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ASSEMBLY LAW, PUBLIC SAFETY AND DEFENSE COMMITTEE



January 13, 1986

Report on the Investigation into the Contract between the Division of Motor Vehicles in the Department of Law and Public Safety and the Firm of Price Waterhouse for the Design and Implementation of a New Jersey Merit Rating Plan Surcharge System and a Comprehensive On-line Driver/Owner Information and Management System

Based on Public Hearings held in the State House Annex,  
Trenton, New Jersey

September 24, 1985 ✓  
October 3, 1985 ✓  
October 8, 1985 ✓

October 11, 1985 ✓  
October 16, 1985 ✓  
October 28, 1985 ✓

Assemblyman Joseph L. Bocchini, Jr  
Chairman

Assemblyman Nicholas LaRocca  
Vice Chairman

Assemblyman Frank M. Pelly

Assemblyman William P. Schuber

Assemblyman Robert Martin

Assemblyman Thomas P. Foy  
(temporary appointment to the Committee)

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## State of New Jersey

### ASSEMBLY LAW, PUBLIC SAFETY AND DEFENSE COMMITTEE

CN-042

STATE HOUSE ANNEX, TRENTON, N.J. 08625

January 13, 1986

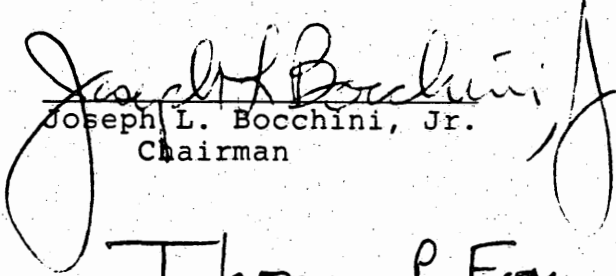
TO THE SPEAKER OF THE GENERAL ASSEMBLY

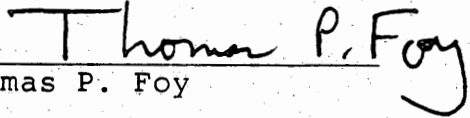
Mr. Speaker:

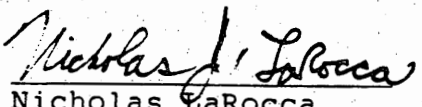
The Assembly Law, Public Safety and Defense Committee herewith respectfully submits a report with its findings and recommendations on the matter of the design and implementation of a computer system for the Division of Motor Vehicles in the Department of Law and Public Safety by the firm of Price Waterhouse. This report and the recommendations contained within it are based on six public hearings held by the committee on September 24, October 3, 8, 11, 16 and 28, 1985 in response to the serious problems experienced by the Division of Motor Vehicles with the implementation of a comprehensive on-line driver/owner information and management system.

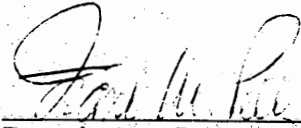
The Assembly Law, Public Safety and Defense Committee stands ready to discuss the findings outlined in this report and the recommendations made pursuant to those findings. The committee also stands ready to assist in the implementation of the recommendations made.

Sincerely,

  
Joseph L. Bocchini, Jr.  
Chairman

  
Thomas P. Foy

  
Nicholas LaRocca  
Vice Chairman

  
Frank M. Pelly





JOSEPH L. BOCCHINI, JR.  
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## State of New Jersey


### ASSEMBLY LAW, PUBLIC SAFETY AND DEFENSE COMMITTEE

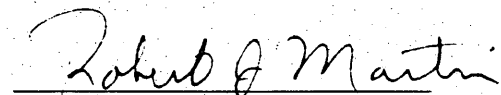
CN-042

STATE HOUSE ANNEX, TRENTON, N.J. 08625

#### NOTE OF OPPOSITION TO THIS REPORT

The undersigned members of the Assembly Law, Public Safety and Defense Committee strongly oppose the findings and recommendations within this report because this report was drafted without sufficient and careful deliberation and because the report is superficial in its treatment of some major issues involving the Division of Motor Vehicles. In addition, this report was drafted precipitately and its release is inappropriate at this time because the State Commission on Investigation is currently drafting a soon to be released report of its investigation into the problems within the division and because the General Assembly has created a Select Committee on the Division of Motor Vehicles which will hold hearings and develop legislation to remedy the problems with the division.

  
William P. Schuber

  
Robert Martin



attachment

cc: GOVERNOR THOMAS H. KEAN  
PRESIDENT OF THE SENATE  
MEMBERS OF THE GENERAL ASSEMBLY  
MEMBERS OF THE SENATE  
ATTORNEY GENERAL  
DIRECTOR OF THE DIVISION OF MOTOR VEHICLES





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## BACKGROUND

In September of 1985, the Assembly Law, Public Safety and Defense Committee, chaired by Assemblyman Joseph L. Bocchini, Jr., embarked on an investigation into the serious problems with the new computer system designed and still in the process of being implemented by the firm of Price Waterhouse for the Division of Motor Vehicles. These problems were causing and continue to cause a monumental backlog in the renewal of motor vehicle licenses and registrations for the motorists of this State.

Newspaper articles at that time chronicled the outrage, confusion and inconvenience caused when renewal notices for licenses and registrations were not sent to motorists in a timely manner and when the renewed licenses and registrations were not being returned to the motorists of the State within a reasonable period of time. An example of the serious hardship suffered by some motorists of this State is the fact that motorists were being issued tickets by police officers for driving with expired licenses or registrations even though the motorists had, in fact, renewed the documents, but simply had not received them because of the computer backlog at the Division of Motor Vehicles.

Upon hearing of this serious situation, the committee decided to elicit information as to the causes of this serious problem in a public forum. The committee soon became aware of the fact that the issue was so complex and the number of people involved so numerous, that several public hearings were required to obtain a thorough understanding of the issues, the sequence of events, and the personalities involved. The committee's objectives were to determine the criteria used by the Division of Motor Vehicles in selecting a firm to implement a new computer system; the provisions of the various contracts with Price Waterhouse; the studies conducted and the proposals made for the new computer system; the design, implementation, maintenance and effectiveness of the new system; and the costs involved in the implementation.

The committee discovered that the sequence of events under investigation began with the initial competitive awarding of an \$88,000.00 State contract in October of 1981 in Governor Byrne's administration to the national accounting firm of Price Waterhouse for the development of a long-range master plan focusing on the organizational and systems improvements within the Division of Motor Vehicles. The big eight national accounting firms were invited to submit proposals for the development of the master plan. Price Waterhouse was selected from among these firms.

Early in 1982, the firm of Price Waterhouse submitted its master plan outlining long-range goals and strategies for the division and describing the numerous specific projects which must form the basis of a five-year (FY 1983-87)) plan to improve the operational, financial and administrative support systems at the division. Price Waterhouse noted in its report that the



long-range master plan was to be only the basis for the preparation of more detailed system requirements necessary prior to the implementation of the specific projects set forth in the master plan.

A follow-up contract in the amount of \$700,000.00 for a requirements study prior to the design and implementation of a New Jersey merit rating plan surcharge system and a comprehensive on-line driver/owner information and management system was eventually awarded to Price Waterhouse in 1983 pursuant to the bid waiver procedures in N.J.S.A. 52:34-9 et seq. Unlike the initial \$88,000.00 State contract in the Byrne administration, no other firms were solicited for this contract. The requirements study was submitted July 12, 1983.

Immediately after this study was completed, negotiations were underway for yet another contract between the division and Price Waterhouse for the implementation of the surcharge system and the comprehensive computer system. This contract was once again awarded on a bid waiver to Price Waterhouse for \$6.5 million and signed on November 9, 1983. No other firms were solicited for this contract either.

The \$6.5 million contract assigned to Price Waterhouse the responsibility for the "turn-key project" and for the selection of the computer hardware and software to be used in the system, including the program language. The system delivered was to be "state of the art."

In performance of this contract, Price Waterhouse personnel selected the IDEAL programming language manufactured by Applied Data Resources (ADR) of Princeton, New Jersey. The comprehensive computer system was completed by June 30, 1985 as required by the contract; however, substantial problems developed in the operation of the system. The operation of the system after July 1, 1985 revealed that it had major deficiencies. IDEAL language was simply not capable of handling the large volume of transactions required by the comprehensive system and it was inferior to the more mature programming languages, such as COBOL, in terms of efficiency.

The problem with the new computer system was its overall slowness in response time which exacerbated backlogs by minimizing the ability to make data entries and by its inability to handle a number of functions simultaneously, which were absolute requirements for the Division. The system's gross deficiency was due to inadequate programming capacity in handling the basic volume of data processing needed. These serious deficiencies became fully apparent in August of 1985 and were chronicled in numerous newspaper articles.

It was at this point in time that the Assembly Law, Public Safety and Defense Committee decided that a legislative investigation of the problem was in order. Six public hearings were held and volumes of data and information were accumulated.





Most witnesses cooperated voluntarily with the committee's investigation; however, the committee did find it necessary to use its subpoena power. The following persons testified before the committee at one or more of the hearings.

Irwin I. Kimmelman  
Attorney General  
State of New Jersey

Michael R. Cole  
First Assistant Attorney General  
State of New Jersey

Eugene Sullivan  
Assistant Attorney General  
Division of Law  
Department of Law and Public Safety

Christine N. Cox  
Senior Assistant Director  
Division of Motor Vehicles  
Department of Law and Public Safety

Robert S. Kline, Acting Director  
Division of Motor Vehicles  
Department of Law and Public Safety

Michael M. Horn  
State Treasurer  
Department of Treasury

James B. Kennedy  
Administrator  
General Service Administration  
Department of Treasury

James J. Rosenberg  
Director of Purchase and Property  
Department of Treasury

Donald Bianco  
Executive Director  
Office of Telecommunications and  
Information Systems  
Department of Treasury

Robert Meybohm  
Director of Network Services  
Office of Telecommunications and  
Information Services  
Department of Treasury

Earl Josephson  
Public Information Officer  
Administrative Office of the Courts



Matthew P. Boylan, Esq.  
Attorney for Price Waterhouse

William J. Driscoll  
Partner  
Price Waterhouse

John Singel  
Co-Director  
National Information Services  
Price Waterhouse

John Farrelly  
Director of Research and Development  
Applied Data Research

Albert Porroni  
Executive Director  
Office of Legislative Services  
New Jersey Legislature

Transcripts for all the public hearings are available by contacting the aide to the Assembly Law, Public Safety and Defense Committee. Given the findings elicited by this committee during approximately 24 hours of public testimony, the committee has made the following findings and sets forth the following recommendations for the public record.

The Assembly Law, Public Safety and Defense Committee greatly appreciates the time taken by the individuals who participated in the public hearings and the effort expended by those participants in compiling statistics and information for the committee's consideration. The assistance and knowledge of the persons who participated in the hearings have ensured that the findings in this report are based on factual information and that the recommendations have been thoughtfully and knowledgeably made.





## FINDINGS

### 1. Bidding Procedures

The laws governing contracts with the State of New Jersey, its Boards, Bodies, Agencies and Authorities are generally set forth in Title 52 of the Revised Statutes of New Jersey. They pertain to advertising for public bids. The laws are enforced by administrative regulations and are generally set forth in the New Jersey Administrative Code, Title 17.

As most general rules or laws have exceptions, so too are there exceptions to the regulations for public bidding on contracts. They are set forth in Chapters 9 and 10 of Title 52 of the New Jersey Revised Statutes.

The variations from the general rule provide for the waiver of public advertising for bids for technical and professional services; perishable foods; leasing certain equipment and office space; acquisition of real property; and unreasonable prices. There are additional exceptions to the public bidding requirements, such as contracts with other governments or governmental agencies, exigencies, sole and primary source of supply, seasonal wearing apparel, fair trade products and existing equipment compatibility. The overall responsibility for the administration of bidding statutes rests with the State Treasurer. The authority to grant exceptions or waivers to the public advertising for bids laws also rests with the State Treasurer. Guide lines for the granting of waivers are set forth in the April 24, 1985 Procurement Circular and the December 3, 1984 Procurement Circular issued by the State Treasurer.

The granting of the exception to the bidding laws requires the department head to justify his request for a waiver and to advise the Treasurer whether the request is for confirmation of a contract already entered into or whether the request is prospective. Information must be provided as to the department budget, the time when the equipment or service will be required, the completion date of the furnishing of the equipment or service, and the date when the department head first became cognizant of the need for said equipment or service.

In addition, there is also a requirement that a request for waiver of advertising be granted only when competition has been received from at least three (3) or more firms. This requirement was first put in writing in April 24, 1985. Prior to April 24, 1985, the general practice was nevertheless to solicit three or more firms.



The committee found that it does not appear to be the bidding system that is at fault, but rather the abuse of the discretion in waiving bids which is exercised in a loose manner. It is not necessarily that a violation of the bidding law occurred, but it is the appearance of impropriety that destroys the image of the administration and creates a view of the failure of fulfilling the duty of public trust without illicit gain or profit.

## 2. Campaign Contributions and No-Bid State Contracts Awarded to Price Waterhouse

The accounting firm of Price Waterhouse is a good example of the connection between no-bid state contracts and campaign contributions which has occurred since the Kean Administration took office. It would appear from a cursory investigation of the Price Waterhouse matter that the purchase of a table at the Governor's Ball guarantees a bid waiver.

Since January 1980, Price Waterhouse has received bid waivers for contracts worth over \$7.5 million. From January 1980 to January 1982, under the Byrne Administration, Price Waterhouse received 5 no-bid contracts worth \$161,500. During this time the firm made no political contributions. In the first year of the Kean Administration (January 1982 through January 1983), the firm received 3 more no-bid contracts worth \$722,968, and, again, made no political contributions. In fact, a spokesman for Price Waterhouse testified before the committee its policy was not to make political contributions.

In July 1983, this situation changed dramatically. The reason for the turnabout was the awarding of a \$6.5 million contract to Price Waterhouse for the design and implementation of the Division of Motor Vehicle's computerization system. On August 22, 1983, a month after receiving the multi-million dollar contract, Price Waterhouse made its first political contribution by writing a check to the Governor's Ball for \$15,000. An internal memo between Price Waterhouse's partners explained why the firm decided to make such a contribution: "because of the size of the (DMV) contract, he [Robert Kline, acting DMV director] thought, as a practical matter, it would be good business to do so" (see attachment).

In June and August 1984, Price Waterhouse received two more no-bid contracts (regarding OMB and Lottery), and, again, returned the favor with generous contributions to the Governor's Ball, writing a check for \$10,000 on August 2, and another for \$5,000 on September 11, 1984.

This pattern continued in 1985 with the firm receiving two more no-bid contracts, and kicking in another \$5,000 to the Governor's Ball (September 5, 1985). In addition, William Driscoll, the head of the accounting firm's New Jersey office, made 3 personal contributions for a total of \$1750; in fact the contracts were awarded in February and March of this year, and Driscoll contributed the \$1750 in March and April.



The following chart sums up these numbers:

	<u>Bid Waivers</u> <u>Received</u>	<u>Contributions</u> <u>Given</u>
Prior to Kean Administration	\$ 161,500	\$ 0
During Kean Administration	7420,928	36,750
Grand Totals	\$7,582,428	\$36,750

Given the timing of these contributions, and the bluntness of the internal Price Waterhouse memo, there is a strong appearance that the company had a relationship with the Kean Administration wherein the firm would continue to receive hefty non-competitive State contracts in return for sizeable campaign contributions. For Price Waterhouse, the amount of no-bid state business they received was 206 times their contribution investment!





PRICE WATERHOUSE

The following chart lists, in chronological order, the no-bid State contracts received by Price Waterhouse and the contributions made to Republican causes by the firm since January 1980. The chart notes whether such contributions were made by the company itself, or by William Driscoll, Jr., a partner in the Morristown, NJ office. Contributor information is from campaign reports on file with the NJ Election Law Enforcement Commission, and contract information is from monthly bid waiver reports issued by the NJ Treasurer's office.

CONTRIBUTIONS GIVEN

BID WAIVERS RECEIVED

During the Kean Administration

		Y-591 Jan 82- p. 2	\$ 6,998 Treasury- Data Processing & Telecommunications supplemental waiver to cover costs incurred in determining award for data processing equip, State colleges
		C-463 Jan 83- p. 1	\$700,000 Law & Public Safety- Systems & Communications Implementation of DMV computerization plan
		C-491 Jan 83- p. 2	\$ 15,970 Treasury- NJ Spill Compensation Fund accounting analysis + expert testimony at arbitration hearing
		B-059 July 83- p. 9	\$ 6,500,000 Law & Public Safety- Motor Vehicles design + implementation of DMV computerization system
\$ 15,000 08/22/83	Ball Company		
		R-861 June 84- p. 1	\$ 9,900 Treasury- OMB provide OMB with consulting services
\$ 10,000 08/02/84	Ball Company	C-169 Aug 84- p. 5	\$ 28,900 Treasury- Lottery consulting services beyond scope re Lottery's on-line system
\$ 5,000 09/11/84	Ball Company		



During the Kean Administration, continued

Contributions Given

Bid Waivers Received

		C-507	\$ 59,160	Hum Svcs- Medical Assistance & Health Svcs
		Feb 85- p. 3		procure + help evaluate consultant re on-line data system
		C-499	\$100,000	Treasury- OTIS
		Mar 85- p. 1		management consulting services, implementation of OTIS
\$ 250	Gov Club			
04/15/85	Driscoll			
\$ 500	Kean Gen 85			
04/16/85	Driscoll			
\$ 1,000	Repub Maj 85			
05/09/85	Driscoll			
\$ 5,000	Ball			
09/05/85	Company			

\*\*\*\*\*

TOTALS

\$ 36,750

\$ 7,420,928





Prior to the Kean Administration

Contributions Given

Bid Waivers Received

W-853 May 80- p. 2	\$ 15,000	Treasury- Data Processing & Telecommunications aid in acquisition of equip for Crim Justice
W-863 May 80- p. 3 computer system	\$ 5,000	Treasury- Purchase & Property aid in acquisition of equipments- replace state college
Y-420 Nov 81- p. 5	\$ 38,500	Treasurv- Lottery second security + operational review, Lottery system
Y-392 Oct 81- p. 5	\$ 88,000	Law & Public Safety- DMV Development of DMV computerization Master Plan (copy attached)
Y-095 Aug 81- p. 10	\$ 15,000	Treasury- Div of Building & Construction determ validity + scope of claim against state

\*\*\*\*\*

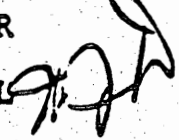
Totals

\$ 0	\$ 161,500
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GRAND TOTALS

\$ 0	\$ 161,500	(prior to Kean Administration)
<u>36,750</u>	<u>7,420,928</u>	(during Kean Administration)
\$ 36,750	\$ 7,582,428	



To: D. F. CHANDLER  
From: W. J. DRISCOLL   
Subject: N. J. GOVERNOR's BALL COMMITTEE  
Date: AUGUST 18, 1983

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On Friday, August 12, I received a call from Gary Dornbush, who in turn had been called by Clyde Folley. Clyde said, J. Fletcher Creamer, head of a large construction company headquartered in Bergen County and an active member of the New Jersey Republican Committee, had called to find out whom to contact at PW regarding possible participation in the Governor's Ball, scheduled for August 27, 1983.

Creamer's office sent me the attached letter requesting PW's support for this function. After speaking with you (both Luhmann and Cadematori being on vacation) about the desirability of PW's purchase of one table (\$5,000), I spoke with DMV Deputy Director Robert Kline, our primary contact on the DMV engagement. Kline, a candid, young lawyer, who demonstrated he is a masterful strategist in dealing with the State Government bureaucracy during the process which resulted in our sole source contract. made the following points:

1. Although PW's participation in the Governor's Ball would have no impact on the present DMV contract with the State, because of the size of the contract he thought, as a practical matter, it would be good business to do so.
2. After researching the question, he identified three CPA firms (PM&M, DH&S and TR) who had already reserved two tables each in addition to a number of prominent law firms and investment firms.
3. He also commented it was common practice, if one purchased tickets, to include as guests acquaintances who are members of the Governor's administration.

Taking all this into consideration, on August 17 (in your absence), I made the following recommendation to J. F. Williams:

1. PW should and would stand out with the purchase of three tables (\$15,000.00).
2. The preliminary guests to be invited from the State would include:

C. Snedecker	- Director DMV
R. Kline	- Deputy Director DMV
H. Cluck	- Director New Jersey Lottery

and perhaps two or three more, yet to be determined.



3. From PW the initial list should include:

Driscoll

Dornbush

Singel

Advani

Nardolillo (friendly with Carey Edwards, Gov.'s Counsel)

Rich Pye (MAS Manager, knows Gov. Kean personally)

Williams agreed with my recommendation, suggesting for internal bookkeeping purposes, we should split the cost equally between Morristown, Hackensack and New York.

I processed and sent a check for \$15,000 to the Governor's Ball Committee on Wednesday, August 17, 1983.

Attachment -

As above

cc: (w/att.) R. E. Luhmann  
K. E. Cadematori  
J. F. Williams



### RECOMMENDATIONS

1. Legislation should be introduced to require each request and its supportive documentation for a waiver of bid where the request embodies a contract of \$100,000 or more to be referred to a Joint Legislative Oversight Committee to determine whether the request would represent an abuse of discretion if the bid were waived. The Joint Legislative Oversight Committee, which could be convened by the Assembly Speaker and Senate President, would be required to issue its advisory findings and recommendations within 15 working days of receiving the bid waiver request.

2. The Governor should immediately appoint a permanent Director to the Division of Motor Vehicles.

3. The continued placement of the Division of Motor Vehicles within the Department of Law and Public Safety should be seriously and carefully examined.

4. Strict standards should be established in order to regulate the relationships between officials and representatives of this State and those persons with whom the State conducts business.

5. Standards should be established in order to regulate the relationships between members of political parties and those persons who conduct business with the State.

6. There should be established within the Department of Treasury an Office of Contract Compliance in order to conduct regular and careful on-going reviews of monetary reports and payments for major State contracts.

7. The subcommittee on bid contracts of the Senate Revenue, Appropriations and Finance Committee is urged to review the current bidding practices and procedures for the awarding of State contracts.

