

**Policy Consulting in the USA:
New Evidence from the Federal Procurement Data System - Next Generation**

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Abstract

Governmental use of consultancy services has long been a concern for scholars of public administration, management and political science. Somewhat surprisingly, the largest and most archetypal case of government contracting, the United States, has received very little detailed treatment, despite a plethora of anecdotal and popular accounts claiming to have documented a pattern of exponential growth in the size and impact of policy-related government contracting. Some of the reasons for this gap between popular and scholarly treatments of the subject has to do with the difficulties associated with gathering detailed information on contracts and consultants' activities. This paper reports on these challenges in the context of the distribution of the American federal government's contracting of policy services and discusses how, thanks to several initiatives on the part of the Obama administration, many such issues can now be overcome, or partially overcome to provide reasonably accurate data related to questions about the size, trends and other aspects of US federal government consulting. While many of the problems listed above persist in the US case and continue to make it difficult to track changes in consulting practices, recent reform efforts make it possible to sketch out a general view of the pattern of US government consulting over the past decade and promise increasingly accurate accounting and greater detail into the future.

Introduction: Policy Consulting in the Public Sector as a Problematic Phenomenon

Governmental use of consultancy services has long been a concern for scholars of public administration, management and political science (Howlett & Migone, 2013a, 2013b; Kipping & Engwall, 2003; Graeme & Bowman, 2006; Guttman and Willner, 1976; Rosenblum & McGillis, 1979). Much existing research has focused either on placing this expansion in a historical perspective (McKenna, 1995, 1996 and 2006) or assessing its underlying causes and consequences (David, 2012; Berit and Kieser, 2002; McGann, 2007).

Although the impact of consulting is fairly broad, most of these studies have focused on a narrow set of questions related to the effect of contracting out on levels of public service employment and budgets (Dilulio, 2016; Guttman & Willner, 1976; GAO, 2011) rather than on policy outcomes. A number of recent studies, however, have begun

to look at other questions, such as the increasing use of consultants for work related to policy analysis, advice, implementation and evaluation — activities thought to be the core work of policy workers in government (Saint-Martin 2001, 2005 and 2012). The existing small literature on the subject acknowledges the simultaneous growth of the policy consulting industry, and growing share of the public sector as a client of this industry (Pattenaude, 1979; Hodge and Bowman, 2006; Gross and Poor, 2008) but draws few conclusions as to policy impact and effects outside of Saint-Martin's thesis of its contribution to neo-liberalism and preferences for market-based policy alternatives (Saint-Martin, 2012).

Empirical studies are scarce, however, with little analysis of quantitative data. These studies to date have also only examined the situation with respect to the activities of consultants in a relatively small number of countries; including New Zealand (Boston, 1996), Australia (Howard, 2006), Canada (Howlett & Migone 2013a) and the UK (National Audit Office of the United Kingdom, 2016). And many existing statistics are often idiosyncratic and do not allow for comparison between departments or countries, nor for an assessment of trends.

Somewhat surprisingly, the largest and most archetypal case of government contracting, the United States, has received very little detailed treatment, despite a plethora of anecdotal and popular accounts claiming to have documented a pattern of exponential growth in the size and impact of policy-related government contracting (Gutman and Willner, 1976, Pattenaude, 1979; Rosenblum and McGillis, 1979; Hodge and Bowman, 2006; Saint-Martin, 2007; McKenna, 2006; Gross and Poor, 2008; David, 2012).

Some of the reasons for this gap between popular and scholarly treatments of the subject has to do with the difficulties associated with gathering detailed information on contracts and consultants' activities (Howard, 2006, Howlett and Migone 2013a, 2013b). These data difficulties are very serious and range from no reporting of contracts in some jurisdictions, high dollar figure cut-offs for reporting in many, timelags in others, as well as serious variations in reporting across departments and governments, variations in such practices across time, secrecy provisions regarding contracts, and the general inability to identify contractees from publicly available contract information, as well as difficulties encountered separating out policy-related versus administrative or management consulting activities and contracts, among others (British Columbia Office of the Auditor General, 2001).

This paper reports on these challenges in the context of the distribution of the American federal government's contracting of policy services and discusses how, thanks to several initiatives on the part of the Obama administration, many such issues can now be overcome, or partially overcome to provide reasonably accurate data related to questions about the size, trends and other aspects of US federal government consulting. While many of the problems listed above persist in the US case and continue to make it difficult to track changes in consulting practices, recent reform efforts make it possible to sketch out a general view of the pattern of US government consulting over the past decade and promise increasingly accurate accounting and greater detail into the future.

Policy Consulting Across the Globe: Historical Background

The United Kingdom's National Audit Office defines consultancy as

“The provision to management of objective advice relating to strategy, structure, management or operations of an organization, in pursuit of its purposes and objectives. Such advice is provided outside the ‘business-as-usual’ environment when in-house skills are not available and will be time-limited [...]” (National Audit Office, 2016).

This definition emphasizes the management nature of much consulting. Much “privatization” activity in the 1960s, 70s and 80s in many jurisdictions extended well beyond the sale of public enterprises to the creation of contracts and other kinds of arrangements to deliver services from human resource management to auditing and other functions (Doern, 1994; McIntosh, 1997; Ford and Zussman 1997).

Traditional practice in most governments, including in the US, was to have in-house services provision in the public policy realm. Policy analysis and other kinds of policy development activities, such as the preparation of briefs and background papers, policy statements and the like, remained largely an internal function until recently. Under the influence of various reform movements since the 1960s, however, this has now given way in many areas to the “service state” where the state act as a contractor for the external delivery of services previously delivered internally (Butcher, Freyers and Wana, 2009).

In the past two decades, the use of consultants for these kinds of activities has grown, including contracting out data collection and analysis, polling and the provision of other kinds of background information by a wide plethora of small and large consultants, including academics, think tanks and private firms both large and small (Saint-Martin, 2006, 2007; Boston, 1994).

Policy-makers and academics have expressed increased unease about this outsourcing of policy-related services and its implications for four main reasons (Saint-

Martin, 2007; Howlett and Migone, 2013a). First, public spending is ballooning while government employment remains stable (Dilulio, 2016), for which reasons control over costs in all areas of contracting is a source of discussion. This includes assessments of the effectiveness of outsourcing services to consultants. Second, the phenomenon could provoke an erosion of departments and agencies' control over their policy agendas (Howlett and Migone, 2013b) and thirdly this may undermine their operational capacity (Saint-Martin, 2007) in the event of an emergency or crisis where they may find themselves without adequate in house personnel and data to deal with an issue. Fourthly, such activity may involve a loss of control over data collection and access to private purveyors (Smith & Desouza, 2015).

Pemer, Börjeson and Werr (2014) sum up existing arguments for and against managers' use of policy consultants under two main rubrics. The first, a "rational" or transaction-cost paradigm, sees the decision to contract services as the result of a weighing of pros and cons of external provision against the costs of internal resources required to perform the same job. This view largely ignores long-term issues such as privacy and capacity losses. A second more critical paradigm, on the other hand, is concerned with these issues and also emphasizes changes in decision-making processes which can result from such contracting, such as managers attempting to avoid blame and enhance perceptions of certainty by employing external consultants to support their ideas, or decision-makers inheriting any biases which consultants may have through blind consumption of their reports and data, however collected and written.

Both perspectives require empirical analysis, as does the evaluation of the answers to the questions posed above. While some answers are emerging in some of the countries

cited above – to the effect that external policy consulting may not be growing as fast as often alleged (Howlett and Migone 2013); that on the demand side some ministries and agencies utilize the vast majority of contracts while many others do not (Howard 2006); and that on supply side the field is divided between a few large companies which dominate large contracts in an oligopolistic fashion and a large number of small contractors who perform bespoke services, and that many policy-related contracts are linked to focus groups, polling and other kinds of consultative activities rather than directly affecting the generation of internal reports and briefs (Howlett and Migone, 2013a, 2013b) – most of these studies are of countries with Westminster style systems which traditionally have been slow to engage in contracting processes and which face accountability and other challenges in so doing (Knill, 1999).

Studies of other systems and countries which have been much more prone to contract activity throughout their history may reveal a different pattern. The United States is the archetypal model of such a state (Spoehr, 1999) and Saint-Martin (2012) reports that available evidence seems to indicate that consultants in Washington are the most involved in the policy-making process compared to other developed nations' capitals. This is despite the GAO's admonition, in its 1992 report *GOVERNMENT CONTRACTORS: Are Service Contractors Performing Inherently Governmental Functions?* that functions which involve the direct responsibility of agency officials, namely policy, decision-making or managerial-related work, should not be performed by external consultants. A detailed exploration of its history and record of policy consulting, and its impact, in the US is long overdue.

Fortunately, recent developments under the Obama administration in terms of

improved reporting of service contracts now allows such a study to be undertaken. This paper provides insights into data culled from these sources on the general picture in the US over the past decade. Determining these trends is not an unproblematic process however, and this study also reports on some of the choices and limitations remaining with existing data sources which affect the robustness of these findings.

Policy Consulting in American Government: Growth and Status

Some jurisdictions now clearly acknowledge the policy-related nature of some consulting activity in their definitions of the subject. The Dutch Government, for example, categorizes policy activities as either “policy work (interim management, organization advice, policy advice and communication advice)”, “policy work (legal advice, ICT and accounting, finance and administrative organization)” and “non-policy support” (van den Berg, 2016). The United States has been the focus of studies examining the expansion of public demand for consultancy services, not only as a consumer of such services, but also as the world’s main supplier and industry leader, for at least two decades if not longer. Saint-Martin in particular has noted how the very scope and size of the US government, combined with the openness of its policy advisory system, allowed the consulting industry to grow rapidly in the areas of public administration and public management (Saint-Martin, 2012).

Historical accounts place management consulting as an American-based industry kickstarted through contracts issued during World War II, and subsequently exported to Europe. Hodge and Bowman (2006), for example, named the US penchant for contracting out as having resulted in the creation of “consultocracy”, where the business

of reforming government in the 1980s and 1990s was driven by the American *Big Four* companies: Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers, a phenomena also detailed in Saint-Martin (2006). McKenna (2010) also noted how military efforts triggered alliances between professionals and the administrative state, which were institutionalized in the post-war era. With pressure to decrease the government's size and scope in the post-war era, the Truman-era Hoover Commission was created in 1947, attempting "to solve the organizational dilemma by doing just what corporate executives would have done — hiring management consulting firms to restructure the Executive Branch" (McKenna, 2010). Subsequent high-profile assignments, such as the reorganization of the Post Office, the task force on federal personnel management, and McKinsey & co. involvement in the space race, created a contractor state not only in goods procurement for the military and other entities but also in services.

Continued efforts to control the growth and size of government in the US, especially at the federal level, involved more and more contracting out of both "core" and peripheral government services to a ready and willing set of private sector actors. Saint-Martin (2006) noted how much of the shift from a "Weberian model of public administration" towards an "entrepreneurial state" in the US could be attributed to the fashionable idea of "reinventing government" (Osborne and Gaebler, 1992), a process which gained support and credibility from Bill Clinton, an adherent of contracting out both before and after his election. Under his presidency, policy impact could be seen through various bodies such as the National Performance Review Commission, reinvention teams, laboratories and summits, as well as a "Reinventing Government Bill" (Saint-Martin, 2006) which all supported enhanced contracting out of internal

government services as well as various public service delivery activities.

Policy consulting was among these activities and while the end of the 1960s had given rise to the concurrent birth of the policy analysis industry and the era of public management; the two were joined together for the first time in the 1980s and 1990s as the American government's contracting out of a variety of services reached the level of billions of dollars (Saint-Martin, 2012). Many of these ideas were in turn exported to other democracies, such as Great Britain and Canada, which were similarly influenced by efforts to streamline government operations and control and constrain growth.

The impact or potential impact of these developments on the nature of the civil service and traditional notions of government and government accountability had been noted very early in this growth cycle. Wilmer and Gutman's *The Shadow Government: The Government's Multi-Billion-Dollar Giveaway of its Decision-Making Powers to Private Management Consultants, "Experts," and Think Tanks*, for example, had by 1976 asserted that the federal government's budgetary expansion and outsourcing of services to management consulting firms and think tanks had created a parallel system of actors mirroring and delivering government services outside the usual envelope of budgetary and legislative scrutiny, with potentially serious problems for legitimacy and accountability of government to the public, as well as potential problems of inefficiency, corruption and other administrative malaises.

Public institutions such as the Government Accountability Office (GAO, previously Government Accounting Office) and the Office of Management and Budget (OMB) have also increasingly reported to the Comptroller General and to Congressional and Senatorial Requesters on the impact of increased federal agency external contracting,

with a specific eye on how this activity had moved from peripheral areas such as printing services to the performance of “inherently governmental functions” such as human resources management, policing and the military. This also included efforts to develop “[...] federal policy, issuing rules and regulations, or making best value determinations among contractors competing to provide needed goods or services”, which were deemed most preferably executed by civil servants operating under traditional civil services codes of conduct and responsibility (GAO, 2012).

Ultimately these calls for increased scrutiny led in 2010 to an Obama administration statutory requirement requiring civilian agencies to submit standardized annual inventories of their service contracts to government and to make these publicly available along with data on contract duration and scope, and information on the contractee. This development allowed for easier access to better quality data, which in turn has resulted in recent GAO and Congressional Research Service (CRS) reports providing high quality empirical analyses of US government service contracting – including policy-related contracting – for the first time.

The Nature of Contract Reporting in the United States

There are many definitional and other nuances in classifying government activities and reporting on government contracting which bedevil research on the subject (Howard 1996; Howlett and Migone 2014). Several of these problems encountered in other countries have been alluded to above. Many of these – such as a lack of standardization, time lags and secrecy – have been dealt with in the US through the imposition of standard reporting formats and the provision that data be made available promptly to the public on

the internet. Other questions about the accuracy of the data reported and its meaning, however, remain significant in the US case.

The Federal Acquisition Regulation (FAR) is the primary legislation directing all Federal Executive agencies' acquisition of supplies and services with appropriations funding, and has been in effect since 1984 (FAR, 2005). It highlights a vision for the Federal Acquisition System to “deliver on a timely basis the best value product or service to the customer, while maintaining the public’s trust and fulfilling public policy objectives” (FAR, 2005).

Subpart 4.6 of the FAR prescribes uniform reporting requirements to the Federal Procurement Data System - Next Generation (hereinafter FPDS) in accordance with the Federal Funding Accountability and Transparency Act of 2006, which requires all unclassified Federal award data to be accessible to the public. Contract information must be held available in the FPDS when contract actions are above a “micro-purchase threshold”. This threshold is held at 3,500\$, except for very specific cases subject to legislation external to the FAR, and

- “(i) \$20,000 in the case of any contract to be awarded and performed, or purchase to be made, inside the United States; and
- (ii) \$30,000 in the case of any contract to be awarded and performed, or purchase to be made, outside the United States” (Subpart 2.1 of FAR, 2005).

By comparison with other nations, where the limit on contract reporting is often as high as \$100,000, these are quite low limits and help capture aspects of smaller policy-related contracts which higher cut-off levels miss (Howlett & Migone, 2013a).

Reported data should also include “any modifications to those actions that change previously reported contract action report data, regardless of dollar value” (FAR, 2005).

This addresses a second concern in many countries, that initial contract values often change – both in a negative and a positive way – and that these changes are not reflected in accounts which provide only budgeted amounts rather than actual expenditures (Howard, 2006). Many contracts will be modified several times over their lifespan, sometimes with increases or decreases to the original contract value which can lead to accounting discrepancies from one year to the next.

The USAspending.gov website further expands on this subject, specifically on explaining the presence of contracts with negative values obligations:

“The agency made a modification to an award but there was no additional funding. The agency reduced or rescinded more than the original award amount; there is a negative subsidy on a loan and the funds are being returned to the Treasury; duplicate corrections reports have been submitted by the agency.”ⁱ

In addition, each contract is identified with a standardized Procurement Instrument Identifier (PIID), which agencies must ensure is unique across the government where one contract may deliver a service to several departments. Again, this deals with another issue often faced by researchers, that the purpose of contracts is unclear and the same contract may be attributed different purposes by different agencies (Howard, 1996).

In general then, the US has recently developed a system for service contract reporting which is of a very high standard of transparency and accuracy relative to those found in many other countries.

The FPDS and NAICS Systems

Since 2010 and pursuant to Section 743 of Division C of the Consolidated Appropriations Act, 2010, executive agencies covered by the Federal Activities Inventory Reform

(FAIR) Act of 1998 (which does not apply to the Department of Defense (DOD)) are required to prepare an annual inventory of their service contracts and make it publically available.

When reported, contracts are coded according to the activity performed by the contractor. There are two codes for each federal service contract reported on: one for the FPDS and one for the North American Industry Classification System (NAICS).

According to the CRS (2015),

“Congress, legislative and executive branch agencies, analysts, and the public all rely on FPDS as a primary source of information for understanding how and where the federal government spends contracting dollars. Congress and the executive branch rely on the information to help make and oversee informed policy and spending decisions. Analysts and the public rely on the data in FPDS to conduct analysis and gain visibility into government operations.”

These codes, as detailed in the Product and Service Codes Manual, describe products, services, and R&D purchased by the federal government. They follow the format of a letter followed by three digits.

https://www.fpds.gov/downloads/top_requests/PSC_Manual_FY2016_Oct1_2015.pdf

The NAICS was established subsequent to the North-American Free Trade Agreement in order to facilitate the comparison of business statistics between the U.S. and Canada and Mexico. Contracts are also identified here with a numerical code. There are 2,227 NAICS codes which say what business was engaged in the service, e.g. government commission, advertising agency. NAICS codes however do not directly indicate what was the service provided by a contract. Given the diversified function of many organisations, particularly in policy work, this is not always illuminating information.

Relationship between FPDS and NAICS

The codes are not exclusive. A survey of contracts from the 5 largest non-defence departments (Agriculture, Health and Human Services, Interior, Labour and Veterans) in FY2015 found that 45% of NAIC codes were in more than of six FPDS categories of interest. This is not surprising given the codes classify different information: FPDS showing the type of work done and NAICS showing who provided the work.

Nevertheless, it is relevant that the overlap was so high. For instance, there were 128 Economic Studies (FPDS code B507) commissioned in these departments in fiscal year 2015. Eleven different NAICS codes conducted these studies - everything from Wildlife organisations to Investment Advisors. Altogether 70% of these contracts are performed by suppliers with one of three NAICS codes: ‘Research and Development in the Social Sciences and Humanities’, ‘Environmental Consulting Services’ and ‘All Other Professional, Scientific, and Technical Services’. The prevalence of ‘other’ categories in both FPDS and NAICS codes often makes it difficult to know what sort of work was contracted. However, the overlap between the two databases allows the FPDS to be used as a main source of codes and data with NAICS available to supply additional detail on some contracts as needed.

Specific Service Contract Inventories (FAIR Act) and the Treatment of Defence, “Other Fair Act” and “CFO” Agencies

With the help of service codes from the FPDS database, CFO Act agencies - except the DOD - and FAIR Act agencies are required to organize inventories of contract activity by function. The Office of Management and Budget’s (OMB) Office of Federal Procurement

Policy (OFPP) provides guidance to agency management as to the specifics of reporting on their service contracts.

In addition to providing service contracts inventories, agencies are required to conduct analyses of their inventories in relation to functions closely related to inherently governmental functions, critical functions and other functions. Specifically, agencies are directed to focus on functions where they “may be at increased risk of losing control of their operations in this area due to overreliance on contractors”, as well as service codes where they have observed an above-average growth in activities in the past ten years (OFPP, 2011). Of note, the guidance establishes a threshold of \$25,000 in obligations for contracts, with “well over 95 percent of civilian agencies’ total service contract obligations for FY 2010 [...] above \$25,000” (OFPP, 2011).

These inventories thus now provide researchers with an easily accessible and user-friendly source to analyse the American federal agencies’ service contracting on a yearly-basis. Accessible at <https://www.whitehouse.gov/omb/procurement-service-contract-inventories>, agency inventories are classified in two categories (CFO Act Agencies -- excluding DOD and “other FAIR Act Agencies”) and data is provided through hyperlinks to agency websites. The agencies are distributed as follows:

1. **CFO Act Agencies:** Department of Agriculture, Department of Commerce, Department of Education, Department of Energy, Department of Health and Human Services, Department of Homeland Security, Department of Housing and Urban Development, Department of the Interior, Department of Justice, Department of Labor, Department of State, Department of Transportation, Department of Treasury, Department of Veterans Affairs, Agency for International Development, Environmental Protection Agency, General Services Administration, National Aeronautics and Space Administration, National Science Foundation, Nuclear Regulatory Commission, Office of Personnel Management, Small Business Administration, Social Security Administration;

2. Other FAIR act agencies: Broadcasting Board of Governors, Commodity Futures Trading Commission, Consumer Financial Protection Bureau, Consumer Product Safety Commission, Court Services and Offender Supervision Agency for the District of Columbia, Defense Nuclear Facilities Safety Board, Equal Employment Opportunity Commission, Federal Communications Commission, Federal Election Commission, Federal Energy Regulatory Commission, Federal Labor Relations Authority, Federal Maritime Commission, Federal Mediation and Conciliation Service, Federal Trade Commission, Merit Systems Protection Board, National Archives and Records Administration, National Endowment for the Arts, National Endowment for the Humanities, National Labor Relations Board, National Transportation Safety Board, Office of Special Counsel, Peace Corps, Railroad Retirement Board, Securities and Exchange Commission, Selective Service System, U.S. International Trade Commission.

Defence

While the DOD is excluded from the list of agencies covered by the CFO Act, it still has to comply with the aforementioned guidance when reporting contract awards predominantly funded by civilian agencies (Office of the Under Secretary of Defense, 2013). In addition, pursuant to title 10 of the United States Code *Procurement of Services: Tracking of Purchases*, the Secretary of Defense is required to submit an annual inventory of the activities performed pursuant to contracts for services to Congress.

Hence “the Department has decided to collect the function indicators for DOD funded actions as well”, while complying with the OFPP guidance for reporting on their service contracts using data from the FPDS (Office of the Under Secretary of Defense, 2013). The DOD thus provides the public with service contract inventories in essentially the same format as abovementioned FAIR Act agencies. It should however be noted that the FPDS excludes data from certain DOD components due to national security procurement exceptions (CRS, 2015 and GAO, 2012). Inventories are accessible at http://www.acq.osd.mil/dpap/cpic/cp/acquisition_of_services_policy.html , and contracts

are subdivided according to contracting by *Air Force, Army, Navy and Other DOD agencies*.

Methodological Issues in Coding Contracts

The availability of data in the US is thus very good by international standards. Several sources of data are available on contracts, with a high degree of correspondence between the datasets, and the data covers many smaller contracts with a wide range of information generally available on contractee size and location as well as contracted activities. Although this standardized and internet-available data only goes back a decade or so, this is enough time to establish the nature of contemporary trends in this area of government activity.

In compiling this data, however, it is necessary to first determine which federal procurement codes cover policy related consulting and contracting activity. This raises the issue of the selection of which FPDS codes to use for analysis.

Selection of Service Codes

As set out above, the FPDS database of procurement codes lies behind the classification of contracts found in agency Service Contracts Inventories. Some service contract codes are specifically policy related, but other categories also may contain a policy aspect and should also be included in the dataset. Choosing which codes will be used to aggregate policy-related services is a careful process because while there may be a very low proportion of contracts in certain service categories, excluding them means dropping valuable data points.

Ultimately, after careful examination of the contents of contracts in many codes, the

list of codes found in Table 1 were used for the preliminary selection of contracts relevant to the analysis.

Table 1 – List of FPDS Codes for Policy Consulting

Code	Description	Support – Professional:	
B505	Cost Benefit	R405	Operations Research / Quantitative Analysis
B506	Data (other than scientific)	R406	Policy Review/ Development
B507	Economic	R407	Programme evaluation Services
B510	Environmental Assessments	R408	Program mgmt. / support
B513	Feasibility (non-construction)	R409	Program Review/ Development services
B522	Legal	R410	Program evaluation/ review/ development
B524	Mathematical / Statistical	R413	Specifications Development
B528	Regulatory	R429	Emergency Response, Disaster Planning etc.
B541	Defense	R499	Other
B542	Educational	R707	Management Services/ Contract & Procurement support
B545	Housing/ Community dev.		
B546	Security (physical/ personal)		
B547	Accounting/ Financial mgmt.	D307	IT and Telecom – IT Strategy and Architecture
B548	Trade Issue		
B549	Foreign/ National Security Policy		
B550	Organisation / Administrative / Personnel		
B553	Communications		
B554	Acquisition Policy/ Procedures		
B555	Elderly/ Handicapped		
B599	Other		

Limitations of the FPDS database and Choices Made in How to Deal with Them

The GAO (2012) has also highlighted the limited accuracy, utility and completeness of

some aspects of the FPDS data. Specifically, it “[...]does not provide the number of contractor FTEs performing each service, identify the requiring activity, or allow for the identification of all services being procured” (GAO, 2012).

This can be illustrated by the high number of both contracts and obligated dollars attached to the codes B599 and R499, or the “Other” category. For instance, the Department of Labor’s 1,255 R499 contracts during the last fiscal year constituted 15.7% of contracts and 10.5% of the total contract budget, which reached \$231 million. Another serious concern is the reliability of the data itself; the GAO has consistently found inaccuracies in FPDS data in their work. Notably, DOD officials reported that “the obligations for FY2008 are “artificially higher by \$13B and the FY09 number is artificially lower by \$13B” due to over-obligation on a single contract”, showing how a single error can strongly skew analyses (CRS, 2015)ⁱⁱ

Similarly, some problems continue to exist with the thresholds of reporting. While the FPDS reports on contracts “whose estimated value is \$3,000 or more” (FPDS FAQs, accessed 2016), the 2010 OFPP guidance instructs agencies to focus on actions over \$25,000. Some databases include a significant number of contracts below this latter cut-off, especially in data from the DOD. We focused our analysis on data over \$25,000 to avoid skewing our data on the number of contracts, as well as to ensure data comparability between the different groups of agencies. The downside of using this threshold is that the analysis is less representative of policy-related contracting, since it excludes many \$25,000 or less modifications to contracts, as well as a non-negligible amount of smaller contracts which, taken altogether, skew obligated dollar values.ⁱⁱⁱ

General Findings

In 2011, the GAO (2011) compiled data on procurement spending at civilian agencies for fiscal years 2005-2010 looking specifically at contracts described as professional and management support services in the databases cited above. They found a 44% increase in civilian agency obligations on these contracts over this time period, which grew from \$22 billion to \$32 billion (in 2010 dollars), or more than twice the rate of increase for other services.^{iv} In keeping with its main concern about retaining ‘core’ service in-house, the GAO also analyzed a sample of 235 contracts selected from five civilian agencies (the Departments of Homeland Security (DHS), Transportation (DOT), and Housing and Urban Development (HUD), the U.S. Agency for International Development (USAID), and the National Science Foundation (NSF)), and found that “more than half of the 230 statements of work for professional and management support service contracts requested services that closely support the performance of inherently governmental functions” (GAO, 2011).

While this reflects the concern in the United States which has mainly been about protecting and retaining “inherently governmental” functions in public hands, most GAO reviews do not make an explicit distinction for policy consulting services. Most of the research has either looked at consulting services generally, or at management consulting specifically, as well as its effects on the organization and administration of government.^v While recognizing the difficulty of defining and separating such functions, the GAO report stated that “[...], administration begins when the contractor’s involvement in basic management functions is so extensive that an agency’s ability to develop options other than those proposed by the contractor is limited” (GAO, 1992). In reaction to this

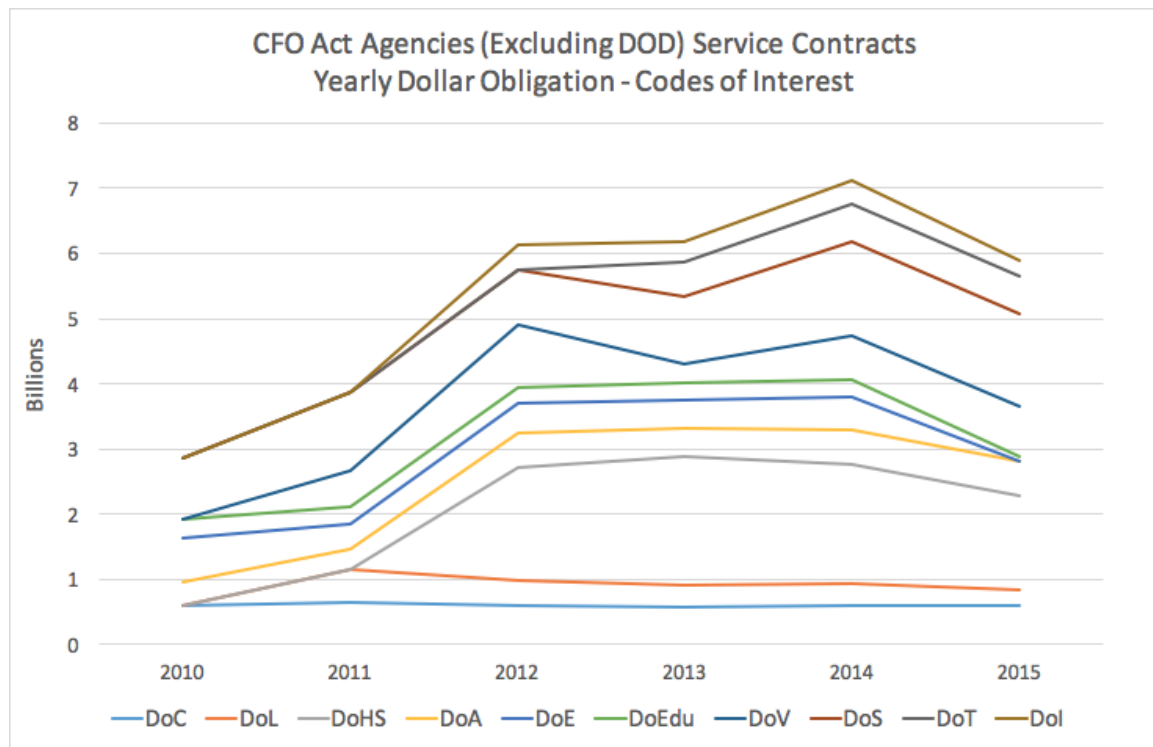
publication, agency officials contended that contractors only advise on governmental functions, and do not administer them.

In what follows, these activities are separated out and reported for the three categories of agencies – regular, CFO and DOD – over the same period.

CFO Act Agencies, excluding DOD

The situation with respect to service contracting for our codes of interest (see Table 1) in the US government since 2010 can be found in Figure 1 below for Departments with available data.

FIGURE 1: Department Expenditures over time 2010-2015



As this shows, contrary to much anecdotal evidence, policy services contracting in most

main line ministries of US government has stagnated since 2012, peaking in 2014 for most agencies and dropping in 2015. With respect to policy-related consulting, an analysis of the 31 codes mentioned in Table 1 revealed the situation in Table 2 below for 2015 for a selection of five agencies.^{vi} This reveals that the weight of consulting for policy services - as identified through our code selection - varies from agency to agency but remains below 20% of the services listed in the inventories.

TABLE 2 – Five Major Policy Related Service Contract Agencies 2015

Department	Fiscal Year	Observati ons	Total obligated	\$ \$ obligated to 'codes of interest' (COI)	COI / total contracts
Health	2015	90,000	\$21,810,688,797	\$4,168,089,707	19.11%
Labor	2015	7,998	\$2,197,748,606	\$302,211,769	13.75%
Agriculture	2015	68,462	\$6,116,601,246	\$339,766,014	5.55%
Vet's Affairs	2015	214,397	\$20,067,991,564	\$691,730,680	3.45%
Interior (land and resources)	2015	71,527	\$4,154,804,799	\$783,716,999	18.86%

FIGURE 2 – Departments Key Contract Codes Distribution

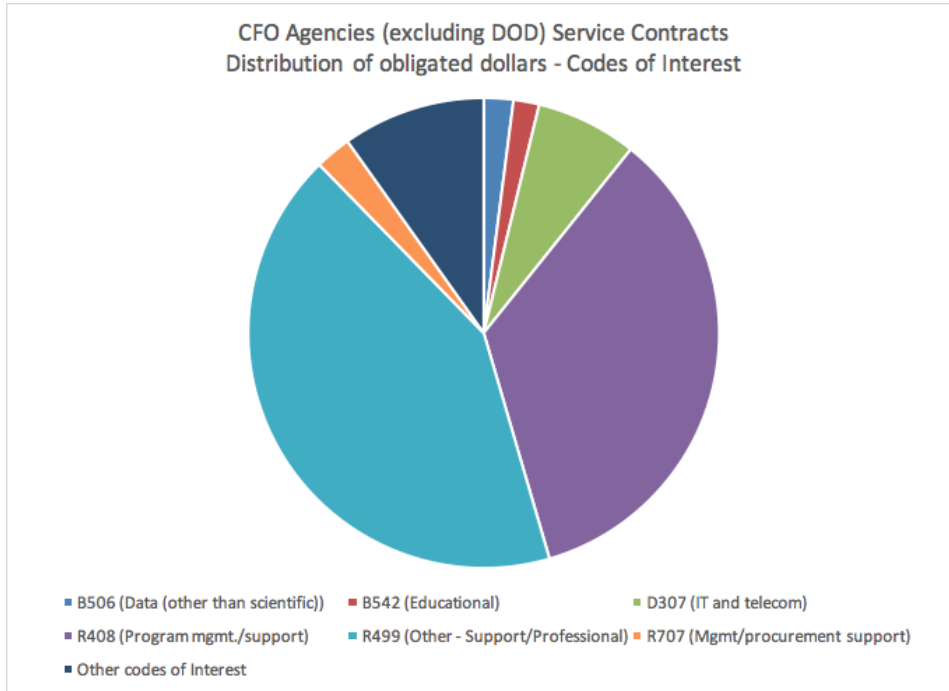
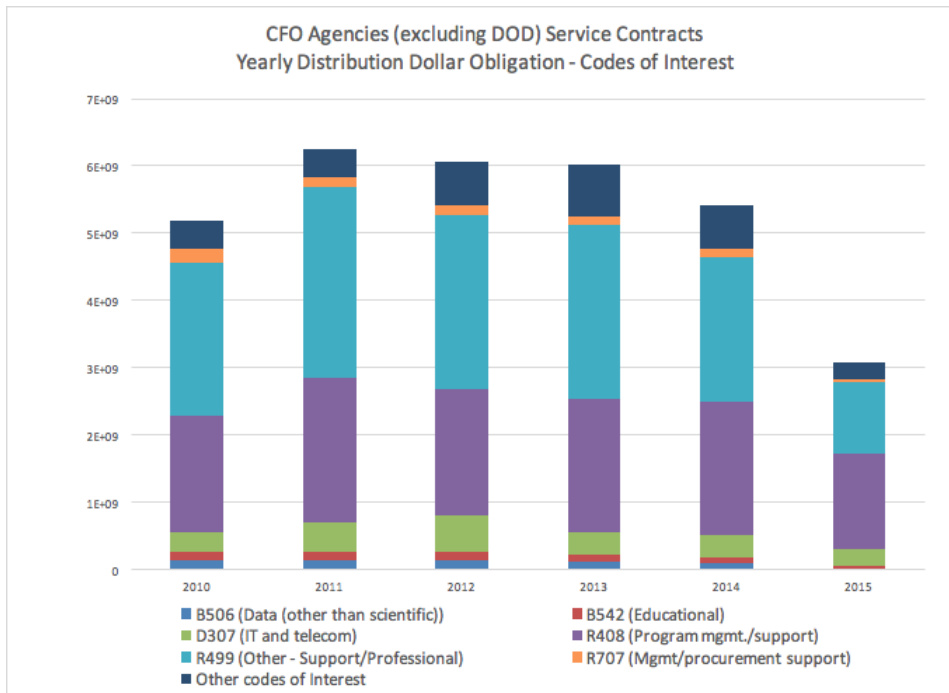


FIGURE 3 – Departments Key Contract Codes Yearly Distribution



Considering the service inventories distribution by codes of interest (see figures 2 and 3), it is obvious that the service codes R499 (Other - Support/Professional) and R408 (Program management/support) dominate the datasets in terms of the value of contracts. These proportions vary across departments: the Department of Labor has extensively used services within the R499 framework and between 80-90% of their budget was spent on this category. The Department of Commerce also shows values of around 70-80% for R499 contracts. On the other hand, the Department of State has heavily invested in R408 contracts, accounting for up to 90%. A relatively balanced share can be found in the Department of Homeland Security and the Department of Energy. There are also departments which do show a relatively diversified service contract inventory, such as the Department of Education or the Department of Agriculture. The Department of Agriculture shows investments within the D307 category which belongs to IT management and support. The Department of Education has procured contracts under B542 (educational services) to more than 40% of the value of contracts.

The decrease in the amount of dollars obligated between 2012 and 2015 is mostly due to a reduction of obligations coded as R499 (Other - Support/Professional). The share and absolute value of contracts coded as “other codes of interest” is also shrinking over time. In contrast to the two other categories of departments examined, the CFO Act Agencies (excluding DOD) show a significant amount of contracts coded as R707 (Management Services/ Contract & Procurement support), B506 (Data (other than scientific)) and B542 (Educational), all of which the share of contracting has declined over time.

Department of Defense

Contract data was compiled for years 2012-2015. The data is divided into four files each year for the following military agency categories: Air Force, Navy, Army and “Other DOD Agencies”. Data from these four sources was thus combined to obtain a global picture of DOD spending.^{vii} Interestingly, total obligated dollars by DOD on selected codes has also decreased every year from 2012 to 2015.

FIGURE 4 – DOD Service Contracts 2012-2015

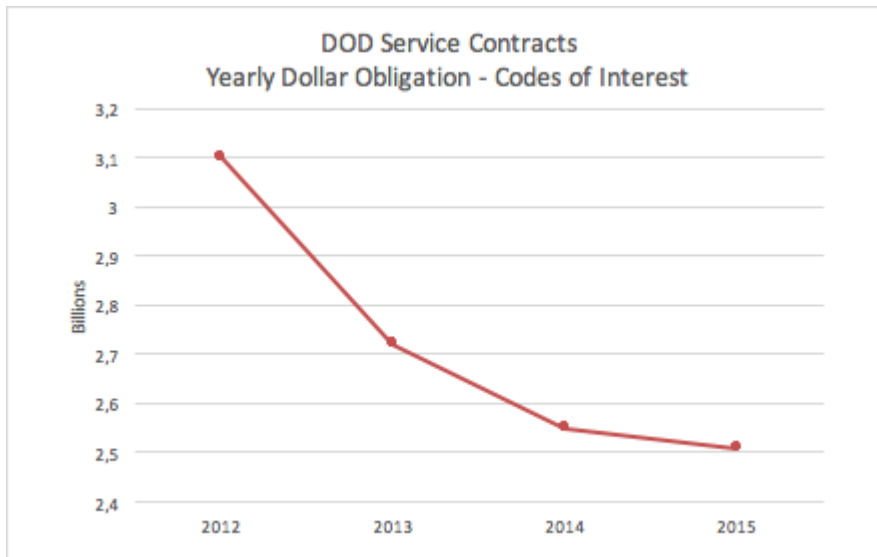


FIGURE 5 – DOD Key Contract Codes Distribution

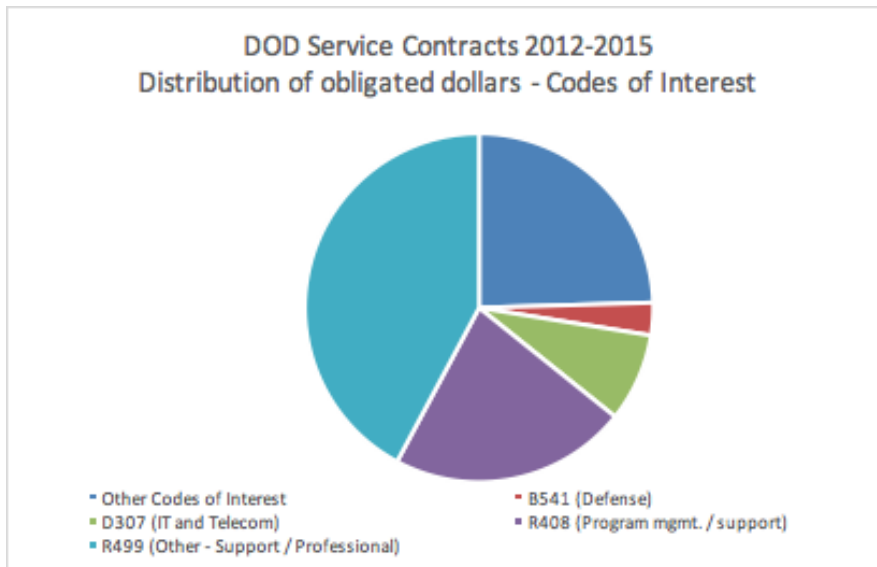
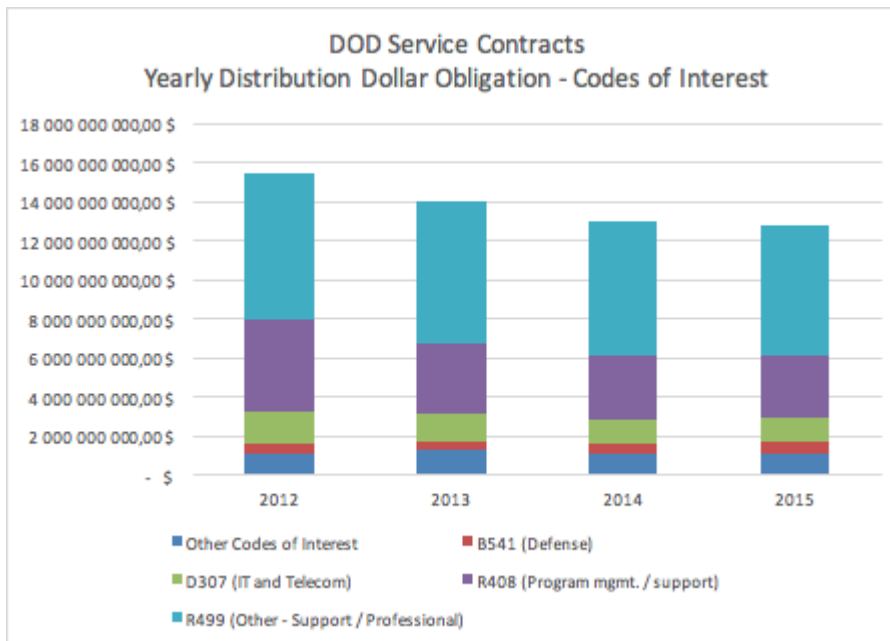


FIGURE 6 – DOD Yearly Distribution



The types of services costing the most are the ones attached to codes D307 (IT and Telecom), R499 (Other - Support / Professional), B541 (Defense) and R408 (Program management and support) (see Figures 5 and 6). The large share of dollars obligated to

code R499 should be noted - amounting to over 50% of obligated dollars for years 2013-2015 - as the contracts categorized as such may refer to services that do not include any policy aspect. Also of interest, the drop in total dollars obligated for the contracts coded seems to be mostly driven by a drop in Program management and Support services (code R408).

Other FAIR Act Agencies

As listed above, 28 agencies, Boards and Commissions (listed above) make up the “Other FAIR Act agencies”.

The total amount of spending over five years in these agencies is dominated by three service codes which comprise 89% of the codes of interest spending. All three of these are management/IT consulting related (see Figures 7 & 8).

FIGURE 7 - Key Contract Codes Distribution 2011-15, FAIR Act Agencies

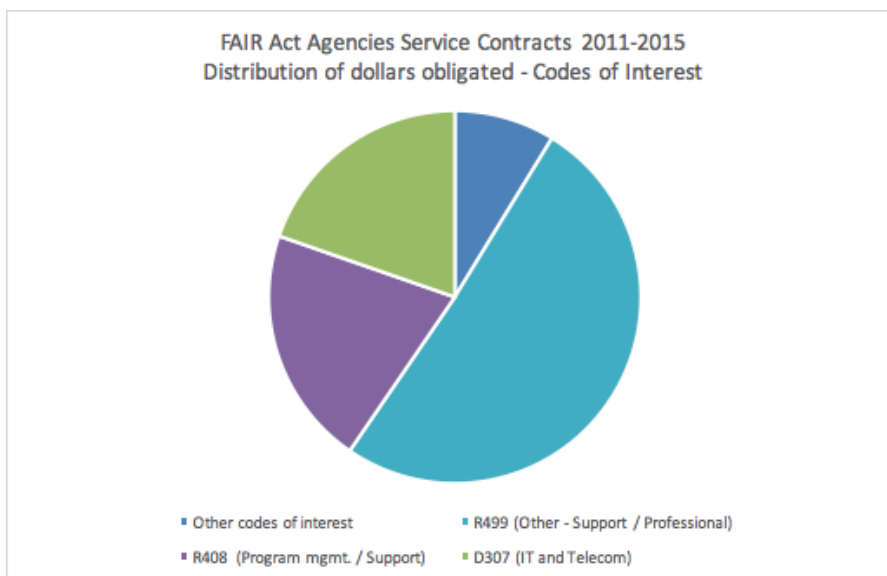
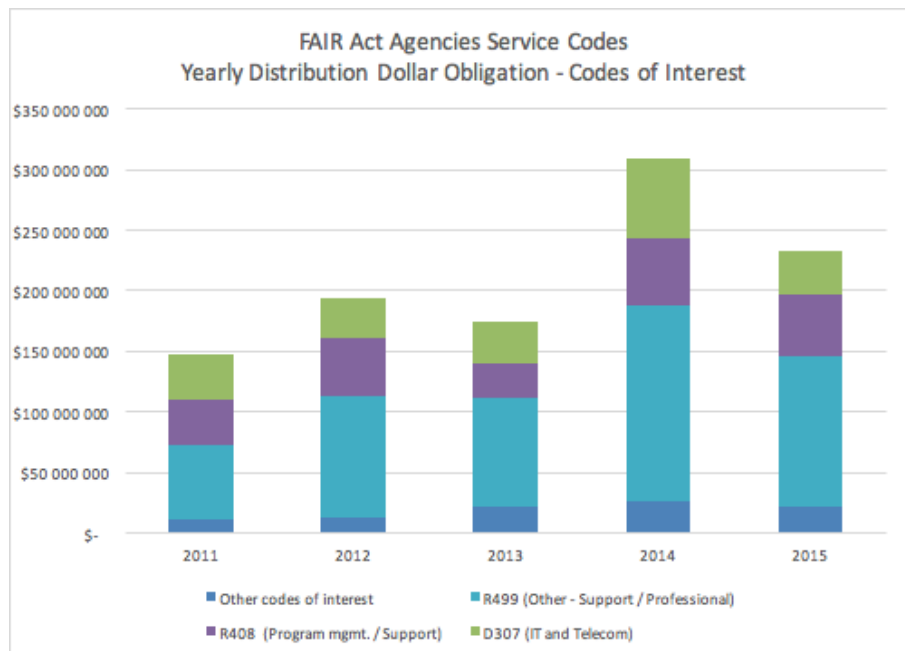


FIGURE 8 – Service Contract Spending Over Time, FAIR Act Agencies



The 2011 – 2015 codes of interest trend is upward, growing 58% in that time, although declining in 2015. Individually and as a group, the Service Codes are very volatile. If we remove the three large service codes, and all those that did not have contracts in all five years of study we can compare how service code obligations changed over time. The figures are too volatile to show any real trend with a standard deviation of 228% among service code index values. Yet, most increased often by over 100% but are sometimes due to the presence of an abnormally large contracts.

Analyzing Contracts' *Description of Requirements*

The Product and Service (PSC) codes offer a broad overview of the type of services performed, which however not be the most precise estimate of the policy work contracted by departments and agencies. Indeed, a closer look at the information available in the

Service Contract Inventories (SCI) indicates that a relatively small share of obligations contracted under our codes of interest (COI) is in fact policy-related. In order to analyze the type of work performed for each individual contract, we looked at the *Description of Requirements* section of each contract in for two CFO Act Agencies' SCI. The *Description of Requirements* entry offers the most detailed account of the work performed in the contract. Although the length of the description greatly varies from contract to contract, it usually includes a brief description of the tasks required, with a varying degree of specificity and quality. In some instances, there is simply no description, and in others a high number of acronyms are used. Yet, for most of the contracts, the *Description of Requirements* entry allows to understand the general essence of the work performed.

In order to verify how precise our COIs identified policy work, we used the Department of Interior (DOI)'s and the Department of Education (DoEdu)'s service contract inventories for FY 2014 as samples. The two agencies were chosen according to the size of their contracting for the codes of interest: the DoI contracted the highest amount, while the DoEdu was among the smallest consumer of these contracts among agencies. Each contract was recoded according to the nature of the work done (policy, IT, environmental, financial, administrative, technical, data engineering, maintenance, etc), after which the proportion of policy work for each COI was examined (See Table 3). Overall, we found that the proportion of policy-work, both in terms of number of contracts and obligations contracted, constitutes a minority. For the DOI, 36 contracts out of the 1383 ones selected included policy-related work, which translated into only 2.1% of the obligations contracted. For the DoEdu, the proportion was higher, with 92 out of

233 contracts encompassing 44% of the obligations contracted.

Codes which included obligations for policy-related contracts accounting for more than 10% of contracts, in both agencies surveyed, were B505 Special Studies/Analysis Cost Benefit, B506 Special Studies/ Analysis - Data (other than scientific), B507 Economic and R410 Program evaluation/ review/ development. Some of our COIs (B545 Housing/ Community Development, B546 Security (physical/ personal), B547 Accounting/ Financial management, B548 Trade Issue, B553 Communications, B554 Acquisition Policy/Procedures and B555 Elderly/handicapped) did not include any policy-related contracts in any of the two departments, which may point to a need to exclude them from the selection.

Another of finding of this study relates to one of the challenges mentioned above with the *Other* codes (B599 Other and R499 Other Support / Professional), who constitute a large share of the contracting. Contracts coded as R499, drove the decrease in contracting over the years 2012-2015 (see *General Findings* Section). For the DoEdu, 9 contracts out of 57 in the R499 category are related to policy work, and these constitute 10% of the obligations contracted under this code. Yet, these obligations represent only 0.04% of the total policy-related obligations contracted by the DoEdu in year. For the DOI, the proportion is even smaller, with 6 contracts out of 1050, representing 0.4% of obligations, related to policy in R499. However, the policy-related contracts in the R499 category represented 13.4% of the total policy-related obligations contracted by the DOI that year, which is non-negligible. The B599 code represented a smaller number of contracts, yet there is a stark difference in the policy content of contracts in this category between the two agencies studied. The DoEdu had 2 contracts coded as B599 which were

both related to policy. The DOI commissioned 5 contracts under this code, of which none had to do with policy.

Table 3: Analysis of Contracts According to Description of Requirements

COI	Department	Number of Contracts	Total Obligations	Number of Policy-related contracts	Policy-related contract obligations	% of Total Obligations Spent on Policy-Related Contracts
B505	DOI	1	\$ 627,00.00	1	\$ 627,00.00	100%
	DoEdu	1	\$ 1,000,000.00	1	\$ 1,000,000.00	100%
B506	DOI	6	\$ 729,608.11	2	\$ 284,485.19	39%
	DoEdu	11	\$ 75,637,807.30	10	\$ 48,975,989.10	65%
B507	DOI	17	\$ 3,085,828.92	9	\$ 2,336,783.72	76%
	DoEdu	4	\$ 17,267,984.30	1	\$ 1,700,000.00	10%
B510	DOI	130	\$ 33,899,483.85	8	\$ 905,719.63	3%
	DoEdu	0	\$ -	0	\$ -	0%
B513	DOI	3	\$ 1025667.00	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B522	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B524	DOI	2	\$ 213,234.27	1	\$ 115,514.27	54%
	DoEdu	0	\$ -	0	\$ -	0%
B528	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B541	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B542	DOI	2	\$ 245,000.00	0	\$ -	0%
	DoEdu	70	\$ 79,617,633.00	43	\$ 43,019,162.00	54%
B545	DOI	1	\$ 187,949.45	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B546	DOI	1	\$ 98,736.00	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%

B547						
B548	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B549	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B550	DOI	2	\$ 113,261.00	1	\$ 75,000.00	66%
	DoEdu	0	\$ -	0	\$ -	0%
B553	DOI	2	\$ 174,724.00	0	\$ -	0%
	DoEdu	2	\$ 231,324.10	0	\$ -	0%
B554	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B555	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
B599	DOI	5	\$ 5,826,127.11	0	\$ -	0%
	DoEdu	2	\$ 1,675,201.00	2	\$ 1,675,201.00	100%
R405	DOI	23	\$ 1,910,854.53	0	\$ -	0%
	DoEdu	2	\$ 646,162.20	1	\$ 453,584.00	70%
R406	DOI	3	\$ 258,197.07	1	\$ 51,376.07	20%
	DoEdu	5	\$ 4,315,543.00	0	\$ -	0%
R407	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
R408	DOI	9	\$ 35,913,407.97	0	\$ -	0%
	DoEdu	27	\$ 8,949,932.40	5	\$ 1,489,975.10	17%
R409	DOI	2	\$ 102,259.72	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
R410	DOI	76	\$ 7,748,667.02	7	\$ 1,569,921.96	23%
	DoEdu	51	\$ 25,969,355.00	19	\$ 12,624,485.00	49%
R413	DOI	4	\$ 464,712.00	0	\$ -	0%
	DoEdu	1	\$ 500,000.00	1	\$ 500,000.00	100%
R429	DOI	0	\$ -	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
R499	DOI	1050	\$ 187,517,528.30	6	\$ 834,281.45	0.4%
	DoEdu	57	\$ 50,959,288.00	9	\$ 5,271,370.00	10%
R707	DOI	44	\$ 11,818,871.52	0	\$ -	0%
	DoEdu	0	\$ -	0	\$ -	0%
ALL COIs	DOI	1383	\$ 291,396,817.84	36	\$ 6,235,782.29	2.1%
	DoEdu	233	\$ 266,770,230.30	92	\$ 116,709,766.20	44%

Overall, this analysis points to the major trade-off of different methodologies using the

PSC codes to identify policy work contracted by American agencies. Examining each contract individually requires a significant amount of time, but yields more precision regarding which contracts and their associated obligations had some policy contents. Using aggregate PSC data, which is less time consuming, does not give the exact amount of policy-related contracts and obligations. Rather, it gives an overview of the general trends in contracting which include but are not restricted to policy work. Future research should enlarge the sample of agencies and departments for which this analysis was conducted in order to underline which codes do not include any policy contracting, which codes consistently include a majority of policy-related work and how the proportion varies for the *Other* codes.

Conclusion

This study has shown that the US is a major purchaser of services via contracts and this trend has attracted the notice of government budgetary and accounting agencies. Increasing scrutiny both from the public, elected officials and academia has led to the creation of a new reporting regime, through the creation of the FPDS database as well as a 2010 statutory requirement for agencies to publicly report on their service contracts. While the resulting data is relatively precise, consistent and complete compared to other countries, the issue of reporting on, and analyzing, policy contracting in the US is not without its problems.

This study provides a justification for the choices that need to be made in using existing data and, based on these choices, provides overall results in this area of government activity for three different components of government: CFO act agencies,

FAIR act agencies and the DOD. Using the Service Contract Inventories, having selected 31 product and service codes that are directly or may be related to policy services, and only including contracts above a \$25,000 threshold, we found both overarching and diverging trends between the three types of departments.

As expected, the DOD is by far the largest purchaser, while FAIR is the smallest, confirming that it is preferable to disaggregate data so as not to lose the smaller patterns in the overall analysis of DOD trends. Significantly, with respect to overall expenditures and popular opinion, while secondary data from the GAO (2011) indicates an increase from 2005 to 2010, in the years where Service Contract Inventories were available for analysis (2010 to 2015), all these units have seen declines, not increases in their purchase of such services.

A recent decline in contracting can also be found in the more recent studies of the same objective. In Canada, the federal government's expenditures in management consulting peaked in 2009-2010 before dropping drastically (Howlett and Migone, 2013a). In Sweden, spending on management consultants dropped in 2008 and growth resumed, albeit at a much slower pace, until 2011 (Pemer, Börjesson and Werr, 2014). Finally, The UK's ANAO (2016) also finds that departments have substantially reduced their spending on consultants and temporary staff since 2009-10, but saw an increase in reported spending since 2011-2012.

Some other trends are also similar to those found in other countries, including the finding that a small number of units are responsible for most of the spending: the DOD, Department of Interior, Department of Transportation, Department of State and Department of Veterans Affairs.

Affirmatively, the Service Contract Inventories provide researchers with the promise of yearly and consistent data about American agencies' use of external consultants. This will allow academics to closely track the evolution of such spending in the United States. In-depth analysis of contracting for each group of agencies and each individual agency will allow for more precision and put their contracting functions in context. The DOD's contracting, for instance, can be further disaggregated into Air Force, Navy, Army and other DOD agencies components. While the use of FPDS codes allows a broad categorization of contract uses, further studies should also look into contract data to analyze the precise nature of the services provided, particularly for contracts coded as providing for "other services". There are also some research gaps regarding the political process leading to the creation of the Service Contract Inventories and the institutional changes they brought about to agencies' procurement processes.

While the 2007-2008 financial crisis most likely played a role in governments' tightening of their budgets for hiring consultants, there is also a tendency towards, at least, a slower growth in that type of expenditure since.

Endnotes

ⁱ <https://www.usaspending.gov> is a portal providing data on all agencies and departments going back to 2000. The data from USA Spending provides all the information about the contract, except what work was actually done. For many policy functions this sort of detail is needed so the data provided on the site is not sufficient to determine what activities are covered by the contract. The site does, however, provide a great deal of information on the kind of organisation that conducted the work, where they are based, size and duration of contract. Each contract has 201 columns of information, though most are binary 'yes or no' fields (<https://www.fpds.gov/fpdsng/cms/index.php/en/-blank>).

ⁱⁱ Other issues were faced when compiling information from service contracts. First, many contracts have a value of zero or below. Second, the same PIID number (contract

identification number) may appear several times across years; it is indeed required that “every modification to that contract, regardless of dollar value must be reported to FPDS” (FPDS FAQs, accessed 2016). However, there are duplicate PIID numbers for the same year with contract obligations for the same dollar amount. We assume this means that the information was incorrectly entered twice or more, and because of the volume of contracts it is not something we have been able to address systematically

ⁱⁱⁱ The summaries of the service inventories -- one-pagers in PDF showing statistics about codes selected as interesting by agencies because of possible interference with inherently governmental functions or because of a large share of obligated dollars -- are almost always available. However, the complete excel file detailed service inventories identifying all service contracts obligated by the agency for a given fiscal year are not consistently available. When working with the PDF summary only, it is impossible to sort out if negative and zero-dollar contracts have been sorted out as well as if contracts below the 25,000\$ threshold have been included in the analysis. Additionally, some agencies have not published the service inventories for selected years mostly until 2012. Corrupted or too large data files that are impossible to open, or work with were also an issue.

^{iv} Garrett and Beatty (2011) had however forecasted decreasing government spending levels in the following years (2011 and 2012) in an article outlining the impacts of this prognostic on government prime contractors and subcontractors.

^v Defining policy consulting is not easy. Management consultancy firms often offer policy-related services, and it is debatable if the administrative reforms often performed by management consultants constitute policy. In a study of the Australian government’s use of consultancy services, however, Howard (2006) highlights that consultants aim to provide *expert advice*, offered for a fee. He criticized the categorization of consultants as to whether they perform policy or management work, because it leaves unanswered the question of “how much influence over policy is entailed by management and indeed implementation” (p. 54). Instead, he suggests distinguishing between “programme content” and “corporate services”.

^{vi} The service contract inventories of the national departments of the US can be acquired via a list from the white house which is referring to the particular department. However, despite the fact that the departments are obliged to publish their service contract inventories, the publications are far from consistent and uniform. Some departments publish the data in relatively convenient Excel-files which can be easily analyzed, but some other departments are just publishing pdf-files and summaries of the contract inventories rather than data about every single contract. Moreover, some of the departments have already archived or not even published data for some fiscal years. Therefore, the following discussion only considers departments with accessible and readable datasets.

^{vii} The DOD’s Inventory of Service Contracts is downloadable in a zipped folder for each year from 2009 to 2015 inclusively. However, the files for years 2009, 2010 and 2011 are too big to navigate on conventional computers, with over 30 MB per file and 900 pages and were therefore not analyzed at this stage. We are currently looking into other data sources to obtain this information. Namely, we are working with USAspending.gov,

which requires to download monthly data.

APPENDIX – Description of Service Inventory Data

The service contract inventories of the different government bodies are theoretically available from fiscal year 2010 onwards (this is not always the case -- see section 3.D). The Office of Federal Procurement Policy Service Contract Inventories lists hyperlinks referring to each agency's website where their Service Contract Inventories for a certain year can be downloaded by year. In general, the service contract inventories are provided either as Excel (.xls) or pdf-files and are sorted according to the specific FPDS code (see Table 1) and contain information like the service obligation (the amount of the contract), the city and country of the contractor as well as short descriptions of the purpose of the contract. Within the service inventory, the FPDS code is represented by the PSC column which means Product Service Code and equals the FPDS code. To illustrate the different data columns of a service inventory, the following table presents the available data from the Department of Commerce which was also the most complete service inventory data source.

Table 1: Example for the Data columns of the service inventory from the Department of Commerce (Doc)

Year	Fiscal Year
PSC	Service Code
code check	Control query if the PSC code belongs to the list of codes of interest
Product or Service Code (PSC) Description	Description of the Service Code
Contracting Agency	
Contracting Department	

Funding Agency	
Place of Performance City	
State	
Country	
Date Signed	
Extent Competed	
Fair Opportunity/ Limited Sources	
Type of Contract	
Description of Requirement	
Vendor Name	
Action Obligation	
PIID	Procurement Instrument Identifier
Referenced IDV PIID	
DUNS Number	https://en.wikipedia.org/wiki/Data_Universal_Numbering_System

Most of the columns are reflected in every service inventory, but some columns are included in only selected ministries. Particularly the PIID and DUNS number seem to be an “additional” data information, since it was not recorded in some of the other service inventories. Moreover, as mentioned in chapter some departments had other additional data which was more or less unique for the specific department (for example the Department of State). That implies that the data disclosure guidelines for the FAIR act are not consistent and that the institutions are free to add additional data in their publications.

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