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State Comptroller's report finds township's mishandling of insurance contract proved costly for taxpayers

Comptroller says vendor selection process was handled inappropriately by both Council and mayor's administration in Parsippany-Troy Hills

A report released today by the Office of the State Comptroller (OSC) found the Parsippany-Troy Hills Township Council overstepped its power in order to award an insurance contract to a high bidder it considered, according to one Council member, "family."

Under the Township's form of government set up under the state's Faulkner Act, the Township Council can approve or reject a vendor recommended by the mayor, but it may not award a contract to its own preferred vendor. Yet at a public meeting in December 2008 the Council decided not to vote on the mayor's recommendation to go with the low bidder, Travelers Companies Inc., and instead awarded a three-year contract to the Morris County Joint Insurance Fund (MCJIF) to provide insurance services at a cost of approximately \$3.7 million.

During the meeting, several Council members made public comments expressing concern that the mayor's administration had used a competitive process to select a vendor for the contract. The Council member who introduced the resolution to enter into a contract with MCJIF explained his support for MCJIF was based on his familiarity with the fund's representatives and the fact that they were public officials in the county, stating, "They, as far as I'm concerned, are part of our family. They are us."

State Comptroller Matthew Boxer said various comments made during the Council meeting bring into question whether cost and quality of services were the primary factors driving the selection of MCJIF.

“The law required a competitive selection process for the Township’s insurance contract, yet Council members publically expressed their displeasure with having to consider competing vendors,” Boxer said. “It’s not okay for government to award insurance contracts based on the friends and family plan – particularly when that plan is not offering savings but instead costs taxpayers hundreds of thousands of dollars.”

The annual premium for MCJIF was the highest of the three bidding vendors and \$250,274 (or 20 percent) higher than that of Travelers, a private insurance company on the Fortune 500 list. The Township’s business administrator had deemed Travelers’ coverage the best of the three options, even aside from cost considerations.

The OSC report also criticized the handling of the procurement process by the mayor’s administration, noting for example that the process was late in getting started and then conducted in a rushed manner.

Representatives for Travelers were not present at the December 2008 Council meeting and had not been invited. MCJIF had 11 representatives at the Council meeting including senior public officials from six municipalities. Travelers’ proposal was presented by the Township’s risk management consultant who was advising the Township on which vendor to select while simultaneously serving as the executive director for a third competing vendor, Statewide Insurance Fund.

The OSC report noted that the dual role “tainted” the procurement and may have violated the Local Government Ethics Law. OSC is referring the matter to the Local Finance Board for further consideration.

“The Township Council and the administration both handled this contract in a manner that was not in the best interest of taxpayers,” Boxer said. “When vendors are selected this way it destroys the public’s confidence in the government contracting process.”

Other findings in the report noted that the Township did not take required steps to document the availability of funds. The Township also failed to report the contract to the OSC as required by state statute.

OSC released the report to provide guidance to public contracting units on insurance procurement issues, such as the need to solicit competitive price quotations from insurance vendors. OSC’s statutory mandate includes monitoring the procurement process for certain government contracts. In light of the deficiencies identified in the report, the OSC will lower from \$10 million to \$2 million its monetary threshold for pre-screening the Township’s contracts.