policy and regulation.</p> <p>Recommendation 003; Action Step 002: FAS create plan based on team-based pricing in the Schedule Program PMR results.</p>	<p>001: Final PMR report</p> <p>002: Provide copy of FAS plan in response to PMR results.</p>	<p>Completed</p> <p>December 31, 2019</p>

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

Audit report number - A170118/Q/6/P19004 [Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]	Recommendation Number 004	Proposed Recommendation Completion Date [June 30, 2020]
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Recommendation 004: Establish additional controls to ensure contracting staff obtain required audit records to perform audits prior to awarding contract actions.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<p>Recommendation 004; Action Step 001: Update PAP 2019-02, Contracting Officer Responsibilities Pursuant to GSA Office of Inspector General Contract Audits of Federal Supply Schedule Program Contracts to clarify responsibility of the CO to assist OIG in obtaining audit records necessary for completing audits and to establish controls to ensure compliance.</p> <p>Recommendation 004; Action Step 002: Conduct AWF training on the update to PAP 2019-02.</p>	<p>001: Provide copy of Approved PAP Revision and evidence of distribution to AWF and posting of Revised PAP on FAS Acquisition Policy Library</p> <p>002: Provide email invitation to training event and course marketing material</p>	<p>April 30, 2020</p> <p>June 30, 2020</p>

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

Audit report number - A170118/Q/6/P19004 [Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]	Recommendation Number 005	Proposed Recommendation Completion Date [November 30, 2019]
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Recommendation 005 Assess whether the Division Director should be involved in future McKinsey contact or contract actions.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<u>Recommendation 005: Action Step 001:</u> Reassign contract GS-10F-0118S.	001: Copy of email reassigning McKinsey contract GS-10F-0118S.	Completed

<u>Recommendation 005: Action Step 002:</u> Complete comprehensive contract file review, to include all pre-award and post award documentation to support price realism and price analysis. Review of the contract file will be conducted September 16 th -20 th , 2019 in Region 2 (NYC).	002: Memorandum documenting the findings of the comprehensive contract file review based on review of the file IAW FAR 4.801 (b) and PAP 2016-06, Schedules Electronic Contract File Compliance and Standardized Naming Conventions.	Completed
<u>Recommendation 005: Action Step 003:</u> Complete comprehensive review of all communications between the Division Director and McKinsey to assess if individual should be removed from contacting McKinsey and removed from any contract actions. Collection of evidence to include all email correspondence, vendor correspondence, Contracting Officer documents that demonstrate and support removal from contact and contract actions.	003: Memorandum documenting the findings of the comprehensive contract file review based on review of the file IAW FAR 4.801 (b) and PAP 2016-06, Schedules Electronic Contract File Compliance and Standardized Naming Conventions.	Completed

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

Audit report number - A170118/Q/6/P19004 [[Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]]	Recommendation Number 006	Proposed Recommendation Completion Date [March 31, 2020]
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Recommendation 006: Establish additional controls to ensure that FAS contracting staff maintain independent and impartial relationships with FAS contractors in accordance with federal regulations.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<u>Recommendation 006; Action Step 001:</u> Develop training covering CO/Vendor Relationships	001: Documentation of training upload to OLU and messaging to AWF requiring training participation	March 31, 2020
<u>Recommendation 006; Action Step 002:</u> Work with OGC to develop specific Vendor Relationship training to include: Provide scenarios to OGC for use in training	002: Provide a copy of the meeting invite and a memorandum summarizing FAS's discussion with OGC	Completed
<u>Recommendation 006; Action Step 003:</u> Schedule training by the end of CY 2019		December 31, 2019
<u>Recommendation 006; Action Step 004:</u>	003: Provide copy of training materials presented and	

Record training and post on OLU when finalized. <u>Recommendation 006; Action Step 005:</u> Prepare transcript and ensure 508 Compliance.	documentation of training provided to OIG 004: Documentation of training upload to OLU and messaging to AWF requiring training participation 005: Documentation of training upload to OLU and messaging to AWF requiring training participation	March 31, 2020 March 31, 2020
<u>Recommendation 006a; Action Step 001:</u> Update Annual Ethics (Q1 2020) training to include info on CO/Vendor Relationships.	001: Provide copy of new content added to the annual ethics training regarding information on CO / Vendor relationships to OIG	Completed
<u>Recommendation 006a; Action Step 002:</u> Work with OGC to add additional information regarding appropriate Vendor / CO relationships info to the Annual Ethics Training.	002: Provide copy of new content added to the annual ethics training regarding information on CO / Vendor relationships to OIG	Completed

Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

Audit report number - A170118/Q/6/P19004 [Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]	Recommendation Number 007	Proposed Recommendation Completion Date [March 31, 2020]
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Recommendation 007: Take appropriate action to address the Division Director's use of invalid price comparisons, reliance on unsupported information, and violation of standards of ethical conduct.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<u>Recommendation 007; Action Step 001:</u> Name new Proposing Official to address ethical concerns	001: Email memorializing assignment of New Proposing Official.	Completed

<u>Recommendation 007; Action Step 002:</u> New Proposing Official to address ethical concerns request to receive the Inspector General Audit Briefing on report findings, documentation and evidence to support improper price analysis, to ensure fact based actions to recommend for any violations in ethical conduct. <u>Recommendation 007; Action Step 003:</u> Based upon evidence collected and relevant factors, take appropriate action to propose charges of misconduct against the Division Director for any violations of the FAR and/or the Standards of Ethical Conduct for Federal Employees.	002: Memorandum summarizing OIG briefing and provide list of specific evidence reviewed 003: Memorandum indicating appropriate action was taken.	Completed March 31, 2020
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Appendix A – Corrective Action Plan for Report Number A170118/Q/6/P19004 (cont.)

A170118 Corrective Action Plan

Designated Responding Official: [REDACTED]
 Contact Person: [REDACTED]
 Telephone Number: [REDACTED]
 Date: September 11, 2019

<p>Audit report number - A170118/Q/6/P19004</p> <p>[Improper Pricing on the McKinsey Professional Services Contract May Cost the United States an Estimated \$69 Million]</p>	<p>Recommendation Number 008</p>	<p>Proposed Recommendation Completion Date</p> <p>[November 30 2019]</p>
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Recommendation 008 Take appropriate action to address the Washington Branch Chief's actions on the McKinsey Schedule 70 contract award and this audit.

<u>Action to be Taken Step by Step</u>	<u>Supporting Documentation to be sent to the OIG Audit Management Division</u>	<u>Documentation Will be Sent Last Day</u>
<p><u>Recommendation 008: Action Step 001:</u> Review relevant documentation, coordinate with GSA OGC and GSA OHRM on appropriate recommendation and share recommendation with current supervisor in GSA Office of Governmentwide Policy (OGP).</p>	<p>001: Memorandum confirming appropriate action was taken</p>	<p>Completed</p>

<p><u>Recommendation 008: Action Step 002:</u> Current supervisor in OGP will review recommendations from ITC, coordinate with GSA OHRM and OGC and issue corrective action.</p>	<p>002: Memorandum confirming appropriate action was taken</p>	<p>Completed</p>
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Appendix B – Report Distribution

GSA Administrator (A)

GSA Deputy Administrator (AD)

Commissioner (Q)

Deputy Commissioner (Q1)

Deputy Commissioner (TTS)

Chief of Staff (Q0A)

Senior Advisor (Q0A)

Program Analysis Officer (Q1A)

Assistant Commissioner, Office of Policy and Compliance (QV)

Financial Management Officer, FAS Financial Services Division (BGF)

Director of Financial Management (BG)

Chief Financial Officer (B)

Office of Audit Management and Accountability (BA)

Assistant Inspector General for Auditing (JA)

Director, Audit Planning, Policy, and Operations Staff (JAO)