



UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON GOVERNMENT REFORM — MINORITY STAFF
SPECIAL INVESTIGATIONS DIVISION
JANUARY 2005

FEDERAL PUBLIC RELATIONS SPENDING

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EXECUTIVE SUMMARY

Recently, questions have been raised about the use of taxpayer dollars to fund public relations campaigns. The Government Accountability Office has found that the White House Office of National Drug Control Policy and the Department of Health and Human Services engaged in illegal “covert propaganda” by hiring a public relations firm to produce and disseminate fabricated video news reports. Investigative reporters have disclosed that the Department of Education paid a journalist to promote the No Child Left Behind Act in television and radio appearances and that the Department of Health and Human Services had a contract with a syndicated columnist who promoted the President’s marriage initiative.

At the request of Democratic Leader Pelosi, Democratic Whip Hoyer, and Reps. Waxman, Dingell, Obey, Rangel, Miller, Slaughter, Thompson, and DeLauro, this report examines federal spending on public relations contracts. It finds that federal spending for public relations has more than doubled under the Bush Administration. While not all public relations spending is illegal or inappropriate, this rapid rise in public relations contracts at a time of growing budget deficits raises questions about the priorities of the Administration.

Specifically, the report finds:

- In 2004, the Bush Administration spent over \$88 million on contracts with public relations agencies.
- The value of federal contracts with public relations agencies has increased significantly over the last four years. In 2000, the last year of the Clinton Administration, the federal government spent \$39 million on contracts with major public relations agencies. By 2004, the value of these PR contracts had grown by almost \$50 million, an increase of 128%.
- An increasing number of PR contracts are being awarded without full and open competition. During the last year of the Clinton Administration, less than 20% of PR contracts were awarded without full and open competition. By 2004, over 40% of PR contracts, worth \$37 million in total, were awarded on a noncompetitive basis.
- The Center for Medicare and Medicaid Services spent over \$94 million on contracts with public relations agencies over the last four years, the most of any federal agency. The three public relations agencies that received the most in federal contracts over the last four years are Ketchum Communications (\$97 million), Matthews Media Group (\$52 million), and Fleishmann Hillard (\$41 million).

BACKGROUND

For over 50 years, annual federal appropriations laws have prohibited the expenditure of appropriated funds on “publicity and propaganda,” unless authorized by Congress. This longstanding prohibition has been interpreted by the Government Accountability Office to prohibit covert propaganda that does not identify the government as the source, information intended for “self-aggrandizement” or “puffery,” and materials that serve a solely partisan purpose.¹ The prohibition reflects the principle that the federal government should not use its vast resources to influence public opinion on political and policy issues.

In two recent incidents, the Government Accountability Office has found that federal agencies violated the prohibition on publicity and propaganda by hiring a public relations firm to produce “covert propaganda.” In May 2004, GAO found that video news releases distributed to television stations for the Department of Health and Human Services constituted illegal covert propaganda because they did not reveal the source of the information.² These releases featured paid contractors posing as reporters who spoke in positive terms about the newly enacted changes to Medicare. In January 2005, in a separate investigation, GAO made a similar finding regarding fabricated video news releases produced by a contractor and distributed by the White House Office of National Drug Control Policy.³

An investigation by *USA Today* revealed another example of covert propaganda.⁴ The Department of Education hired a public relations agency, Ketchum Incorporated, to promote the No Child Left Behind Act. As part of this contract, Ketchum entered into a subcontract to pay Armstrong Williams, a conservative commentator, to promote the No Child Left Behind Act on his radio and television appearances. The contract with Mr. Williams specifically provided that Mr. Williams would “regularly comment on NCLB during the course of his

¹ E.g., U.S. Government Accountability Office, *Department of Health and Human Services, Centers for Medicare & Medicaid Services — Video News Releases*, 10 (May 19, 2004) (GAO/B-302710).

² U.S. Government Accountability Office, *Department of Health and Human Services, Centers for Medicare & Medicaid Services — Video News Releases* (May 19, 2004) (GAO/B-302710).

³ U.S. Government Accountability Office, *Office of National Drug Control Policy — Video News Release* (Jan. 4, 2005) (GAO/B-303495).

⁴ *White House Paid Commentator to Promote Law*, USA Today (Jan. 7, 2005).

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broadcasts.”⁵ Neither Mr. Williams nor the Department of Education disclosed these payments.

Similarly, a recent investigation by the *Washington Post* found that syndicated columnist Maggie Gallagher, who frequently wrote on the President’s \$300 million initiative encouraging marriage, had received a \$21,500 contract with the Department of Health and Human Services. The contract called on Ms. Gallagher to draft an article for Department officials and draft brochures for the Department promoting the marriage initiative. Neither Ms. Gallagher nor the Department of Health and Human Services disclosed these payments.⁶

As part of an investigation into the use of covert propaganda by federal agencies, Democratic Leader Nancy Pelosi, Democratic Whip Steny H. Hoyer, and Reps. Henry A. Waxman, John D. Dingell, David R. Obey, Charles B. Rangel, George Miller, Louise McIntosh Slaughter, Bennie G. Thompson, and Rosa L. DeLauro asked the Special Investigations Division to analyze executive branch spending on public relations efforts. This report presents the results of this analysis.

METHODOLOGY

This report is based on an analysis of data obtained from the Federal Procurement Data System (FPDS) for the four years from the beginning of calendar year 2001 through the end of 2004. For comparison purposes, the report also examined FPDS data from the Clinton Administration. The FPDS contains a record of each contract action by the federal government, including details on the agency signing the contract, the contractor, the amount of the contract, the services provided, and the bidding process. The database contains over two million records detailing over \$1 billion worth of federal government contracts since 2000.⁷

The FPDS was searched to identify all contracts with 40 major public affairs agencies. These 40 agencies were either identified by *The Hill* in June 2004 as “the best of the best” policy- and politics-related PR firms,⁸ or were identified by the *Washington Business Journal* in January 2002 as the largest public affairs firms in the Washington D.C. area.⁹ Fifteen of these 40 public affairs agencies

⁵ Department of Education, *Minority Outreach Campaign — Statement of Work #9*, Modification No. 7 of Contract No. ED-03-PO-1725 (Jan. 6, 2004).

⁶ *Writer Backing Bush Plan Had Gotten Federal Contract*, *Washington Post* (Jan. 26, 2005).

⁷ Additional details on the FPDS data are available at the Federal Procurement Data System website, <http://www.fpds-ng.com/>.

⁸ *Public Relations: The Best of the Best*, *The Hill* (June 24, 2004).

⁹ *Largest Public Relations Firms in the Metro Area*, *Washington Business Journal* (Jan. 2002).

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received contracts with the federal government over the last four years. They are APCO Worldwide, Burson-Marsteller, Edelman Public Relations, Eisner Communications, EPB/Kaufman, Equals Three Communications, Fleishman Hillard, Hill and Knowlton, Ketchum Communications, Matthews Media Group, National Media Incorporated, Ogilvy Public Relations, Porter Novelli, RMR Associations, and Widmeyer Communciations.¹⁰

Not all government PR contracts are problematic. When authorized by Congress, and conducted in a fashion that does not mislead the public, PR contracts to help federal agencies educate the public about health or consumer risks or other similar topics are both legal and appropriate. This report does not assess the legality or appropriateness of any specific contracts.

FINDINGS

The Growth in Federal Public Relations Contracts

In the four-year period from 2001 through 2004, the federal government spent over \$250 million on 286 contracts with major public relations agencies. The number of PR contracts and the amount spent has risen significantly during this period.

In 2000, the last full fiscal year of the Clinton Administration, the federal government spent \$38.6 million on 64 contracts with major public relations agencies.¹¹ In 2001, the first year of the Bush Administration, the federal government spent \$36.6 million on 67 contracts with major public relations agencies.

In 2002, the first fully budgeted year of the Bush Administration, federal spending on PR contracts increased to \$64.7 million on 67 contracts. This spending level remained steady in 2003, during which \$64 million was spent on 95 contracts.

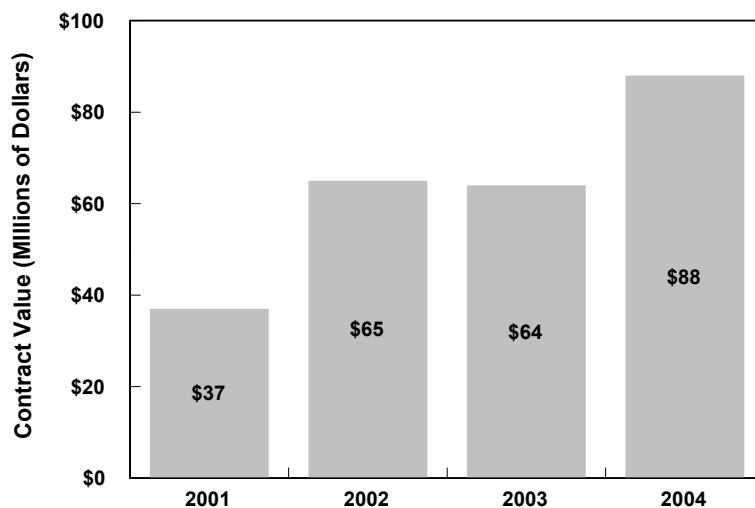
¹⁰ The major public relations companies that did not receive contracts are the Bivings Group; CLS; D.C. Navigators; Dittus Communications; Fenn Communications; Fenton Communications; Fitzgerald Communications; GC Strategic Advocacy; the Glover Park Group; Golin Harris; Issue Dynamics; the Kamber Group; McCarthy Marcus Hennings; MacWilliams, Robinson, and Porter; the Merritt Group; O'Keefe and Co.; PodestaMattoon; Policy Impact; Powell Tate/Weber Shandwick; Public Strategies; QuinnGillespie; Smith and Haroff; STRAT@Comm; and Ruder Finn.

¹¹ Over the four years from 1997–2000, the Clinton Administration spent only \$128 million on PR contracts. The Clinton Administration spent \$12 million in 1997, \$12 million in 1998, \$65 million in 1999, and \$38.6 million in 2000.

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In 2004, spending by the federal government on PR contracts rose again. Last fiscal year, the federal government spent \$88.2 million on 60 contracts with public relations agencies. (Figure 1.)

Figure 1: Federal Government Contracting with Major Public Relations Agencies Is Increasing Rapidly



The Federal Agencies with the Highest Public Relations Spending

From 2001 through 2004, 38 different federal agencies had contracts with major public relations agencies. Of these federal agencies, 18 had contracts that paid public relations agencies over one million dollars, and 8 had contracts that paid public relations agencies over ten million dollars.

The five agencies with the highest expenditures on public relations were the Centers for Medicare and Medicaid Services (\$94 million), the National Institutes of Health (\$57 million), the Minerals Management Service (\$22 million), the Centers for Disease Control (\$21 million), and the Health Resources and Services Administration (\$13 million).

The Center for Medicare and Medicaid Services was the highest spending agency in 2004 and 2003, with PR contracts worth \$56 million in 2004 and \$32 million in 2003. The National Institutes of Health was the top-spending agency in 2002 and 2001, with contracts worth \$18.1 million in 2002 and \$15.2 million in 2001. In 2000, the last full fiscal year of the Clinton Administration, the United States Mint was the top-spending agency, with contracts worth \$16 million.

The Public Relations Firms with the Most Federal Contracts

Fifteen major public relations agencies received contracts with the federal government from 2001 through 2004. The majority of this spending went to four large firms. Ketchum Communications received \$97 million in contracts, over one third of the total \$250 million in PR spending. The Matthews Media Group received \$51.6 million in contracts, Fleishmann Hillard received \$41.1 million, and Porter Novelli received \$33 million in contracts.

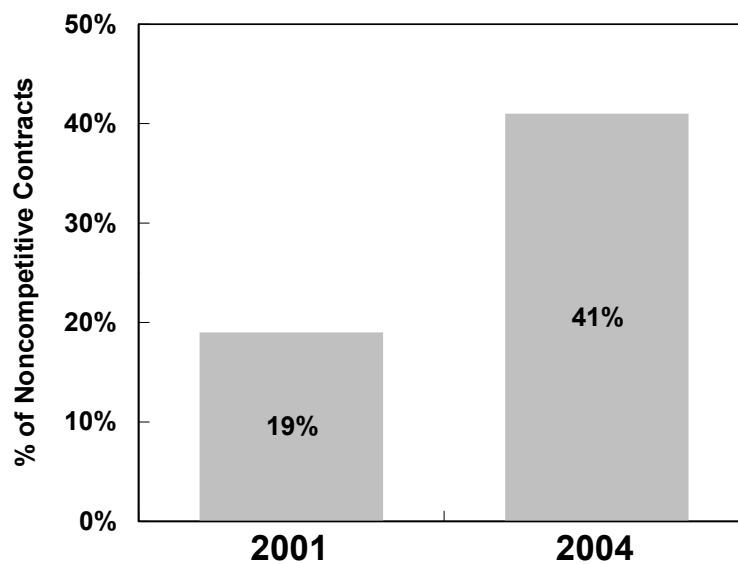
The Rise of Noncompetitive Public Relations Contracts

Under federal procurement laws, the federal government is supposed to award contracts under “full and open competition.” Except in limited circumstances, these procurement laws require the government to provide public notice of contract opportunities and to invite all qualified companies to submit competitive bids.¹²

In 2000, the last full year of the Clinton Administration, over 80% of PR contracts were awarded after full and open competition. Only 16% of contracts, worth \$6 million, were awarded noncompetitively.

Under the Bush Administration, the number and size of noncompetitive PR contracts has risen dramatically. The percentage of contracts that were awarded noncompetitively rose from 19% in 2001 to 41% in 2004. (Figure 2.)

Figure 2: The Use of Noncompetitive PR Contracts Has Increased under the Bush Administration



Underestimation

The findings in this report are likely to underestimate the extent of PR contracting under the Bush Administration. The FPDS database used in compiling this report does not yet contain complete data from all federal agencies for 2004. As of December 31, 2004, several large federal agencies, including the Departments of Homeland Security, Justice, Commerce, State, Agriculture, and Interior, had not completed reporting all of their 2004 contracting information to the Federal Procurement Data System.¹³ When the full data is reported to the system, the value of the PR contracts for 2004 is likely to increase even further.

Moreover, the analysis only includes contracts with major public relations firms. It does not include smaller contracts (such as the HHS contract with conservative columnist Maggie Gallagher to promote the president's marriage initiatives). Thus, while it provides a clear indication that government spending with public relations firms is increasing, it cannot provide an exhaustive accounting of all contracts.

CONCLUSION

This report finds that federal spending for PR contracts has risen significantly under the Bush Administration. In 2004, the federal government spent over \$88 million on contracts with public relations agencies, much of it through noncompetitive contracts. This spending has more than doubled since 2000, the last full year of the Clinton Administration. The increased spending on PR contracts has occurred at the same time that the federal budget has gone from a surplus of \$237 billion to a deficit of \$415 billion. While not all public relations spending is illegal or inappropriate, this rapid rise in public relations contracts at a time of growing budget deficits raises questions about the priorities of the Administration.

¹² Competition in Contracting Act (Title VII of division B of the Deficit Reduction Act of 198), P.L. 98-369.

¹³ Federal Procurement Data System — Next Generation, *FPDS-NG FY04 Contract Actions Certifications and Estimate Contract Actions Submitted by Agencies as of 12/30/2004* (Jan. 2004) (online at http://www.fpdsg.com/downloads/agency_data_submit_list.htm).