



AUGUST 21, 1997

OIG REPORT 97-62(H)

MEMORANDUM FOR SOUTHERN ALLEGHENIES PLANNING AND DEVELOPMENT
COMMISSION

SUBJECT: Memorandum Report--Contracting and Procurement Practices for
ARC Funds, Southern Alleghenies Planning and Development
Commission, Altoona, Pennsylvania

OBJECTIVE:

To evaluate the contracting and procurement practices used by Southern Alleghenies Planning and Development Commission (SAPDC) with respect to funds provided to SAPDC by the Appalachian Regional Commission (ARC).

BACKGROUND:

Our review was undertaken as a result of information and media articles concerning the awarding of a contract by SAPDC. Although the specific contract that was the subject of media articles and citizen concerns did not include ARC funds, due to the sensitivity of the issues raised and substantial annual ARC funding to SAPDC for other activities, it was determined that SAPDC contracting and procurement practices relative to ARC funds should be reviewed.

For information, the concerns noted about the SAPDC contracting practices related to a \$12,000 subcontract for marketing services in connection with a \$350,000 grant awarded to SAPDC in early 1997 by the Pennsylvania Department of Economic and Community Development for a project titled Team PA Southern Alleghenies Network, which was intended to promote and encourage the development of business, industry, and commerce in Pennsylvania. Articles in the Johnstown, Pennsylvania, Tribune Democrat in May 1997 noted the filing of a complaint with ARC by a citizen claiming denial of the \$12,000 contract because of past political practices. The articles also state that the SAPDC Executive Committee based its vote to award the contract to another bidder largely on past political campaigns run by the owner of Cherryhill Associates.

Copies of the media articles and other information relevant to the \$12,000 contract were referred to the State of Pennsylvania Office of Inspector General (OIG) on May 30 and July 25, 1997. Some of the information was received at the time of the initial complaint in May 1997 and some was noted during our review of SAPDC contracting and procurement practices on July 23 and 24, 1997.

The information indicated that the six-county advisory group for the Team PA grant and the SAPDC Finance Committee had recommended awarding of the \$12,000 marketing contract to Cherryhill Associates. At the May 21, 1997 SAPDC Executive Committee meeting, SAPDC staff presented

the SAPDC Finance Committee's recommendation that the marketing contract be awarded to Cherryhill Associates. After discussion, including discussion and comments relative to Cherryhill Associates' involvement in prior political campaigns and impact of such activity on the performance of a contract, the Executive Committee voted 5 to 2 to reject the Finance Committee recommendation and to award the marketing contract to one of the other companies, 2S Graphics, that had submitted a proposal.

As of August 20, 1997, the State of Pennsylvania OIG had initiated a preliminary inquiry into this matter.

Review of Contracting and Procurement Procedures for ARC Funds

We reviewed minutes and documents with respect to SAPDC contracts and procurements for the past 3 years. Also, we discussed contracting and procurement practices with SAPDC staff and inquired of the complainant as to any knowledge of other situations similar to the condition noted above.

ARC annual funding to SAPDC approximates \$400,000. Although almost all of the ARC funding is used for office salaries in connection with performance of various projects and activities related to economic development, as opposed to contracting activities, we pursued the overall issue of contract and procurement practices to ensure ARC funds were expended in accordance with applicable procedures and requirements.


Contract and procurement activities for all funds received by SAPDC are intermingled with respect to review, discussion, and approval by the SAPDC Executive Committee, which currently consists of 11 elected Commissioners, from the six-county area served by SAPDC, and 2 appointees with business experience. Therefore, during our review of committee minutes for the past 3 years, we obtained insights and input with respect to contract and procurement practices related to all SAPDC funds, including ARC and other Federal funds, and state funds.

We did not disclose any other contracts or procurements where reasoning or comments similar to those noted with respect to the above noted \$12,000 marketing contract were utilized in the decision-making process. Except for a couple of instances pertaining to selection of (1) a credit institution for servicing SAPDC accounts and (2) an insurance company, the recommendations of SAPDC staff and the Finance Committee were approved by the SAPDC Executive Committee. The Finance Committee recommendation for use of an alternate credit institution and insurance company was predicated on a better credit rate for SAPDC and long-term savings for insurance.

The contract and procurement process essentially consisted of SAPDC staff issuing proposals, obtaining bids, and making recommendations to the Finance Committee, which in turn approved the staff recommendation for submission to the Executive Committee. A summary of bidders and bids was provided for Executive Committee review. In most cases, the low bidder was recommended, with a couple of exceptions noted based on multiple equipment purchases, cost of warranties, and prior experience. Also, the differences in costs were minimal.

Conclusion and Recommendation

Although we did not identify any other contract or procurement activities susceptible to the comments and/or criticism noted with respect to the \$12,000 marketing contract issued in connection with a state grant, we nonetheless strongly recommend that, to avoid negative perceptions and publicity that adversely impact on all programs, including ARC supported activities, the SAPDC Executive Committee adhere closely to applicable procedures for all contracting activities, including avoidance of any practices that are, or may create the appearance of, a prohibited practice.


Hubert N. Sparks
Inspector General

Attachments

Politics costs firm contract

Marketing pact goes to 2 S Graphic

BY KATHY MELLOTT

TRIBUNE-DEMOCRAT MAINLINE BUREAU

ALTOONA — A local man's past political practices have cost his company a \$12,000 contract, members of the Southern Alleghenies Planning and Development Commission said Wednesday.

Saying its vote was based largely on past political campaigns run by Cherryhill Associate's owner Jon McClintock, the executive committee of the commission Wednesday refused to award a marketing con-



McClintock

tract to his Duncansville firm. Instead, the board awarded the contract to 2 S Graphic Design of Altoona. The contract calls for 2 S to make the public aware of Team Pennsylvania, a state-sponsored endeavor aimed at retaining area businesses.

"What goes around comes around," Somerset County commissioner Brad Cober said in casting his vote against McClintock's firm.

Later, McClintock, a former WJAC-TV reporter, said he was proud of the campaigns his firm has run, and he has no intentions of letting the issue of the marketing contract drop.

Only two of the eight commissioners attending Wednesday's monthly meeting voted in favor of Cherryhill. — Dick Rice of Bedford County and Cambria Commissioner Fred Soisson. Soisson, who used McClintock to run his campaign two years ago, said the other commissioners are mixing apples and oranges.

"The one thing is dealing with po-

ness issue," Soisson said.

Five marketing firms responded to the request for proposals with Cherryhill and 2 S granted interviews.

Since the contract calls for professional services, Southern Alleghenies does not have to award contracts using a competitive-bidding process, according to Debra Prosser of Southern Alleghenies.

The issue of awarding the contract to Cherryhill has been a private debate for the past several days. It was made public by Blair commissioners John Eichelberger and John Ebersole.