



**Report  
and  
Recommendations  
of the**

**STATE OF NEW JERSEY  
COMMISSION OF INVESTIGATION**

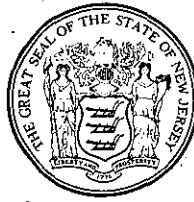
**on the**

**PURCHASE AND ADMINISTRATION**

**of**

**PUBLIC INSURANCE PROGRAMS**





Report  
and  
Recommendations  
of the  
STATE OF NEW JERSEY  
COMMISSION OF INVESTIGATION  
on  
QUESTIONABLE PRACTICES AND PROCEDURES  
by  
LOCAL, COUNTY and other PUBLIC BODIES  
in the  
PURCHASE and ADMINISTRATION  
of  
PUBLIC INSURANCE PROGRAMS



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TO: *The Governor and the Members of the Legislature  
of the State of New Jersey:*

The New Jersey State Commission of Investigation herewith submits its Report and Recommendations on its investigation of Questionable Practices and Procedures by Local, County and other Public Bodies in the Purchase and Administration of Public Insurance Programs in this state. This transmittal is made under Section 10 of L. 1979, Chapter 254 (N.J.S.A. 52:9M-10), of the Act creating the Commission.

Respectfully Submitted,

Arthur S. Lane, *Chairman*  
John J. Francis, Jr., *Commissioner*  
Lewis B. Kaden, *Commissioner*  
Henry S. Patterson, II, *Commissioner*



UNITED STATES DEPARTMENT OF THE INTERIOR  
BUREAU OF LAND MANAGEMENT  
WASHINGTON, D. C.

TO THE SECRETARY OF THE INTERIOR  
WASHINGTON, D. C.

FROM THE DIRECTOR OF THE BUREAU OF LAND MANAGEMENT  
WASHINGTON, D. C.

SUBJECT: [Illegible]

INVESTIGATION OF QUESTIONABLE PRACTICES AND PROCEDURES  
BY LOCAL, COUNTY AND OTHER PUBLIC BODIES IN THE  
PURCHASE AND ADMINISTRATION OF PUBLIC INSURANCE PROGRAMS

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INTRODUCTION

and

SUMMARY of RECOMMENDATIONS



INVESTIGATION OF QUESTIONABLE PRACTICES AND PROCEDURES  
BY LOCAL, COUNTY AND OTHER PUBLIC BODIES IN THE  
PURCHASE AND ADMINISTRATION OF PUBLIC INSURANCE PROGRAMS

Background

The statewide inquiry into public insurance practices by the State Commission of Investigation originated in 1977 with receipt of complaints about the misuse of insurance commissions in Union Township in Union County. An evaluation of these allegations not only confirmed their validity but also indicated that many other localities were mishandling public insurance programs. Therefore the S.C.I. launched an extensive survey of all 21 counties in the state. This survey, requiring detailed answers to more than 100 questions, subsequently was extended to many municipalities and other public bodies. Staff accountants analyzed and catalogued the resulting mass of highly technical responses, revealing specific problem areas on which the Commission focused its investigative field work. Numerous follow-up interviews with public buyers and private sellers of public insurance confirmed the widespread mismanagement of insurance programs. Indeed, certain closed-door transactions by some officials and brokers -- commission payments for which no services were required, cronyism, political kickbacks and other violations of the public trust -- were so gross as to suggest outright corruption.

The investigation showed that these depredations were aided by the admitted complexity of the insurance industry itself -- from the standpoint of both the maze of indemnification programs available and the ever-increasing dollar costs of related premiums and fees. Despite the statutory obligation imposed on all public entities to provide adequate casualty, liability and other forms of insurance protection of public personnel and property, every incident of substandard performance was marked by a dismaying lack of expertise and professional incentive. Instead of adopting obviously essential businesslike procedures, many localities were adhering to entrenched systems of insurance purchase and management that promoted political and private interests rather than the public welfare. Many of the questionable practices, the S.C.I. ascertained, seemed to be permitted by a state law requiring the public insurance process without adequately regulating it.

The Commission's investigation demonstrated that, even aside from the excessive costs unnecessarily generated by improper procedures, the overall need for more sophisticated and extensive coverage coupled with spiraling rates for such programs had become an exceedingly heavy budget and tax burden at every governmental level -- at a time when so-called "cap laws" were limiting even the most plausible of appropriations.

The Interim Report

A different type of unwarranted cost problem came to light during the Commission's investigation -- that is, the almost universal practice by state, county and local public employers of incorrectly deducting social security and income taxes from injury leave wages paid to disabled employees pursuant to officially adopted injury leave insurance policies. A swift resolution of this problem was deemed urgent in the face of a proscription under the statute of limitation against recouping such incorrectly deducted taxes if the deductions were more than three years old. Therefore the Commission issued an Interim Report on these practices in January, 1979, in time to permit reimbursement of incorrect deductions for the three-year period of 1975-77. This Interim Report explained in detail how such procedures had improperly deprived hundreds of public employees of more than a million dollars in that 1975-77 period alone. In addition, the Interim Report urged immediate efforts to recover improper tax deductions quickly, before recouping for the year 1975 would be barred under the three-year limitations statute.

However, the Interim Report concerned improper, but not willful, procedures caused primarily by misunderstandings or misinterpretations of applicable federal and state laws. This contrasted with the main thrust of the Commission's public insurance inquiry -- against willful transgressions symbolized by the long-entrenched, improper utilization of what is known in the insurance industry as "commission sharing." This term refers to the custom of splitting with other insurance brokers portions of commissions received by a primary broker as compensation for the insurance program he sells. Such sharing of commissions became over the years a devious patronage device utilized by controlling political regimes. The S.C.I. inquiry revealed that primary brokers were required to funnel portions of their commissions to the governing authorities who had contracted for insurance programs. These split fees were allocated to politically influential or subservient sub-brokers who returned the favor in the form of political contributions. Such sharing brokers generally provided no professional services for their commission shares. As a result of the misuse of the commission sharing process to buy political rather than professional services, self-serving resistance developed within the political "establishment" to any proposals for reforming the system. This largely behind-the-scenes opposition to changing the status quo remains virulent.

However, as the Commission's investigation made clear, the diversion of commissions to feed partisan political causes or private greed was symptomatic of far more fundamental weaknesses in the overall handling of public insurance. These more basic faults in the system were emphasized by S.C.I. Chairman Arthur S. Lane in his formal statement opening the Commission's public hearings in June, 1979.

Summary of Recommendations\*

I. Introduction

The Commission's recommendations are divided into two steps -- Step One proposals being those which can be implemented immediately and Step Two proposals being those which would be implemented at some later date, based on experience gained from the initial reform effort. The Two-Step plan is advocated because of the urgency of attaining certain basic objectives as swiftly as possible within cap-law and other increasing economic pressures on county and local governments. Thus, the Step One phase of the program would concentrate immediately on assuring (1) unlimited public scrutiny, (2) full public disclosure, (3) centralized state guidance in connection with every facet of public insurance transactions of all county and municipal entities, and (4) a fully competitive market for public insurance contracts. Only Step One recommendations will be summarized below.

II. Recommendations in Brief

A. An Office of Public Insurance Management shall be created in the Division of Local Government Services in the New Jersey Department of Community Affairs.

1. Such a State Office would have two basic functions -- centralized regulation and centralized monitoring of all county and local public insurance activities.

B. Regulation and Supervision

1. The Office of Public Insurance Management shall require that all county and municipal insurance programs, whether for commercial insurance on self-insurance, be contracted for through public negotiation or public bidding at public meetings of the governing bodies. All contracts, reports, data and other documents relating to county and municipal insurance are to be public records open to public scrutiny.

2. All governmental entities shall be required by the State Office to receive at least three proposals for insurance coverage before an insurance contract can be awarded by public negotiation or bid.

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\*See Recommendations in Detail, P. 352.

3. A locally designated insurance administrator shall be required by the State Office to prepare adequate specifications for insurance coverage preparatory to a public notice for proposals or bids.

4. By State Office requirement, public notice of intention to purchase or renew insurance programs shall be issued by formal resolution of a governing body at least 90 days prior to the date scheduled for the awarding of insurance contracts, and shall be re-issued not less than 30 days prior to the award of such contracts.

5. The State Office shall require that public insurance contracts specify the dollar amount and conditions or terms of coverage for each particular insured risk, the premium cost for each item, the commission(s) that will accrue to the principal broker and sharing agent for each item, and the service fee(s), if any, to be paid to the principal broker, and sharing agents, and the services to be required of each agent in return.

6. The State Office shall require that the principal broker of a governing body file with that entity and the State Office a certified statement of the particulars of the insurance contract within 30 days of the award, including the names of the broker, the solicitor (if any), and any sharing agents, the duties and responsibilities of the principal broker and any sharing brokers, and the amount of commission received by the principal broker, solicitor and/or sharing brokers.

7. The principal broker shall also be required to periodically provide the governing body any and all loss information, including the identification of the person or property injured, the nature and, if possible, the cause of such injury or damage, claims made and claims paid.

### C. Monitoring and Coordination

1. The State Office of Public Insurance Management shall prepare and distribute model specifications for insurance coverage to governing bodies.

2. The State Office shall issue guidelines listing (a) reasonable commissions, service fees, fees paid in lieu of commission for commercial insurance, or administrative fees for self-insurance to be earned by a broker of a self-insurance administrator on a governing body insurance contract, and (b) the duties and responsibilities required of a broker or self-insurance administrator in contracting with a governing body.

3. The State Office shall advise and make written recommendations to local governing bodies concerning problems and improvements of their insurance programs and coverage, prescribe the risks to be covered by governing bodies and conduct studies of risks a governing body should cover, the amount of losses to be covered, and the manner of insuring a particular risk.

4. The State Office shall issue regulations concerning the qualifications of county and local administrators of governmental insurance programs, and prepare and update a manual dealing with the purchase and administration of governing body insurance programs which shall be made available to all governmental entities.

5. Each municipal or county governing body shall designate one person who is to be primarily responsible for that entity's insurance program and its compliance with requirements established by law and promulgated by regulation by the State Office of Insurance Management. Only agents, brokers, risk managers and consultants meeting the qualifications and having the approval of the Department of Insurance may contract with a governing entity for or in connection with an insurance program.

D. Department of Insurance

Comment

Since the Department of Insurance presently licenses and otherwise generally regulates brokers, agents, solicitors and insurance companies, this additional function with respect to public insurance transactions would represent merely an extension of the Department's current responsibilities.

1. Registration: The Department of Insurance shall qualify, approve and register all state-licensed insurance brokers, agents and solicitors who engage or plan to engage in the sale and/or servicing of public insurance contracts.

2. Licensure: The Department of Insurance shall qualify, approve and license all consultants, risk managers and self-insurance administrators who contract or plan to contract with governing bodies.

3. Disclosure of Compensation: All individuals, partnerships, firms or companies registered or licensed by the Department of Insurance as qualified to contract with governing bodies in connection with public insurance transactions shall submit annual certified statements to the Department and to the Office of Public Insurance Management disclosing all fees, commissions, shared fees and/or commissions and other compensation received as a result of the sale and/or servicing of any public insurance contracts.

4. Public Insurance Registry: The Department of Insurance shall produce and periodically update a registry of brokers, agents, solicitors, consultants, risk managers and self-insurance administrators who are qualified by licensure or registration for public insurance purposes. This list must be provided to the Office of Public Insurance Management.



## E. Self-Insurance

1. The State Office of Public Insurance Management shall conduct a study of self-insurance by governing bodies, recommend steps to be followed in purchasing and administering self-insurance programs, and make recommendations to the Legislature concerning what laws should be enacted to regulate self-insurance as it applies to governing bodies.

## F. Prohibited Practices

1. No member of any insurance advisory committee or similar agency appointed by a county or municipal governing body to assist in the maintaining of an insurance program shall receive any pecuniary benefit, directly or indirectly, as a result of the governing body's contractual decisions or insurance programs. Only state-licensed and state-registered individuals shall be appointed to such advisory committees.

2. No individual, partnership or corporation licensed or registered by the Department of Insurance for public insurance purposes shall make any contribution or gift to any political party or to any candidate for municipal, county or state office if such licensee or registrant is receiving commissions, fees or any other compensation resulting from the sale of public insurance to any county or municipal governing body.

3. No principal broker or self-insurance administrator shall share commissions, service or other fees with any other broker, agent, individual, partnership or corporation on a governmental insurance account unless such sharing brokers are required by written agreement to render specific commensurate and necessary services and actually render such required services.

4. No elected or appointed officer or employee, whether compensated or not, of a county or municipal public body or members of the families of such officers or employees, or any businesses in which such officers and/or employees have an interest, shall have any interest, financial or otherwise, directly or indirectly, in any contract for the purchase of insurance programs or services to be provided to the county or municipal public body with which such elected or appointed officers or employees are affiliated.

#### G. Penalties

1. Any violation of the above listed prohibited practices or any failure to comply with the requirements of section III or IV of these recommendations shall be a crime of the fourth degree. Further, all convicted violators, in the case of licensees and registrants, shall be subject to cancellation of their licenses and registrations, and any other penalties provided by the insurance laws of this State; and, in the case of elected or appointed public officers and employees, shall be subject to dismissal from office. All contracts that are in violation of any provisions of this statute shall be subject to cancellation and replacement by the affected governing bodies.

#### III. General Recommendations

A. The Commission urges enactment of legislation similar to Assembly Bill No. 1047 (1979 term) to permit municipal governments to combine or pool for commercial or self-insurance purposes.

B. The Commission urges the enactment of a County and Local Public Officials' Ethics and Financial Disclosure Law.

C. The Commission urges enactment of Senate Bill No. 99, which would permit State-created public authorities to avoid insurance commissions by purchasing programs directly from insuring companies.

THE  
PUBLIC HEARING  
TESTIMONY



THE TESTIMONY -- First Day

The Opening Statement

The Commission's opening statement set the stage for public hearing testimony that would "demonstrate how numerous municipal, county and other entities have mishandled the purchase and administration of public insurance matters." Chairman Lane said the hearings would illustrate how "public officials and private entrepreneurs have collaborated in many localities to contract for insufficient and overpriced programs in a collusive manner." He described as particularly disturbing the Commission's investigatory findings that "certain officials and brokers are irresponsibly utilizing insurance programs for partisan political profit, patronage requiring no performance and in some cases personal profit, all contrary to the public interest." Such conduct, he said "has been at the expense of responsible compliance with even the most minimal laws" supposedly designed to regulate the process. Chairman Lane continued:

*I want to stress that only the most typical illustrations of inappropriate public insurance practices can be demonstrated within the limited time span of these three days of public hearings; many more public entities and officials than this forum can possibly accommodate are engaging in such questionable activities. In addition, I must emphasize that there also are many officials throughout this state who are trying to provide adequate insurance coverage free from the improper influences and schemes that will be detailed in this chamber. Indeed, within these public hearings there will be some illustrations of responsible public officials who have resisted the temptation to take political or personal advantage of the system.*

X X X

### The Union Township Episode

Until 1976, when the procedure was discontinued, sharing of the commissions paid by this Union County township to the primary broker who sold insurance to the Township Committee had been an accepted practice dating back to the 1960s. Over the course of time the procedure acquired certain refinements in the manner in which the shared commissions were relayed to the designated sub-brokers through the elected members of the Township Committee, but its basic objectives remained largely intact -- that is, to include politically designated sub-brokers into the township's public insurance operation for patronage purposes rather than professional advisory services.

### The First Witness

Robert S. Bunnell, Jr., of Union Township, general manager of Bunnell Brothers, Inc., was the first witness. The Bunnell agency served as the community's insurance broker during many years of Republican Party domination of local affairs. The agency's insurance relationship with the community remained intact as Democrats began to get elected to the Township Committee in the 1960s and continued into the era of Democratic control of the Township.

To provide as current a hearing record as possible, Mr. Bunnell's testimony was largely confined to his commission sharing practices in cooperation with the Township Committee in 1974 and 1975.\* His testimony also touched briefly on the manner in which commissions were allocated. Of the total commissions his company would obtain on any given year's premium, he said, about one-third would be the primary broker's commission. He would then relay half of this sum through the Township Committee to sub-brokers designated by members of the Committee. Such shares were customarily distributed in January or February following the year in which the insurance premiums contracted for "were earned," as he put it. Thus, for example, the township's insurance premium for 1974 amounted to \$301,126, from which the agency's total commissions of \$31,556 were deducted before the net premium was sent to the insurance companies. Of this amount, about \$11,000 was then roughly split 50-50, leaving about \$6,000 to be divided in early 1975 among five sub-brokers designated by individual members of the Township Committee.

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\*See Union Township commission splitting charts, for 1974 on P. 13 and for 1975 on P. 14.

Similarly in 1974, of the primary broker's own commission, more than \$5,800 was shared early in 1974 with Committee-designated sub-brokers. As the hearing record would illustrate, portions of these split fees were turned over to the political party with which the Committee members who designated the sub-brokers were affiliated.

Counsel Peter M. Schirmer, who directed the S.C.I.'s public insurance investigating team, questioned Mr. Bunnell's commission sharing transactions. Referring to the commissions that were shared in 1974, Counsel Schirmer asked the witness to explain how the procedure came about:

*Q. And why did you share that commission?*

*A. It was a practice that was established long before we were nominated, or not nominated, or appointed broker for the Township of Union. We continued on the practice.*

*Q. Who told you that this sharing practice had been in effect before you came to become the broker of record?*

*A. I don't know if anyone told me, but I know it was in effect.*

\* \* \*

*Q. The brokers that you shared the commission with, how were they designated?*

*A. They were designated by the township committee-men.*

*Q. And then you took 50 per cent of that brokerage commission and split it with five brokers?*

*A. Correct.*

*Q. So you kept approximately \$6,000 yourself?*

*A. Correct.*

*Q. And you split approximately \$6,000 with five other brokers?*

*A. Correct.*

*Q. Now, if you would, tell me this: --*

*A. All right.*

*Q. -- who were the five brokers that received shared commissions and who were they designated by?*

*A. The five brokers are: Eugene Ecklund, designated by Mr. Russo; Eugene Ecklund, designated by Reverend*

Staton, I believe that's Staton; Richard Dreher, designated by Mr. Conlon; and Richard Dreher designated by Mr. Zimmerman; and Max Serota designated by Mr. Rabkin.

Q. In the year 1974, for the 1974 insurance coverage, how much did each sharing broker receive?

A. \$1,204.50.

Q. And my understanding is that at the end of an insurance year you decided what your total commission would be and then you would divide the commission at the end of the year, not in the beginning of the year?

A. Correct.

Counsel Schirmer then asked Mr. Bunnell to explain the procedure for sharing commissions. The witness said that his agency would receive a letter from the township clerk listing the Committeemen designated to participate in the sharing. One such letter, dated February 26, 1974, was read into the record.

THE CHAIRMAN: What does the letter say?

THE WITNESS: "Bunnell Brothers, Inc., 8 Mountain Avenue, Springfield, New Jersey. Attention Mr. Robert S. Bunnell.

"Dear Mr. Bunnell: The following is a memorandum of apportionment of commissions on township business placed through your office in 1973.

"Eugene Ecklund, 2046 Gless Avenue, Union, one-fifth Mr. Russo; Eugene Ecklund, 2046 Gless Avenue, Union, one-fifth Reverend Staton; Richard Dreher, 2055 Balmoral Avenue, Union, one-fifth Mr. Conlon; Max Serota, 402 Colonial Avenue, Union, one-fifth Mr. Rabkin; Robert P. Ostertag, 1961 Morris Avenue, one-fifth Mr. Yacovelle.

"The members of the township committee are being advised of the allocations. Very truly yours, Mary E. Miller, Township Clerk. Carbon copy Mayor Russo, Samuel Rabkin, James C. Conlon, Reverend William F. Staton, John A. Yacovelle."



1974

UNION TOWNSHIP COMMISSION SPLITTING

\$234,355.52 - Premiums Paid

Bunnell Brothers, Inc.

\$5,848.68 - Commission Split on 2/18/74

Township  
Committeeman  
Conlon

Democratic  
Party Chairman  
C. Howard Casey

Sharing Broker,  
Richard Dreher  
\$1,169.74

Friends of  
Father Staton  
\$700

Township  
Committeeman  
Rev. Staton

Sharing Broker,  
Eugene Ecklund  
\$1,169.73

Union Township  
Democratic Muni-  
cipal Committee  
\$700

Township  
Committeeman  
Russo

Democratic  
Party Chairman  
C. Howard Casey

Sharing Broker,  
Eugene Ecklund  
\$1,169.73

Union Township  
Democtatic Municipal  
Committee  
\$700

Township  
Committeeman  
Rabkin

Sharing Broker,  
Max Serota  
\$1,169.74

Township  
Committeeman  
Yacovelle

Sharing Broker.  
Robert  
Ostertag  
\$1,169.74

1975

UNION TOWNSHIP COMMISSION SPLITTING

\$301,126.80 - Premiums Paid

Bunnell Brothers, Inc.

\$6,022.50 - Commission Split on 2/18/75

Township  
Committeeman  
Russo

Democratic  
Party Chairman  
C. Howard Casey

Sharing Broker  
Eugene Ecklund  
\$1,204.50

Anthony E. Russo  
Association Cocktail  
Party Account  
\$500

Township  
Committeeman  
Rev. Staton

Sharing Broker  
Eugene Ecklund  
\$1,204.50

Contribution  
was requested  
but didn't  
contribute

Township  
Committeeman  
Conlon

Democratic  
Party Chairman  
C. Howard Casey

Sharing Broker,  
Richard Dreher  
\$1,204.50

Anthony E. Russo  
Association Cocktail  
Party Account  
\$500

Township  
Committeeman  
Zimmerman

Democratic  
Party Chairman..  
C. Howard Casey

Sharing Broker,  
Richard Dreher  
\$1,204.50

Anthony E. Russo  
Campaign Fund  
\$500

Township  
Committeeman  
Rabkin

Sharing Broker,  
Max Serota  
\$1,204.50

BY MR. SCHIRMER:

Q. Again, referring your attention to the notification procedure, once you received a letter from the township clerk about who would share in commissions, what was then done?

A. We would look up in our broker books to see if they were brokers, legitimate brokers; that they have a number, and then we would send them, or we would make out the check and mail it to the, usually, I would say, mail the checks to the township committee-man made payable to the different agents.

Q. Would you send a letter to the township clerk at any time notifying her that you were prepared to share commissions?

A. I believe we have once or twice, yes.

Q. I'm going to show you such a letter dated January 9th, 1974, from Bunnell Brothers to Mary Miller, Clerk, in which you're notifying her that you are prepared to share commissions, and I'm just going to show it to you.

A. Um-hum.

(Document handed to the witness.)

Q. Is that correct? Was that the procedure?

A. That was the procedure that year, but I can't say that it was every year. I don't think it was every year. I think it was only once or twice that we wrote it.

THE CHAIRMAN: It's a short letter. Would you mind reading it, please?

THE WITNESS: Surely.

"Miss Mary E. Miller, Township Clerk, Municipal Building, Frieberger Park, Union, New Jersey, re: Brokers' Commissions.

"Dear Miss Miller: We are prepared to pay commissions to brokers for the insurance being written for the Township for the year 1973. We are enclosing herewith copy of your letter for the 1973 distribution which you might want to use as a guide. We will await your instructions. Very truly yours, Bunnell Brothers, Inc., Robert S. Bunnell."

That's dated January the 9th, 1974.

THE CHAIRMAN: And the sharing checks are made to the order of the sharing broker or insurance man and sent to the township committee people; is that correct?

THE WITNESS: That's correct. Usually. It was sent directly to the township committeeman in an envelope addressed to the broker, the sharing broker. Sometimes we did send it direct to the broker. What particular years, I don't know.

COMMISSIONER FRANCIS: Who told you how to do that?

THE WITNESS: That was standard procedure in our office.

THE CHAIRMAN: Who started the procedure? Who told you to do it that way?

THE WITNESS: No one told us to do it. It was just something that came along and we continued on when we were appointed agent in 1961.

COMMISSIONER FRANCIS: All right. I'm trying to find out how you knew how to do that. Did somebody tell you; did you learn that it was a practice that was established before you became the designated broker?

THE WITNESS: I have no idea why or how it was. No one --

COMMISSIONER FRANCIS: Did the thought just come to you one day?

THE WITNESS: I'm trying to relate what I know. That's the way it was done. 1961 is eighteen years ago.

COMMISSIONER FRANCIS: Did the sharing brokers do any work for their commission?

THE WITNESS: We did have a meeting or two with the brokers at one time, yes.

COMMISSIONER FRANCIS: Did your office do the vast majority of the work in placing the insurance?

THE WITNESS: Yes.

COMMISSIONER FRANCIS: Was your company able to operate in such a manner for the amount of its commission which it retained that it opted to take care of its own costs and overhead?

THE WITNESS: The amount of commissions --

THE CHAIRMAN: In order words, --

THE WITNESS: -- we obtained --

THE CHAIRMAN: -- did you realize a profit from this arrangement?

THE WITNESS: Yes, we did realize a profit.

Since 1961, Mr. Bunnell testified, almost \$60,000 of his broker's commissions were shared with sub-brokers. Counsel Schirmer tried to ascertain what the sub-brokers did in return for such split fees during that period:

BY MR. SCHIRMER:

*Q. I'd just like to summarize the procedure used to share commissions with you by the chart.\**

*The township notified Bunnell Brothers that there should be sharing brokers. They then sent the premiums to Bunnell Brothers -- Bunnell Brothers then sent a net premium to the carrier. It took out an agency commission. From this agency commission, a portion of it, approximately 20 per cent, was shared with five brokers who had all been designated by the township committeemen. Each committeeman having one broker who he could designate, and based on records that you have provided us, the Commission has found that the total commission shared for the period 1962 to 1975 is \$59,186.51.*

*Do you agree, basically, with that figure? Is that approximately correct?*

*A. Yes. That's the figure I gave you.*

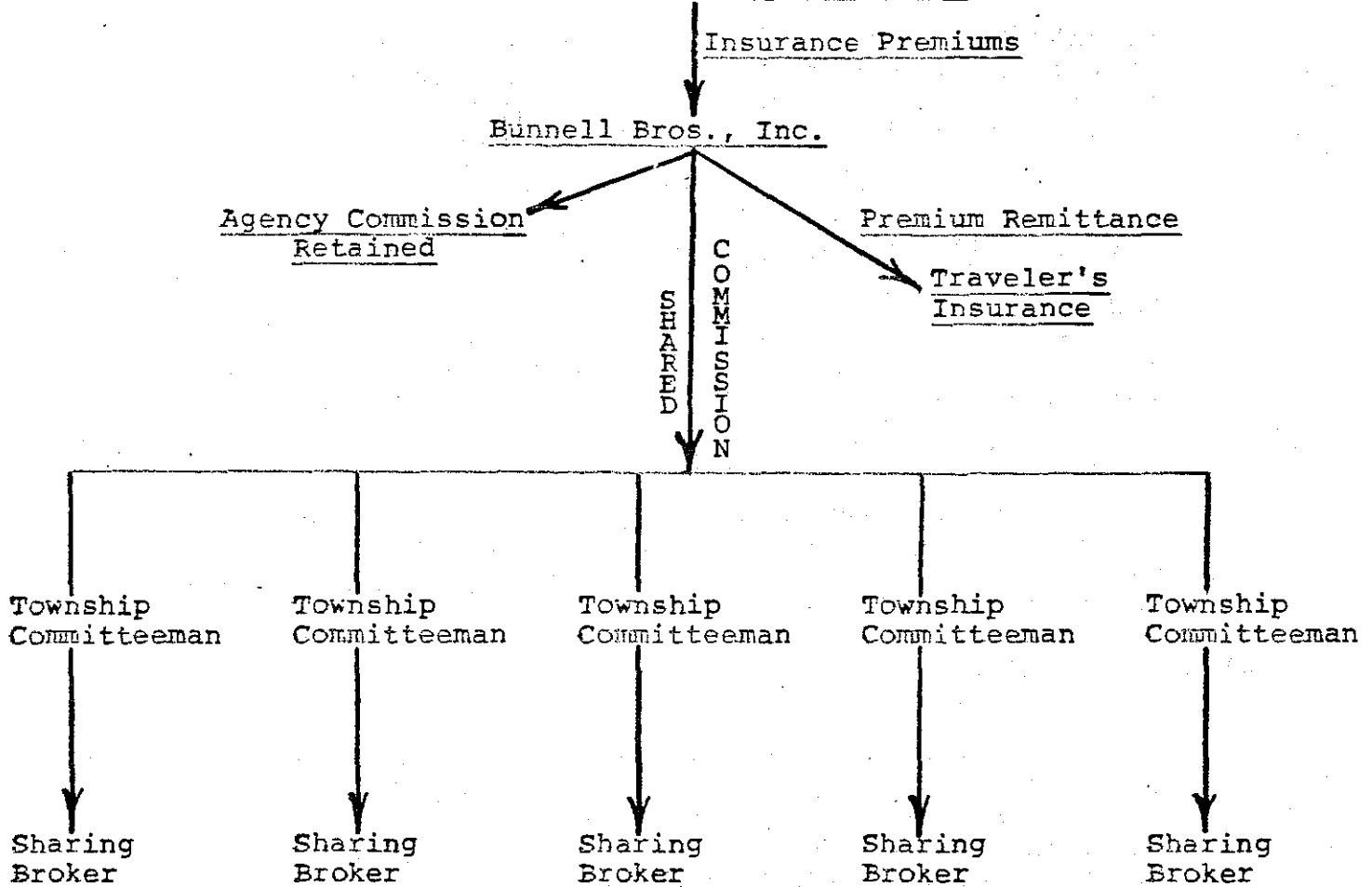
*Q. Now, I think you have testified that the sharing brokers did not do anything for those commissions they earned; is that correct?*

*A. I did not say they did not do anything.*

---

*\*See Chart P. 18.*

UNION TOWNSHIP COMMISSION SPLITTING



From 1962 to 1975, Total  
Commissions Split with Brokers

\$59,186.51

Q. What do they do?

A. I had said we had a meeting with them once or twice to discuss the whole insurance account.

Q. So for approximately \$60,000 you had two meetings with them?

A. I would say that, yes.

Q. And when did those meetings take place?

A. Oh, middle of '64 or '65, '66. Some place around in there.

Q. Now, these brokers were receiving commissions in the later years over a thousand dollars every year and they weren't doing anything in those later years. Why did you continue to share? What was the reason?

A. It was normal procedure.

Q. Was it a requirement to keep the insurance account?

A. It was never a requirement. No one ever told us that.

Q. Well, if they weren't doing anything, why not simply stop if it's not a requirement to keep the account?

A. It was standard procedure at the time.

Q. And the facts are that despite the brokers not doing anything, you continued to share until it was stopped in 1975; is that correct?

A. Until it went out for bid and we put a bid on the insurance account.

Q. Did you ever consider --

A. Which we retained, by the way.

Q. Did you ever consider this money a kickback?

A. Kickback never entered my mind or my family or Bunnell Brothers.

Q. Are you able to reduce commissions on an insurance account?

A. I understand that you're able to, yes.

Q. Did you understand this at the time?

A. Not fully because we have never done it.

Q. Did you understand, based on your experience, that you are and were able to reduce commissions?

A. I heard that you could reduce commissions. We have never done it. I do not know the procedure how to do it.

Q. But the fact is, you can reduce them; is that correct?

A. I, I, I believe so, yes.

Q. Did you ever inform the town of this fact?

A. No.

Q. Did you ever inform the town that if you cut out the sharing brokers, that you would be able to reduce your commission by approximately 20 per cent and thereby save the township approximately twenty-thousand, I mean, 20 per cent or \$6,000 a year?

A. Did we notify the township to that effect? No, we did not.

Q. Did you ever discuss that with anyone from the township?

A. Not that I know of.

Q. Did anyone ever ask you whether you could reduce your commissions or save the amount of money that was being given to the sharing brokers?

A. No one ever asked me.

Q. Did Mr. Russo have a conversation with you --

A. Yes.

Q. -- in approximately 1974?

A. Oh, yes.

Q. What was the substance of that conversation?

A. He wanted to eliminate the brokers that year and give the portion, the broker's portion, back to the township, which we could not do because that would be rebating, so we talked it over and we said we would continue on this year and we don't know what would happen next year.

Q. Now, Mr. Russo, who did he designate in the year 1974?

A. Mr. Russo designated, in 1974, Eugene Ecklund.

Q. And do you know when Mr. Russo first began to designate Mr. Ecklund?

A. Mayor Russo started naming Eugene Ecklund in 1970.



Q. So you were asked in 1974 whether you could lower commissions by giving it back to the township, and your reply was that you could not because that would be rebating; is that correct?

A. Well, we were talking on the premium that was already earned. We weren't talking the following year to Mayor Russo.

Q. Could you have reduced it the following year by lowering your commission?

A. You can reduce it down to no commission and not make any money at all, but I don't think you would be in business long, but you could reduce commission, yes.

Q. But what you're saying is that you could have reduced your commission by the amount you were sharing with the brokers and thereby reduce the total premium; is that correct?

A. I would --

Q. I'm just saying: Is it possible?

A. I would say it's possible, yes, but --

Q. Thank you.

A. But we have not done it.

#### Recollections of a Former Committeeman

The next witness was John A. Yacovelle, a Republican who served two terms on the Union Township Committee in 1968-73. Questioned by S.C.I. Counsel Robert M. Tosti, he described the role of a Township Committee member in the commission sharing process, which he viewed as a way of compensating sub-brokers for political rather than professional services:

Q. Did you learn, during your tenure as committeeman, that the principal broker for the Union Township insurance business, Bunnell Brothers, was sharing its insurance commissions?

A. Did I learn during my term in office?

Q. Yes.

A. Yes. I learned, I believe on the Organization Day, which is the first day of the year, when the, all of the appointments are announced, that Mr. Bunnell would be the agent for the insurance for the township.

Q. Okay. Did you subsequently learn that brokerage commissions were being shared by Mr. Bunnell with others?

A. Yes, I did.

Q. And where did that take place?

A. As well as I can recollect, to my best recollection, I believe that was in January of 1968.

Q. Was that during a caucus meeting?

A. That was during a caucus meeting.

Q. Not a public meeting?

A. Not a public meeting; caucus meeting.

Q. What was your initial reaction to this commission sharing program?

A. When it -- it was read in the form of a part of the official business being discussed that evening. In effect, it would be something like this: Mr. Bunnell is prepared, announces that he is prepared to make his distribution of the commissions to associate brokers.

That's the way it was presented, as part of the official business of that evening.

Now, my reaction to it at that time --

Q. Yes.

A. -- I thought that what they were referring to was the people who might have been on the payroll on the township, that these were people that were charged with the function of handling the insurance business of the community. That's my first reaction.

Q. Mr. Yacovelle, could you describe the mechanics of the procedure whereby you were to designate, as a committeeman, who you wanted to receive this brokerage commission?

A. Well, after you got the memorandum, that was the second notice that you got, actually. Then you would, you were required to submit a candidate to receive that commission, and following that, a communication, which I believe I showed you a copy of, was directed by the district clerk to the insurance underwriter, to Mr. Bunnell, indicating that the list was completed and that he was in a position now to make the distribution.

Q. Okay. You, as a committeeman, were asked to designate somebody; is that correct?

A. Right.

Q. And did each committeeman have the same power?

A. Each committeeman had exactly the same power.

Q. Now, based on your business background, were you surprised that this practice of sharing commissions was going on at that time?

A. Well, I -- yes, I was. I didn't understand the methodology by which it would be handled, and from my background, having served with the Procurement Division of the Treasury Department and worked for one of the big corporations in various capacities, including managing, I would say that it ran -- I couldn't understand it. I could not understand it.

Q. Well, specifically, you couldn't understand why people would get money for not doing anything; is that what the problem was?

A. My misunderstanding of it prompted inaction. I didn't comply.

Q. Okay. As a result of not complying with this system, did you receive word from somebody, or did you have a discussion?

A. I met with the mayor, and he asked me why I was the last person to submit the recommendation, and I told him, frankly, I said, "My background is business and I worked for the Treasury Department for two years in Procurement, and I cannot see anybody getting any money for not working if they are not working for it." And he proceeded to convince me that this was the best possible arrangement for the township, in essence. He indicated that it was the best because your insurance was with one agent, not separate agents. That prevented duplication; that provided responsible coverage.

Q. Had you, Mr. Yacovelle, had you suggested an alternative designee of the money?

A. No -- oh, yes. Yes, I did. I said -- he said, "Do you have a designee?" I says, "Yes, I do. That would be Bob Lackey, the Treasurer of the Township of Union." He says, "You must be kidding." And then he went into this discussion to convince me that this was the best program for the Township of Union for the reasons which I assigned.

He also brought up the point that insurance was becoming a very, very complicated matter in view of the growing fringe-benefit areas in the form of Blue Cross/Blue Shield; in the form of catastrophic coverage and other ends of it.

As a --

Q. As a result of that --

A. (Continuing) As a result of that, he convinced me that that program was sound.

Q. Did you subsequently change your mind about the program?

A. Well, I would say that the -- my initial impact of it was never changed. It wasn't the solution, as far as I'm concerned, to the best -- to the problem, to the question of the best way of handling it, and that did not change.

Q. Okay. If I understand you correctly, then, the problem that you perceived was that individuals were receiving money for essentially performing no services for Union Township?

A. No, no. You have that distorted a bit because from his persuasive argument, the mayor argued that these five individuals who were nominated to receive commission, distribution of commission, or a share of the commission, and I think commission, according to the Webster's Dictionary, means payment for something, work or something like that, but it's payment, were qualified to receive a share of the commissions on the basis that they made themselves available for consultation by the township committee, consultation by the underwriter, at any time that it was requested, so --

Q. Mr. Yacovelle, did you eventually learn or realize that these designated brokers did little for the money they actually received; that they were actually called on to consult very infrequently?

A. That is correct. As far as I can recollect, it was just a matter of a few times, maybe, in my experience. In the six years, a half dozen times, maybe eight times, something like that, that I saw anyone come before the governing body and to come into a discussion.

Now, whether there was communication between the principal underwriter, Mr. Bunnell, and these people on the telephone pursuing advice, I wouldn't know about that. He may have worked them to death on that, but on the other score, on the other hand, on the other face of the coin, I would say that one coming before the group, they were conspicuous by their absence.

*Q. How did you decide upon whom you would designate?*

A. I took it as a very lightly matter, a good fellow, reputable insurance person, someone who I knew, and I picked the fellow I knew from my -- from the church, that I went to church with, and I did not know what his political affiliation was when I named him.

*Q. And you're referring to Mr. Bauer?*

A. William Bauer.

*Q. That was your first designation?*

A. Yes, sir.

*Q. How about subsequently during your later years in office; who did you designate at that time?*

A. I designated Koloman Kiss, who was a former township committeeman, and after his defeat in '69 he went back to his insurance business, and he asked me to consider him for the, to qualify as the recipient as the distribution of commission.

*Q. And who was your final designation?*

A. The final designee was Robert Ostertag, who bought out the insurance business of Mr. Kiss and was confined entirely, separated from government function and was concentrating his whole attention to the insurance business.

*Q. Was politics a factor in the selection of Mr. Kiss and Mr. Ostertag?*

A. Yes, it was.

X X X

*Q. Mr. Yacovelle, did you understand why the check would be mailed to you rather than directly to the sharing broker?*

A. Do I look like a stupid guy?

Q. Of course not, Mr. Yacovelle.

A. Um-hum. Sure I wondered about it, why it would be sent to me, but at the same time I knew that being a public official, that I had conducted myself accordingly, even if I were running for office, that there were no questions that I could ask pertaining to it.

Q. If I understand you correctly, the check came to you?

A. Right.

Q. The check came to you rather than the broker?

A. Right.

Q. Who Bunnell Brothers was aware of the location of their office or home?

A. Correct.

Q. The question I'm asking you is: Why this circuitous route through the township committeeman who would then deliver or mail the check?

A. Well, that's one of the ponderables, but the -- which I can't answer; I can't decipher; I couldn't understand. It was actually an insult to my intelligence of the way I would handle a situation like that. Now -- but whether it had any meaning, I don't know, and if you're driving at the point of whether there was any political implications, I think your question was that, correct?

Q. Well, was this used as a --

A. I would have to be naive not to allow for the possibility of some of these funds getting into the political proffers. I would have to be naive not to think some of it was contributed to the political proffers.

Q. Now, after your acquaintance with this system, were you still concerned about the overall propriety of this insurance brokerage commission sharing?

A. No. I settled that as soon as I received my notice, memorandum, by calling up my son, who is an attorney in Cherry Hill, and I asked him, "John, what do you think about this thing?" And he said, "Dad, it may be legal, but it doesn't sound right to me."

Q. And is that the way you still feel about it?  
A. That is the way I felt about it then; that is the way I feel about it now.

How Split Fees Become Political Contributions

Richard J. Dreher, an accountant who operated a part-time insurance business at his home, was the first recipient of shared commissions to testify. He told how he customarily made certain political contributions immediately after receiving split-fee checks, including two \$500 contributions one year when he received two commission sharing checks.

BY MR. SCHIRMER:

Q. Now, my understanding is that you were sharing in commissions in Union Township for the years 1967 to 1975; is that correct?  
A. Yes, sir.

Q. Referring your attention to the year 1974, how did you receive that commission sharing check?  
A. I don't know what you mean, "How did I receive it."

THE CHAIRMAN: In what form?

THE WITNESS: It was in a check.

THE CHAIRMAN: Where, through the mail or presented by some person? Tell us.

THE WITNESS: I really don't know. Could have been by mail. Might have been given to me. I don't remember, now.

Q. Who would it have been given to you by?  
A. I can't recall who would have given it to me.

Q. The checks that you were receiving each year, were you expected to contribute out of these checks?  
A. Not necessarily.

Q. Was there any understanding that you had as far as your contributions?

A. Only what I knew from past practice.

Q. And what was your understanding of the past practices?

A. Well, as a member of the party, I used to make campaign contributions.

Q. Would you make it shortly after you received a shared commission check?

A. It might have been, yes.

Q. I'm next going to show you a check dated February 28th, 1974, from Bunnell Brothers to Richard Dreher in the amount of \$1,169.74, which has been marked Exhibit No. 30. Do you recognize that check?

A. Yes, sir.

Q. And who might you have received that check from?

A. Could have been the municipal chairman at the time.

Q. And who was the municipal chairman at the time?

A. I don't recall the years. There were --

Q. Mr. Casey was municipal chairman in 1974.

A. Could have been, right.

Q. Could it have been Mr. Casey?

A. Possibly may have.

Q. Do you know what you did with that check?

A. Probably deposited it in my account.

Q. Again, referring to that check, which is marked Exhibit No. 30, would you turn that check over and tell the Commission when it was negotiated?

A. I think it says March 22nd, here.

Q. March 22nd, 1974. I'm going to show you a bank statement, your bank statement, Richard J. Dreher, marked Exhibit No. 32, for the time period March 18th, 1974 to 4/5/1974, and I'd ask you to identify that, if you can, and then refer your attention to March 22nd, 1974.

A. I have a deposit of \$465.



Q. Could that have been part of the proceeds from that check?

A. It may have been.

Q. Do you know what happened to the other proceeds of that check?

A. I can't recall that, no. I don't.

Q. Did Mr. Casey ask you for a contribution that day when he brought you that check?

A. Not that I recall.

Q. Did you make any contributions that day?

A. I probably -- I may have. I probably did, but I may have cashed the check and made a contribution.

Q. Put part of that check in your account and then made a contribution?

A. That's possible.

Q. How did you make that contribution?

A. I can't recall right now.

Q. I might be able to help you with your recollection.

I'm going to show you Exhibit No. 31, which is a deposit slip for the Friends of Father Staton, dated March 22nd, 1974, in the amount of \$700, which is approximately the difference between your deposit of \$465 and the total commission check that you received and negotiated on March 22nd, and I'm going to ask whether you recognized this deposit slip and tell me whether that's your writing, March 22nd, 1974.

A. It looks like my writing, yes.

THE CHAIRMAN: All these three papers you have shown the witness are the same date, March 22nd; is that correct?

MR. SCHIRMER: Correct.

BY MR. SCHIRMER:

Q. Where did you get that deposit slip from?

A. Must have gotten it from someone in the organization. I don't know who.

Q. Mr. Casey?

A. Possibly.

Q. Isn't it a fact that Mr. Casey brought you the check, brought you the deposit slip and instructed you that you were to deposit \$700 into the party account?

A. I don't remember anybody telling me how much I had to deposit. He may have brought me a deposit slip. I'm not sure of that, either, because I can't recall that.

Q. Would it surprise you that another sharing broker, who received two checks in the year 1974, deposited two seven-hundred-dollar donations shortly after that, and that that deposit was made at the request of Mr. Casey?

A. Well, I have no knowledge of any other broker, sir.

Q. How would you decide that \$700 should be deposited? Why did you come to that figure?

A. I don't know.

Q. Can you recall discussing it with anyone?

A. No, sir.

Q. If I can, I'd just like to go to the chart,\* Mr. Dreher.

A. Sure.

Q. On 2/28/1974 Bunnell Brothers distributed their checks. On March 22nd, 1974, you received your check for \$1,169.74, and the same day you had a transaction where \$700 was given to the Friends of Father Staton account, and you don't know why that occurred?

A. I don't know why it occurred. I can tell you this: I probably made the deposit, and I was probably given the deposit slip by Mr. Casey because I probably would have made a contribution in any event.

Q. At the same time he delivered the check?

A. Could have been. Wouldn't necessarily have been the same time.

\*See Chart, P. 36.

Q. In 1975, who did you receive the checks from? My understanding is that you received two sharing checks.

A. That's right.

Q. And how much were those checks for?

A. I believe they were twelve-hundred a piece.

Q. I'm going to show you Commission Exhibits 35 and 34, both checks made out from Bunnell Brothers to Richard Dreher, dated February 18th, 1975, in the amount of \$1,204.50 each. Are these the checks that you received?

A. Yes, sir.

Q. And how did you receive those checks?

A. I think I got one of these in the mail.

Q. How did you receive the other check?

A. I think that --

Q. From Mr. Casey?

A. Possibly, yeah.

Q. Did you put one check in the bank at one time and the other check at the other time, some other later date?

A. I believe I did.

Q. You don't remember receiving those checks the same day?

A. No, sir.

Q. You don't remember putting those checks in the bank at the same time?

A. No, sir.

Q. I'm going to show you Commission Exhibit No. 36, which is a deposit slip for the Dreher Insurance Agency, dated March 7th, 1975, and the deposit shows two checks for \$1,204.50 for a total of, total deposit of, \$2,409, and I ask whether you would tell the Commission whether that's your deposit slip and whether you made it out.

A. Yes, it is.

Q. I then refer your attention to Exhibits Nos. 34 and 35, and would you tell the Commission on what date these were negotiated?

A. Sir, that necessarily doesn't mean -- I may have held the one I got in the mail. That's all. I might not have deposited it right away.

Q. But you would admit, that they were put in the bank at the same time?

A. Oh, yes.

Q. You will admit that these are the two checks that are reflected on the deposit slip?

A. That's correct.

Q. March 7th, 1975; is that correct?

A. That is correct.

Q. And your only recollection is possibly Mr. Casey brought you one check; is that correct?

A. It could be, yes.

Q. Do you recall talking to the Union County Prosecutor's Office in 1975 where you informed the investigator, Investigator Bonelli, that both checks were brought to you by Mr. Casey?

A. Sir, you're talking four years ago. It's possible. I have no -- you have all my records. I have no record to fall back on and check.

Q. I'm going to show you Commission Exhibit 43, dated August 19th, 1975. It's a memorandum from Investigator William R. Bonelli, Jr. from the Union County Prosecutor's Office, and it refers to an interview with you shortly after this incident.

You will notice that the incident took place March, 1975. This interview was conducted August 19th, 1975, and I'm going to refer your attention to the middle of the page, and isn't it a fact --

A. Sir --

Q. -- that memorandum, that memorandum states that you received a check from Mr. Casey?

A. It does. That was closer to the date, sir.

Q. So probably your recollection was better then than it is now?

A. That is right.

Q. I'm going to -- at the time Mr. Casey brought you a check, did he ask for a contribution?

A. I don't believe so.

Q. Did he bring a deposit slip?

A. When.

Q. At the time he brought those checks.

A. No, sir; no, sir; no, sir.

Q. I'm going to show you, from Richard Dreher to the Anthony E. Russo Association Cocktail Party account, dated March 7th, the same day as your deposit, in the amount of \$500. Is that your check?

A. Yes, sir.

Q. Is that the same check that you made out that day or, in fact, did you make that check out the same day?

A. Well, I made it out on March 7th.

Q. I think it's pretty obvious that that's the same day that you filled out the deposit slip which reflects your receiving \$2,409 as a sharing broker --

A. Could be.

Q. -- based on your designation by committeeman.

A. Could be.

Q. I'm next going to show you a deposit slip dated March 7th, 1975, to the Anthony Russo Association Cocktail Party account in the amounts of \$500, and the number of this is Commission Exhibit 39.

Isn't that the deposit slip that Mr. Casey brought you on the day he brought you those checks?

A. I can't recall whether he brought me the deposit slip or not. I made this deposit slip out, that's true. I was going to make a contribution and probably, for convenience, I did it this way.

Q. The same day that Mr. Casey brought you the checks?

A. It's possible.

Q. Who was the person that normally called for contributions, Mr. Casey? He was the party chairman.

A. That's right.

Q. Did he instruct you at that time to give \$500?

A. No, sir. No one has ever told me how much to give at any time, that I know of.

Q. I'm going to next again refer your attention to Commission Exhibit 43, which is Mr. Bonelli's memorandum concerning a conversation with you dated August 19th, 1975, approximately six months after the incident, and you will notice -- do you remember what you said to Mr. Bonelli about giving \$500?

A. Offhand, I don't. I don't recall mentioning any percentage to anyone, sir.

Q. Do you recall mentioning to Mr. Bonelli \$500?

A. Possibly, yes. If that's what I did.

Q. And that year you received two commission sharing checks; is that correct?

A. That's right.

Q. Did Mr. Casey ever call upon you to give a second \$500 based on the fact that you got two sharing checks that year?

A. I don't believe so, sir.

Q. I'm going to show you Commission Exhibit No. 42, which is a check from the Dreher Insurance Agency to the Anthony E. Russo Campaign Fund, dated May 15th, 1975, in the amount of \$500. Is this your check?

A. That is correct.

Q. And isn't that the second contribution you made to the party based upon receiving two checks from the party?

A. It's the second contribution I made, but I wouldn't say it was based on those two checks.

THE CHAIRMAN: Well, what would you say it was based on?

THE WITNESS: That I made a contribution to the campaign fund, sir.

THE CHAIRMAN: Based on nothing? In the interest of the party?

THE WITNESS: That's right.

THE CHAIRMAN: No relationship at all in your judgement, in your recollection, to the sharing of commission?

THE WITNESS: Well, it probably influenced to make the contribution.

BY MR. SCHIRMER:

*Q. Were you directly asked to give \$500 that year at this second occasion?*

*A. Not that I recall, sir, no.*

*Q. Would it help refresh your recollection that another sharing broker that received his commission due to a designation by a committeeman also gave \$500 in the beginning of the year, approximately the same time you gave it, and later on was requested to give another five-hundred because that broker, just like yourself, was designated by two committeemen and received two sharing checks?*

*A. Sir, I have no knowledge of any other broker except myself. I never discussed it with anybody else.*

*Q. Are you denying that there is not a definite relationship between yourself receiving the checks and the amount of money that you're giving back to the party?*

*A. No.*

THE CHAIRMAN: You're not denying it or you are denying it?

THE WITNESS: I'm not. It probably influenced my contributions, yes.

COMMISSIONER FRANCIS: If not the fact of the amount, were you asked to make "a" contribution?

Union Township

Commission Sharing and Political Contributions

1974

2/28 Bunnell Brothers splits commission:  
1. Eugene Ecklund - \$1,169.73  
2. Eugene Ecklund - \$1,169.73  
3. Richard Dreher - \$1,169.74  
4. Max Serota - \$1,169.74  
5. Robert P. Ostertag - \$1,169.74

3/18 Ecklund negotiates \$1,169.73 commission check

3/22 Dreher negotiates \$1,169.74 commission check

-36- 3/22 Dreher deposits \$700 to Friends of Father  
Staton account

3/25 Ecklund negotiates \$1,169.74 commission check

3/25 \$1400 deposit into Union Township Democratic  
Municipal Committee account

1975

2/18 Bunnell Brothers splits commission:  
1. Eugene Ecklund - \$1,204.50  
2. Eugene Ecklund - \$1,204.50  
3. Richard Dreher - \$1,204.50  
4. Richard Dreher - \$1,204.50  
5. Max Serota - \$1,204.50

2/20 Ecklund negotiates \$1,204.50 commission  
check

3/5 Ecklund negotiates \$1,204.50 commission  
check

3/5 Ecklund contributes \$500 to Anthony E.  
Russo Association Cocktail Party account

3/7 Dreher receives two commission checks  
for \$2,409.00

3/7 Dreher contributes \$500 to Anthony E.  
Russo Association Cocktail Party account

3/10 Dreher deposits two commission checks

5/15 Dreher contributes \$500 to Anthony E.  
Russo Campaign Fund



THE WITNESS: Possibly.

COMMISSIONER FRANCIS: By Mr. Casey?

THE WITNESS: It might have been. He usually --

COMMISSIONER FRANCIS: It was, wasn't it?

THE WITNESS: It could have been, sir. I really can't recall.

COMMISSIONER FRANCIS: Wasn't he the principal fund raiser for the Democratic Party in the township?

THE WITNESS: He was a Democratic chairman. Yes, he was in charge.

#### The Political Leaders' Role

The second sub-broker to testify about receiving commission shares and then making political contributions was Eugene Ecklund, an insurance broker. He was designated as a split-fee recipient in the early 1970s by Senator Anthony E. Russo, who was then a member of the Township Committee. In 1974 and 1975 he received additional sharing checks because he also was designated as a recipient by another member of the Committee. Mr. Ecklund was more precise than the previous witness in remembering the part played by local political leaders in these check transactions. Counsel Schirmer:

*Q. It is my understanding that for a period of years, 1966 to 1975, that you were sharing commissions in the Union Township account; is that correct?*

A. That's correct.

*Q. Who were you originally designated by?*

A. I could be wrong, but I believe it was Commissioner Conlon at the time.

*Q. And then your designation was switched. Who was it switched to?*

A. I believe it was Anthony Russo.

Q. Now, when you were originally appointed by Mr. Conlon, and after you received the first check, the commission sharing check, did you call up Mr. Conlon?

A. Well, it's so long ago, but I believe I probably did call him up, yes, and thank him.

Q. And what was said?

A. Well, I don't remember that far back as to exactly what was said. I believe probably just called him up to thank him for designating me as one of the sharing brokers.

Q. When Mr. Russo designated you the following year, 1968 -- I'm sorry, strike that, 1967, did you call Mr. Russo after you had been designated to thank him?

A. I don't remember calling him. I'm sure that I had thanked him on some occasion; whether it was at one of the Democratic meetings or the next time I saw him.

Q. Did he say something to the effect that you're expected to continue to support the party?

A. Something like that might have, might have occurred. I don't know, remember, the exact words, it's so long ago.

Q. Referring your attention to the early years of 1970, do you recognize the name of Jack MacDonald?

A. Yes, I do.

Q. And who is Jack MacDonald?

A. For a time he was the Union Township Democratic chairman.

Q. Did you have any contact with Mr. MacDonald as it relates to the commission sharing checks?

A. Yes, I did.

Q. And what was that?

A. Mr. MacDonald would call me when the commission checks were sent. Most of the time he would get the checks.

Q. Approximately what time period are we talking about; 1972, 1973?

A. I believe that would be about right.

Q. When Mr. MacDonald called you, what would he say; that he had the checks?

A. He would call me and say I have the commission check, meet me at the Union Center Bank.

Q. And what would happen at the bank?

A. I would cash the check at the Union Center Bank.

Q. And what would you do from the proceeds from that check?

A. I would give Mr. MacDonald some portion of the check for the party, campaign contribution.

Q. Would he tell you how much was expected?

A. Normally he would, yes.

Q. About how much are we talking about, several hundred dollars?

A. Oh, it would be \$500, could be \$700. Depending upon the size of the check.

Q. Oh how many occasions did Mr. MacDonald meet you at the bank?

A. I don't remember exactly, but I would say maybe three, about three times.

THE CHAIRMAN: You gave him cash in approximately half of the check received; is that correct?

THE WITNESS: I always gave him cash, yes, and it would vary in amount, but I would say approximately 50 per cent.

It didn't always amount to exactly 50 per cent, but approximately

COMMISSIONER FRANCIS: Who suggested that it be cash?

THE WITNESS: He did.

BY MR. SCHIRMER:

Q. Now, he took that cash. Do you know what he did with it?

A. Put it into his pocket.

X X X

Q. Do you recognize the name Howard Casey?

A. Yes, I do.

Q. He's the next chairman of the party, correct?

A. That's correct.

Q. 1974-1975?

A. That's correct.

Q. Did you ever have any contact with Mr. Casey concerning the receipt of commission sharing checks?

A. Yes, I did.

Q. And referring your attention to the year 1974, what happened in that year, if you recall?

A. I believe I would also get a phone call from Mr. Casey advising me that either I had received the checks or that the checks were in, or that I would be receiving the checks, commission checks, that is, and that I would, if I could meet him at the Franklin State Bank in Hillside, New Jersey.

Q. I'm going to show you two checks from Bunnell Brothers to Eugene Ecklund, both checks marked for identification purposes 44 and 45. The date of the checks are February 28th, 1974, and both checks are in the amount of \$1,169.73, and I'd ask whether these are the checks that you received from Mr. Casey or that you were notified by Mr. Casey that you were in possession of.

A. Yes. Both checks have my signature on the reverse side endorsing the checks indicating that I cashed the checks.

Q. Could you give me the transaction date on both checks?

A. It looks like March the 25th, 1974 on one; and March the 19th, 1974 on the other.

Q. So there's a different date as far as when you negotiated those checks?

A. Yes.

Q. You met Mr. Casey at the bank. He asked for some money. Do you know how much he asked for?

A. It's been a few years, but I'll take a guess. I think it was somewhere around \$500.

Q. First I'm going to refer your attention to the chart which the Commission has prepared,\* and it shows the sequence of events for the year 1974, Union Township, purchaser of insurance, paid approximately \$234,000 in premiums. They sent that premium to Bunnell Brothers. Bunnell Brothers then took part of the commission, approximately 20 per cent, gave it to five sharing brokers, and these brokers were designated by Committeeman Yacovelle, Committeeman Rabkin, Committeeman Russo, Committeeman Staton and Committeeman Conlon, and you are shown in the year 1974 as being designated by Committeeman Russo.

Also it shows that as far as 1974, the check as brought by Mr. Casey to you, and it also indicates, this chart, that in 1974 Mr. Casey also brought the check to Mr. Dreher.

I then refer your attention to the chart\*\* which is next, and it shows the transactions, the check transactions for the year 1974.

As you will notice, on 3/18 you negotiate one check for \$1,169.73. Then on March 25th you negotiate a second check for \$1,169.74, and on the same day there's a deposit, and I think you said in your testimony that the same date that you received that check from Mr. Casey, that you made a deposit to the account.

If not clear yet, what happened once you gave the money to Mr. Casey? What did Mr. Casey do with the money in 1974? What was the normal pattern?

A. Normally he would do two things: He would give me tickets or set aside certain tickets for a function which was in process for the amount which I gave him; and he would, he would show me that the money that I was giving him went into the bank account.

Q. Unlike Jack MacDonald?

A. Correct.

Q. Mr. Casey met you in the bank?

A. Yes.

Q. Mr. Casey informed you how much you were expected to give that year?

A. Yes.

\*See Chart, P. 13.

\*\*See Chart, P. 36.

Q. You then cashed both checks?

A. Correct.

Q. And you gave that amount, and that amount is deposited on the same day that the check is negotiated; is that correct?

A. The one check.

Q. The one check?

A. Yes, yes.

Q. What happened in 1975; you received two checks again; is that correct?

A. That's correct.

Q. I'm going to show you Commission Exhibits 48 and 47. They're checks from Bunnell Brothers to Eugene Ecklund, dated February 28th, 1975, both in the amounts of \$1,204.50. Are they the checks you received that year?

A. Yes. Both the checks have my signature on the reverse side indicating that I cashed both checks.

Q. Now, how did you receive those checks?

A. I don't recall offhand, but I probably received them in the mail.

Q. Did Mr. Casey bring those checks, at least one of those checks?

A. He may have. It's been a while. He may have.

Q. I'm next going to show you a deposit slip marked Commission Exhibit 49 for identification. It's made out to the Anthony E. Russo Association Cocktail Party account, dated March 5th, 1975, in the amount of \$500, and I'd ask whether you recognize that deposit slip.

A. I recognize the deposit slip. The writing indicating the account that it was being deposited, it is not my writing. It was written by someone else.

Q. Are you referring to the writing in the upper left-hand corner that says "Name Anthony E. Russo Cocktail Association account"?

A. Yes.

Q. But the writing which is the date, March 5th, 1975 and the numbers, they're your writing; is that correct?

A. Yes. I recognize that that is my writing, yes.

Q. Now, referring to the checks which I showed you, Commission Exhibit Nos. 47 and 48, would you look at the back of those checks and tell me when they were negotiated?

A. One check was negotiated on February the 20th, 1975.

Q. Which is not the same as that deposit; is that correct?

A. That's correct.

Q. The second check, would you tell me when that is negotiated? It appears to be March 5th.

A. Yes. It is difficult to read, but it appears to be March the 5th, the same --

Q. 1975?

A. 1975. The same date as the deposit slip.

Q. There are some numbers on the back of that check under your name you have signed in the back, Eugene Ecklund, and there's two account numbers. Do you know what those account numbers are?

A. Yes. One account number is 19700444, and that was my personal account number at that time. The account is no longer open, but it was my personal account number.

Q. And what is the other account number?

A. The other account number is 331210932. I would assume -- I don't have to assume because I have it right in front of me, it's the account number of the Anthony E. Russo Association.

Q. Would you know what that account number is by your own, or would someone have to tell you that?

A. Somebody would have to tell me that. I wouldn't have known.

Q. Isn't it a fact that when you went to the bank you tried to cash that check; that there was not enough money in your account and Mr. Casey gave you that number so you could cash the check?

A. That is correct.

Q. Just so I can summarize, Chart No. 2\* in the year 1975, Mr. Bunnell split his commissions on 2/18/1975. As you will notice, you received two commission checks. You negotiate the first check on 2/20, and you negotiate the second check on 3/5/1975. On the same day you give \$500 to the Anthony E. Russo Association Cocktail Party account.

Were you approached again that year for \$500?

A. Yes.

Q. And who approached you?

A. I received a call from Howard Casey.

Q. And what did Mr. Casey say? What did Mr. Casey want?

A. Well, I don't recall his exact words, but it was something to the effect that, "You received two checks and we'd like an additional donation or contribution."

Q. And you refused to make that contribution; is that correct?

A. That's correct.

#### EXAMINATION BY THE CHAIRMAN:

Q. Mr. Ecklund, as I understand it, you received these commissions, split commission checks, during the period '66 through '75, roughly those years?

A. I believe it was before '66.

Q. For a period roughly ten years, you received these checks, did you not?

A. Approximately nine years I would assume.

Q. -- tell us what you did in return for these checks in relation to the insurance program.

A. Well, on several occasions I did call Bunnell Brothers offering my services and requesting to look at the policies to see

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\*See Chart, P. 36.



if I could, perhaps, better the coverage or reduce the premiums or place them with other carriers, because at that time I was in the insurance business and I represented some substantial carriers.

*Q. Then what happened?*

A. My services were refused on all the occasions by Bunnell Brothers, and I was told almost in uncertain terms to stay away and if I -- my services were required, they would be -- I would be called upon by the township committee and I should talk to the township committeeman.

*Q. Were you ever called upon during those several years?*

A. I was never called upon. I did have several conversations with several of the township committeemen over the years.

#### A Senator Decries the System

Anthony E. Russo of Union Township, a Democratic state senator from Union County and a former mayor and member of the Union Township Committee, was called by S.C.I. Deputy Director David L. Rhoads to tell what he knew of the commission sharing practice in his community. Before he was questioned, however, he asked Chairman Lane if he could preface the interrogation with a statement:

THE WITNESS: Commissioner, Judge, I come before you because I have asked to come before you. I made several calls to the S.C.I. over the past several months. I wanted to address the four members, and we were having difficulty in arranging that particular session, and so I most heartedly welcome this opportunity this morning.

I'm going to ask, if you would be kind enough, to let me speak to you and address the insurance question in detail from the beginning until the end. Then I would subject myself to any questions that you may have after that point.

I realize I may be asking you to deviate from your procedure, but it's of the utmost importance to me. I think I'm in a better position than anybody in Union Township at this moment and inform you and apprise you as to what has happened over the years.

THE CHAIRMAN: I think we would agree to that procedure. Go ahead, sir.

THE WITNESS: As you know, a civil action is pending in Union Township. A taxpayer's suit was instituted a few years ago by Leonardis, a Republican member of the governing body and several members of the Republican Organization. The action was held -- the action was appealed to the Superior Court, the Appellate Division, where it was reversed and remanded and subsequently certification was requested by the Supreme Court, which was denied.

This matter involving Union Township insurance was presented to the Union County Prosecutor in 1975 by Leonardis, the Republican member of the governing body, Earl Henwood, the Republican chairman of Union, and Assemblyman R. Louis Bassano, a Republican member of the governing body of Union, and I had no doubt at that point it was politically inspired.

Judge McGrath, who is serving in the Superior Court, was serving as the prosecutor at that time. He threw the matter out. He said there was no criminal activity involved.

In 1977 the same group of individuals, Henwood, Bassano and Leonardis filed another complaint with the then Acting Prosecutor Evans of Union County, and that resulted in the same fashion, it was thrown out, but there was no basis for any action.

I mention all this to you because I think the activity at that time was politically inspired, but I'm glad it happened because it now focuses attention on a particular topic that requires attention.

Some action should be initiated by the State of New Jersey to improve the situation that presently exists among municipalities, counties and the State of New Jersey.

I want to go back to the year 1962. January of 1962, the present mayor of Union, James C. Conlon, and I assumed office as township committeemen. In January of 1962 we were minority members of a five-man governing body, and those of you who may remember the days of the late Edward Biertuempfel know that he created and maintained the political dynasty in Union County, in Union Township.

Mayor Biertuempfel ran the entire community. He was not only the mayor of the community, he made the decisions of the entire governing body. He ran the party as well as the government, and I make mention of that fact to let you know as minority members James Conlon and I had very little to say.

In January of 1962 we were advised by Mayor Biertuempfel that we have in Union Township, gentlemen, a program involving insurance which is as follows: We designate one broker as the agent for the entire community. Then five participating brokers get involved and they share 50 per cent of the commissions.

We were not asked whether we think it's a good program or bad program. We were told that's the program and that's the procedure we had to follow. I didn't like it. I didn't like it at all, but you have to understand, the control of that community was in Biertuempfel's hands from 1929 until 1973, a very long period of time, and I want to take a moment with you to review some of the early minutes of the governing body of the Township of Union, and I'm going back, I'll take you back to a period in time before I was born.

I go back to the minutes of May the 5th, 1925, May the 5th, 1925. The minutes indicate that Robert Bunnell was the insurance agent for the community. That's three months and one year before I was born. This is the same Robert Bunnell who's active in the insurance business today.

I make mention of that fact to let you know that Robert Bunnell, who was not a friend of Anthony Russo or James Conlon the minority members of the governing body. I make mention of that fact to let you know this was a Biertuempfel appointment.

In 1926 the records indicate that the Robert Bunnell Agency was a broker for the community of Union.

In 1927 the minutes reflect the name of Doll also being one of the brokers, a D-o-l-l.

Minutes of March 5th, 1928 reflect the names of Herbert Doll and Bunnell Brothers once again.

The minutes of September 10th, 1928 indicate the name of Hugo Biertuempfel as one of the brokers and in addition to the others.

The minutes of February 19th, 1929 indicate the name of Herbert Doll.

The minutes of May 28th, 1929 reflect the name of Bunnell Brothers.

The minutes of April 22nd, 1930 indicate the name of Hugo C. Biertuempfel, among others, and I go on and on. I have the minutes all the way up through the sixties. These minutes all indicate that the name of Bunnell was active in the insurance practice in Union through those years, among other names.

I was also opposed from the very beginning with respect to the insurance program as it existed, but, in any event, Mayor Biertuempfel in those days stated you two minority members of this governing body must present to us two names of local insurance brokers for the purpose of letting them participate in the insurance program.

As a result, we consulted with the township chairman at that point, and the township chairman furnished us with the names. As I recall, one of the names was a James Genovese. Offhand, I don't recall the other name, and each year the township chairman furnished the two minority members of the governing body with the two names that he requested that participate in the insurance program.

I believed, I believed that Mayor Biertuempfel instituted this program, and I say this by way of speculation, because from reading the early minutes of the township, he had a problem, and the problem was this: I have many friends in the political organization - again, this is sheer speculation - I have many friends in the political organization who desired to insure this community, politics being what it is, which one of these friends do I select as the insurance broker? And this could become a problem.

I, I guess he took the easy way out by selecting one broker and telling the other friends, "Gentlemen, you're not being squeezed out completely. You're going to consult and become part of this team and the net proceeds, the commissions, rather, will be shared."

Again, that's sheer speculation. I assume that by, and speculate, by having read all of the minutes of the township committee over the years, and I also assume that he regarded it as a mode perhaps of avoiding duplication of coverage, but, in any event, I didn't like the system. I didn't like the system, and on many, many occasions, the township attorney at that time was one Gustive Kein, I consulted him as to the legality, and he told me it was perfectly legal. The division of insurance commissions between and among participating brokers. I spoke with the Department of Insurance over the years. I was advised that the division was perfectly legal.

I learned, I subsequently learned that this program was in effect not only in Union Township, it was in effect in the City of Elizabeth, City of Linden, Paterson, Newark, Irvington, Springfield, Middlesex County, Union County, New Brunswick, Hunterdon County, Phillipsburg, Summitt, the Trenton Board of Education, Marlboro Board of Education, Summit Board of Education. In fact, right here in the State of New Jersey was involved in the same program up until a few short months ago, as I understand it.

So I mention all that to you, to let you know, gentlemen, this was something not novel to Union Township. It was all over the state of New Jersey. Good or bad, that was the program, and people in government come to accept it as an accepted practice.

In any event, notwithstanding, I despised the program. You may ask me why. Why didn't I like the program? I felt that that money that was being divided, plus the actual commission, the entire commission given to the broker, could have been saved somehow by the community and that way passed on to the taxpayer.

How could this be accomplished? I consulted with the Bunnell Agency asking the Bunnell Agency whether or not it would be possible to reduce the commission to the township, cut out the participating brokers, reduce the commission to the township. He stated no, it couldn't be done. It was illegal because this is insurance rebating.

I subsequently checked the law. It's clearly set forth in Title 1729A-15. This will come under the classification of insurance rebating. If any broker participate in rebating, he's subject to the loss of his license, so that could not be accomplished, and I was informed, and until this day I believe, that the commission, the cost to the Township of Union, would be the same whether Bunnell participated with the other brokers or not; whether he kept the money or participated had no effect on Union Township because there was no way we could reduce the premium.

I never knew the Bunnell family. I had the Bunnell family in my office in 1973, in December, for the first time because I was going to become mayor for one year commencing January 1st, 1974, and in that regard I wanted to speak to the Bunnell family because, again, I had small reservation about the legality.

And now I want to take a few minutes to take you through what I tried to accomplish in nineteen years of government, trying to upset, and it's ironic that I'm here before you today, because you're going to be hearing testimony here for the next three days and you're not going to have one witness come before you who tried to do what I tried to do in fifteen years.

My record is here. The documents are here. I tried since 1962 to put another program into effect to save the people money. What did I do? Here's what I tried to do: In 1962 and in 1963, I introduced several discussions among the township committee members with regard to the insurance program in an effort to change the entire system. I felt that there was a possibility, or a better way of handling the insurance coverage in order to save the township money. I didn't know what it could be, but, again, I was on a fishing expedition. I wanted to do something because I didn't like what we had.

I have the township minutes of February 22nd, 1963, Judge Lane. I think I already submitted those to the S.C.I. Those minutes indicate after a series of conferences between

me and Mr. Clyde Arnold, a local insurance agent who resides on Meister Avenue in Union. I invited him to a township committee meeting of February 26th, 1973 in order to permit him to make a survey of our coverage and perhaps put a new system in effect. I knew I couldn't do it because Mayor Biertuempfel was too strong. He controlled the community, so I thought maybe by bringing in the broker, maybe I'd have a chance.

On April 4th, 1963, I have in my file here, and you should have it, a copy of a release that indicates the insurance brokers in Union Township have been meeting with the Bunnell Agency, to what extent, I don't know, and I don't know how long those meetings continued, but in 1963 they were meeting in an order -- they were meeting with him in order to discuss proper insurance coverage for the community.

On April 9th, 1963 in the Union Township Union Leader newspaper, an article appears that Clyde Arnold did visit with the township committee.

On February 26th, 1965, I sent a letter to Mr. Edward Fielek of Sayreville, he was the mayor at that time, concerning an article that he caused to appear in the Newark Star-Ledger with regard to a proposal made on his part involving self-insurance. I liked what I read.

On February 26th, 1965, I wrote to Bunnell inquiring as to the total amount of premiums, including all the coverage for Union Township, because I wanted this information to fortify myself in case I got back some good information from Mayor Fielek.

On March the 3rd, 1965, I wrote to the League of Municipalities and I inquired as to whether there were any municipalities in the entire state of New Jersey that were involved in self-insurance.

March 5th, 1965, I received a communication from the Borough of Sayreville advising me that Mayor Fielek in that community to date had had no plan worked out for self-insurance.

THE CHAIRMAN: Excuse me for a minute.

You apparently agree on wholeheartedly with the Commission that a great deal of reform is long overdue, obviously.

THE WITNESS: I do.

X X X

THE WITNESS: March the 8th, 1965, I received a letter from the New Jersey League of Municipalities informing me that they could not furnish me with any information on self-insurance.

The township committee meeting minutes of June, 1965 indicate I requested of the town governing body a study of the possibility of engaging in a self-insurance program. My request was rejected.

September the 11th, 1969, I submitted a release to the Union Leader and Elizabeth Daily Journal wherein I once again requested the township governing body of Union get involved in a self-insurance program.

In October of 1969, a political brochure is issued by the Biertuempfel group taking a blast at Anthony Russo who was a candidate that year because I wanted to bankrupt Union with a self-insurance program.

January -- December 22nd, 1973, a meeting was conducted in my office with Robert Bunnell, Jr. and Robert Bunnell, Sr. A letter came to me the following day which indicates my concern as to the legality, and the letter which I have submitted, and I have a copy here, indicates, "We assure you that everything is legal. There's nothing illegal about the practice."

January 2nd, 1974, Bunnell wrote to me and referred to the concept of self-insurance. The documents are here.

January 25th, 1974, I had a meeting with Assemblyman Joseph Garrubbo, who was representing our county at that time, and I asked Joseph Garrubbo if he would be kind enough to submit a bill into the New Jersey legislature that would permit communities to engage in bidding on insurance. This is the front page of the Union Leader where it indicates that Mayor Anthony Russo met with Garrubbo asking Garrubbo



to please submit a bill because at that time we were advised by the township attorney that bidding on insurance was illegal; it was a professional service and not permitted in the state of New Jersey. I couldn't get my self-insurance program off the ground, so I tried the bidding approach and I failed again.

January 31st, 1974, another article appeared in the paper concerning my bidding program.

March, 1974, I met with Robert Bunnell, Jr. and requested him to cease with the sharing of commissions in order to reduce the premium to the township. He says the cost to the town would be the same. The documents are here.

April the 14th, 1974, I spoke to another insurance company, the Robert Frings Company.

April 17th, 1974, Communication received from the Frings Company, and from April, '74 to the end of the year, I have all the correspondence indicating my desire to get rid of the program.

In 1975, in January of 1975, I'm now serving as deputy mayor of the community, and I continue, I continue with what I had started. I gave up on the self-insurance program at that point. I tried to encourage bidding, and at this point, while all my releases are appearing in the newspaper, Assemblyman Bassano and his two colleagues visit the prosecutor of Union County because they knew I was about ready, after all these years, to consolidate and bring this entire program to a head, and I was successful in 1975 in finally concluding and bring it to a head when I engaged and convinced the township committee to join me. We brought in from Newark Samuel Mayper Company who appeared on the scene. They were insurance consultants. They produced specifications for us so that we could go out on bid.

Gentlemen, what was the net result of our bidding program? Bunnell was the only bidder and he wound up with the package of insurance anyhow, so my recommendations that you gentlemen are in, reforming something I tried to accomplish fifteen years ago, but I had all deaf ears all over the State of New Jersey. Nobody was interested.

If you're interested in reforming the insurance program, I wholeheartedly recommend to you that you consider asking the legislature to give us necessary legislation that would provide and enable communities to get involved in a self-insurance program. We would need legislation so that the budget procedure could be revised. We would need legislation that would permit surplus funds for insurance purposes, and each year it could be accomplished. It could be done in a small way in the very beginning, sort of a deductible arrangement. The township could run the risk, maybe, on all of its properties as far as fire is concerned, and the first year maybe the exposure and the risk should be fifty-thousand and they would pay themselves and create this fund for coverage of the fifty-thousand, and then the next year maybe move the exposure to a point of a hundred-thousand, and the third year to two-hundred-thousand and ultimately they would be totally, totally self-insured.

Now, this can be done with ease in the area of fire. As far as workmen's compensation is concerned, I was instrumental, in October of 1978, my last few months on the governing body of Union, to finally convince the governing body to consider self-insurance, and as a result we brought in a consultant from Essex County, and I understand as late as yesterday this consultant may be engaged to handle our workmen's compensation coverage, will handle it on a self-insurance basis, but this particular firm will do our paper work and administer the claims and handle the legal end for a fee that will range between 12 per cent and 15 per cent based on previous years' premiums of \$230,000.

Gentlemen, that's my case and any questions you have, I'm available.

THE CHAIRMAN: Thank you.

Asked for Details

Senator Russo was asked by Counsel Rhoads to elaborate on specific phases of the township's commission sharing process, some of which he had referred to in his statement:

Q. Do you know an insurance broker by the name of Mr. Ecklund?

A. Yes.

Q. Did there come a time that you had designated him as one of the sharing brokers? In other words, as your appointment to share?

A. He was designated in the early years by Mayor Conlon and then -- I was out of government for a while, and I think when I came back into government he became my designee.

Q. Well, that's correct. I believe before you went out both you and Mayor Conlon had designated Mr. Ecklund. Then you were out for a period of time, came back, and you designated Mr. Ecklund.

A. I knew I was to designate one Lawrence Schreck over a period of years. He was district leader and former candidate.

Q. My question is: In other words, as I understand, you had changed from at least one broker to another, and what I'm asking you is: How was it conveyed to you that now it's no longer Mr. Schreck; it's going to be Mr. Ecklund? What meeting and by whom?

A. I guess we got it through the party.

Q. So that someone in the party is now saying to you we now would like to have you designate Mr. Ecklund; is that the way it happened?

A. Right. As a matter of fact, someone in the party would tell us on New Year's Day, even though it's going to be an exercise in futility, we're asking you to submit the name of Henry Smith as a member of the board of adjustment, and we would go through that ritual of submitting the name and it would go down by a three-two vote on New Year's Day, and they would furnish us with several names that were to be submitted.

Q. Well, did there ever come a time when someone from the party come to you and said, "Senator," or, I guess, councilman would be the title at that point, "Would you please designate someone other than Mr. Ecklund this year?"

A. It's hard for me to recall this, so it was so insignificant whether it was Ecklund or Schreck or Genovese. I can't recall.

Q. Well, if I may, to refresh your recollection, do you recall testifying at an earlier hearing where you said they would hold patronage committee meetings, I believe it's every January, to make these determinations. Among other things would be the councilman's designation of sharing brokers. Do you recall that?

A. Well, I don't recall, but if I said it, if it had been, that's when it did happen, in January.

Q. All right. Now, as I understand it, there did come a time when you were aware that some of these designated sharing brokers were, in fact, giving back monies to the party; isn't that so?

A. Yes.

Q. And at that time how did you come by way of that information?

A. You're (taxing) my memory, now back to 1962. I don't know. I don't remember how I first learned, but I did know they were contributing to the party. These were active people.

Now, you have to understand, the Democratic Party in Union Township was a very small party, and it was a beaten party over the years, and it was a poor party. All of us involved, and we weren't too many, we all contributed to the cause each and every year. I was on the township payroll for \$3,000 a year, whatever the case may have been, and I was realistic enough to know that the party needed funds to survive. I gave \$500 every year. Mr. Conlon gave approximately \$500, and all our members who were in government, whatever ones followed us, do the same thing, and it's still that way, and the same thing in Trenton here. I receive a salary down here as a senator, and I contribute to the state organization. I had been involved in county government, and I contributed there, and these people contributed, too, because they knew the party needed help and they were party people before they were participating insurance brokers. They were candidates themselves. They were office holders themselves.

Q. Were you ever privy or part of any conversation whereby it was discussed that there would be a quid pro quo, by that, I mean, that these participating brokers would, in fact, be expected and, in fact, solicited to give back monies and maybe, perhaps, a given percentage of monies they were receiving?

A. Let me say something to you on this record, and I want it understood clearly, at no time, at no time in fifteen years of government did I ever speak to any one broker about a contribution. At no time did I ever seek a contribution. At no time was I ever present when a contribution was made. At no time.

Q. Sir, let me ask you this: With respect to Mr. Ecklund, this Eugene Ecklund, did there come a time, after you had designated him as a sharing broker, where he called you or solicited your office, whatever it may be, to, A, thank you for the appointment; and, B, to discuss any future contributions he may give as part of this sharing commission?

Was there any discussion along these lines?

A. I certainly don't recall it. Not at all.

Q. All right. If I may, I don't believe it came up during the course of your testimony now; for the record, Howard Casey was the party Democratic chairman at one point in time, was he not?

A. At one time, yes.

Q. During the course of that era that he was Democratic Party chairman, Mr. Ecklund was the recipient of sharing commissions and, in fact, was your designee as well as, I believe, Mr. Conlon's; isn't that so?

A. I'm not sure if it was my designate at that point, but he was one of two, three or four designations.

Q. Well, to your knowledge, was there any conversations where the participants would have been either yourself, Howard Casey, Mr. Ecklund where it was discussed that Mr. Ecklund would be expected to support the party now that he is the benefactor of these participating commissions?

A. Absolutely not. Emphatically not.

Q. Not at all. Well, I trust, then, and again I don't want to press the point, but when Mr. Ecklund, assuming he did call you to thank you for designating him, there was no discussion with respect to "We expect you to support the party"?

A. I'm positive there was no conversation. I wouldn't have tolerated it.

Q. Was there any time after you designated Mr. Ecklund that Mr. Ecklund contacted you in any fashion at all to thank you for appointing him?

A. No. Absolutely not.

Q. If I --

A. Why would he thank me?

Q. Because you designated him.

A. But I didn't designate him. The township party selects him and all we do is agree to it mechanically. If he's going to thank anybody, he'll thank the organization.

Q. If I may, as I understand it, and please don't hesitate to interrupt me if I'm wrong, I understand that the township clerk, Mary Miller, would, at committee meetings, pass out various checks that were submitted by Bunnell Brothers ultimately to go to the various designated sharing brokers, but they were handled through the committeemen, at least for delivery purposes, isn't that so?

A. Right.

X X X

Q. Well, with respect to the methodology, was there any reason conveyed to you why Bunnell simply just didn't send it to the participating broker or broker?

A. Let me say this to you again. I repeat this point: I respect the Bunnell family. They are good people, but I didn't have a close relationship with this family. These were Biertuempfel people, and I never had any discussions with the Bunnell family over those years. All my contact was in the form of formality, as my correspondence indicates. It was a "Mr. Bunnell" type situation.

When I became mayor for the first time, just before that, he visited, father and son, visited my office for the first time, so I don't know what his motives were. I never discussed his motives with him. I was never that close to them. In fact, I was a stranger to them.

Q. I appreciate that. As I understand, Senator, there did come a time you asked Mr. Bunnell, or whomever, I suppose the general manager of Bunnell, about the legality of giving the monies back to the town. That, I believe, was in 1974, somewhere in that neighborhood?

A. December the 27th, 1973 I had that discussion with him.

Q. '73?

A. And I have the confirming letter from his office, if you want to see it, indicating to me that as far as he was concerned the situation was legal.

Q. All right. What I wanted to ask was this: To your knowledge, had anyone back in 1962, when you first assumed office with Mr. Conlon, had anyone questioned Mr. Bunnell along those lines?

A. No. At that point I was new in government. It was politics. I accepted the practice. The township attorney says it is in operation all over. One young in politics assumes it's all legal.

That's not what I was concerned about. I was concerned about one point, and the one point that bothered me was: Why couldn't we somehow devise a system that would save the taxpayers the amount of the equivalent of what Bunnell and those five participating brokers were receiving in commissions. This was my concern and the only way as the years went on I could delve to that point would be to engage in a self-insurance program.

Q. Well, had Mr. Bunnell ever told you, not along the lines that, "Yes, I'll give this money back to the town," but did he ever tell you whether, in fact, he could simply reduce his commission?

A. Let me get into the reduction of commissions with you.

I was advised by him, and I was advised by insurance consultants, that in no event, in no event, could a reduction occur. The only way a reduction in premium could occur is by having a community rerated. Only that way.

As far as compensation premiums are concerned, there was no way of effecting a reduction. As far as liability is concerned, there was no way then and there's no way now of having a premium reduced in spite of what some people may think.

However, there is one area where reduction can be effected, and that is the area of fire.

Let's take a building with a lot of, maybe, perhaps, violations involved, holes in the walls, broken windows, lack of sprinkler system. If the owner of that property, or the community, goes in and corrects all of those items, then the broker can call the carrier, Travelers Insurance Company, say, "Come in, the municipal building of Union had made a lot of corrections. We would like to have the property rated for insurance purposes."

Once those corrections have been completed, then the drop in premium will occur, and assuming for the moment the drop occurs, Bunnell still has a commission.

*Q. I just wanted to ask you a couple of last questions, not to belabor the point.*

*With regard to the solicitation of contributions by the participating brokers, were you aware of any practice whereby the county chairman or municipal chairman would be going to those participating brokers either concurrently or simultaneously when they got their checks, or shortly thereafter, and soliciting and sometimes demanding money amounts from these participating brokers? Did you get any feedback with regard to that?*

*A. If anybody ever did anything like that, it's wrong, totally wrong.*

I understand, while you're on this topic, my understanding through the grapevine what happened in 1975, and I lead into it because I know you're about to lead into it, concerning tickets purchased by Ecklund and Dreher to a cocktail party, and I want you to understand one thing: I knew nothing about those purchases. Until three weeks ago, not 1975, I learned of those purchases in 1977, and whoever was responsible for that certainly performed in bad and exercised lots of bad judgement, because it was that political, not legality, political, because it was at that time, 1975, when I was bringing this entire thing to hand when the insurance issue in Union was all over the front pages, so for that to happen subsequent to these headlines, it was certainly in bad judgement, and I knew absolutely nothing about



it, and I would never have tolerated it.

Process was Immoral

At the conclusion of Counsel Rhoads's interrogation, Commissioner John J. Francis, Jr., asked Senator Russo to elaborate on portions of his testimony, particularly in connection with his statement that he "despised" the commission sharing practice:

EXAMINATION BY COMMISSIONER FRANCIS:

*Q. Senator Russo, did you ever solicit a written opinion from the Deputy of Insurance as to the legality of the sharing brokers' commissions?*

*A. No, I didn't. No, I didn't.*

*Q. Did you ever solicit an opinion from the Attorney General?*

*A. No.*

*Q. Can you tell us why not?*

*A. Well, I didn't get that deeply involved in it. At that point I was willing to accept the township attorney's opinion telling us it was legal. I was willing to look around me in all the communities and see the same practice in effect. I knew New Jersey was doing it. If the good state of New Jersey was involved in the same practice, how illegal could it be? I accepted it for those reasons.*

*Q. You have told us, I think your words were, that you despised the system?*

*A. Because it seemed like a waste of money that the town possibly could save. There had to be a way to save it. In that sense I used the word despised.*

*Q. And although it was not clear as to whether or not it was legal, did you consider it to be immoral?*

*A. Yes.*

*Q. Did you consider that it should be stopped even if, perhaps, a doubtful legality; it should be stopped because it was immoral and wrongful?*

*A. Yes.*

Q. Is it, is it your testimony that you had no knowledge whatsoever that any of the, any portion, any part of the proceeds of the insurance shares that were going out to the brokers found their way into any political accounts?

A. No. That's not my testimony. I knew over the years that these gentlemen were contributing to the political party. They were doing what we're all doing, helping a party that was broke and poor because they were as active as the two township, three township, two, three, four township Democratic committeemen.

I'm telling you I knew nothing about the '75 situation. All through the years I knew they were contributing. Not that I was a part of it, but everybody knew there was contributing because it was a small political family.

Q. When you learned that the insurance commission checks, or a portion of those checks, were finding their way into political accounts, did it occur to you that some of those proceeds might be going into your own campaign accounts?

A. Well, the Democratic Party each and every year had a campaign account. Whoever was running that year, sometimes there were two candidates or possibly three, they all utilized the benefit that would be derived from that particular campaign account. Sure they made contributions to the campaign account.

Q. Did you take any steps to try to stop that or to try to find out whether that money was going into your own account or to stop it if it was?

A. My big battle was to stop the whole insurance program, stop the system. This was my battle.

Q. Let me be frank with you. What troubles me is that although it appears from what you have told us that you did try to reform the system, there may be people who accommodated themselves to the system in that they accepted the political contributions knowing that it was part of this immoral wrongful system, if not illegal.

A. I'm not sure if I follow the question.

Q. All right. Would you agree with me that based on what you knew of the system and based on some very serious ground for believing that these commissions found their way into your political accounts, that you accommodated yourself to that system in that you took in this money as part of political campaign contributions?

A. Well, I don't think the men who ran for office looked at it in that light. They were looking at these people as fellow, fellow members of the Democratic Party and they were making contributions. Whether the contribution was coming from their hard-earned efforts by working in some industrial plant or from what they had realized or as a result of participating brokers, I don't know. They were part and parcel of the Democratic Party of Union and they did what we all did; they contributed to the cause.

#### Democratic Chairman Gave Out Checks

The final witness from Union Township was C. Howard Casey, who was the Municipal Democratic Chairman in 1974 and 1975. He admitted he gave two commission sharing checks to Broker Ecklund at Senator Russo's request in 1974, when Mr. Russo was on the Township Committee. But from that point on he proceeded to retract practically all statements attributed to him when he was interrogated during an investigation of commission sharing in 1975 by the Union County Prosecutor's Office. Mr. Casey was questioned by Counsel Schirmer:

*Q. Looking at the year 1974, we have had testimony today that Mr. Dreher and Mr. Ecklund received checks from you that were part of the commission sharing checks that they received as designated brokers by the committeemen in Union Township, New Jersey.*

*Is that a fact that you brought those checks to Mr. Ecklund and Mr. Dreher in the year 1974?*

A. In 1974 I remember giving a check to Ecklund, bringing a check. I think it was two checks.

*Q. Two checks to Mr. Ecklund?*

A. Yes.

*Q. Do you recall bringing a check to Mr. Dreher?*

A. I don't remember any contact with Mr. Dreher whatsoever. I have been going over it in my mind, and I can't remember meeting him at any time.

*Q. Do you recall meeting Mr. Dreher in 1975 and bringing one or two checks to him that year?*

A. No, not at all. Not in '75.

Q. Do you recall meeting Mr. Ecklund in 1975 and bringing a check or two checks to him?

A. The only checks I remember are the two to Mr. Ecklund in 1974.

Q. And who did you get those checks from?

A. From Anthony Russo.

Q. And where were you given those checks?

A. In Anthony Russo's office.

Q. And what did Mr. Russo say to you when he gave you those checks?

A. He asked me to get them to Ecklund.

Q. Did he ask you for a contribution at the same time, too? When you delivered the check, to ask for a contribution to the political party?

A. Let me understand this. Did Mr. Russo ask me to ask for a contribution? Is that what you're saying?

Q. Correct. Did he ask you to ask the sharing broker for a contribution?

A. No. No, I don't think he did.

Q. Do you recall being interviewed in the Union County Prosecutor's Office --

A. Yes.

Q. -- in 1975?

A. Yes, I do.

THE CHAIRMAN: Just let me interrupt for a second.

When you delivered these checks to Mr. Ecklund, where did you meet him?

THE WITNESS: I met him in the Franklin State Bank in Hillside.

First I called him and I told him I had his checks and he said that he was in a hurry. He was going to the bank and he asked me to meet him there, and I did go to that bank, sir.

THE CHAIRMAN: And then he cashed the checks and you were present and gave you some money, did he not?

THE WITNESS: As far as I can remember, he gave me a receipt, sir, not his personal check or money.

THE CHAIRMAN: Well, he deposited some money in a political account while you were present with him at the bank; is that what you're saying?

THE WITNESS: Yes, sir.

THE CHAIRMAN: What account was that?

THE WITNESS: The Friends of Father Staton was the Cocktail Party Fund.

THE CHAIRMAN: And that was the political -- how much was deposited?

THE WITNESS: I'm not sure. I think it was \$700. I'm thinking.

BY MR. SCHIRMER:

Q. Mr. Casey, I'm going to show you Commission Exhibit 53, which is a memorandum from William R. Bonelli, who is an investigator for the Union County Prosecutor's Office, --

A. Yes, yes.

Q. -- dated August 22nd, 1975, and it reflects a conversation he had with you on that date which you will notice is shortly after the events of February, 1975, where commission checks were distributed, somewhere donations to the party were given, and I'd like to first show you this exhibit and, second, ask you about your conversations. The exhibit number is C-53.

(Document handed to the witness.)

A. That is not the things I said.

Q. I'm going to refer to Exhibit 53 and the third or fourth sentence in the second paragraph states: "At that time he," being yourself, "was approached by Anthony Russo who gave the insurance checks for Messrs. Dreher and Ecklund to him and he, in turn, gave them to the brokers."

Is that what the exhibit says?

A. That's not true. I never said that to him.

Q. You disagree with that?

A. I disagree with that, Mr. Schirmer.

Q. Is your memory better today than it was five years ago?

A. I wouldn't say so.

Q. It's not as good today?

A. No, it's not.

Q. And this was only six months after the 1975 transactions. Again, February, 1975 were the transactions, and this memorandum is dated August of 1975. The memorandum then goes on to say, "Casey said he would call Dreher and Ecklund if there was a specific affair for which he needed money." Do you recall saying that you would call Dreher?

A. No, no.

Q. The memorandum then goes on to say, "He said that the reason he gave the checks to him was that he would know the amount of the checks when they," the sharing brokers, "got them."

Do you recall that?

A. No, sir.

Q. The memorandum continues, "Casey said he would also remind them of where the money came from. He stated that these arrangements were probably the instructions of Anthony Russo since he ran the party." Isn't it, in fact, that Mr. Russo did run the party at that time?

A. I would say Mr. Russo was the head of the party, yes.

Q. Were these arrangements set up by Mr. Russo?

A. No. That's not true there. For instance --

Q. Then what you're saying is that the investigator who interviewed you six months after the events --

A. No, no.

Q. -- put in that memorandum the wrong events?

A. I think these are the things that he wanted me to say.

Q. Well, did you say them?

A. No, I didn't. I told him I couldn't say a lot of those things because I didn't think they were true, and --

Q. I'm going to continue, and I'm going to skip one sentence and you then say, "He said they knew that it was political patronage and if they didn't give, they wouldn't continue to get it."

Was that your understanding?

A. No, no.

Q. If they did not give a donation, they would no longer be designated?

A. No, that wasn't true. I would have no control over that. The brokers were appointed by the township committeemen; not by the political party.

Q. Then you would say the events which have been previously testified by Mr. Dreher and Mr. Ecklund are incorrect? They stated that on 3/18 Mr. Ecklund received a check and negotiated; on 3/22 Dreher received a check and he stated it was probably from you. Mr. -- the same day Mr. Dreher gave the contribution of \$700. Are you saying -- your testimony is that you did not ask for that contribution?

A. I don't remember seeing Mr. Dreher at all. I saw Mr. Ecklund. I'm wondering if someone else got a contribution from Mr. Dreher.

Q. You will notice that on 3/22 Dreher deposited \$700 to the Friends of Father Staton account which was referred to in your testimony. There is no indication from the records the Commission has that Mr. Ecklund ever put money into that account. Couldn't it have been that you had given the check to Mr. Dreher and that's your confusion with the Friends of Father Staton account?

A. No. I went right to the bank to meet Mr. Ecklund to give him the check, and, as I say, he took care of whatever business he had brought with him from his insurance business, I guess, and then he came back and asked me what the name of the cocktail party group was.

Q. On 3/25 Ecklund negotiates a second check, and on the same day he gave a deposit of fourteen-hundred-dollars. His testimony is that you directed him to do that. You asked for that contribution; is that correct?

A. No, I didn't ask him for the contribution there.

Q. For the year 1975 on 2/20/1975, there Ecklund negotiates his check, one of the checks, the two checks that he received that year for \$1,204.50. He then negotiates his second check on 3/5/1975. The check, again, for \$1,204.50. On the same date he gave \$500 to the Anthony E. Russo Cocktail you gave him tickets and you directed him to make that contribution, which was for the amount of the tickets he purchased.

Do you deny that?

A. I deny that, yes.

Q. Two days later Mr. Dreher received a commission check, two commission checks for \$2,409 and no cents. The date being 3/7. On the same day he contributed \$500 to the Anthony Russo Cocktail Party account. His testimony is you directed him to make that contribution.

A. I had nothing to do with the contributions in '75 at all.

X X X

Q. Dreher then, Mr. Dreher, then, on 5/15/1975 gave an additional \$500 to the Anthony Russo Campaign account. Did you call him for that contribution?

A. No, I didn't

Q. Was there an understanding each year how much the sharing brokers should give based on the amount of the checks they received?

For instance, 1974, Mr. Ecklund received two checks. He then gave \$1400, or two seven-hundred-dollar donations. Mr. Dreher, who only received one check, gave \$700.

In 1975, Mr. Ecklund received two checks. He gave \$500 on 3/5. He was then called to give another five-hundred-dollar donation. He denied. He said, "I will not give it." His testimony is that you called him for that second five-hundred-dollar donation.

Continuing on, Mr. Dreher, who received two checks this year, gives a five-hundred-dollar donation on 3/7. He then gives another donation on 5/15.



Are you saying that you do not know why they gave the \$700 in 1974 and why they gave the \$700 in 1975?

A. All I can tell you about is the '74. I had nothing to do with, at all, with the '75 business. I don't recollect anything at all. That was part of the --

THE CHAIRMAN: In 1974 the amount of the contribution had some relationship to the amount of the sharing commission, did it not?

THE WITNESS: I don't know if any pattern was ever set.

THE CHAIRMAN: It happened to be about 50 per cent. That doesn't refresh your recollection or anything like that?

THE WITNESS: I don't know how that worked out at all, sir. These fellows were brokers before I became chairman and if there was a pattern set, I don't know about that.

BY MR. SCHIRMER:

*Q. Just to sum up, because there is a wide discrepancy between your testimony and the testimony of Mr. Dreher and the testimony of Mr. Ecklund and the matter which was memorialized by Mr. Bonelli from the Union County Prosecutor's Office in 1975, your testimony, then, is that Mr. Dreher is lying, is certainly mistaken; is that correct?*

A. I'm not saying Dreher is lying. Maybe Dreher doesn't remember correctly. I had a lot of respect for Mr. Dreher. I know him a lot of years, and all I can actually account is for 1974. I can concur on the state cocktail -- cocktail party, and I know I got a donation from Mr. Ecklund. It was contributed to that. And I don't recall seeing Mr. Dreher at all to give him checks.

*Q. And the only time that you received a check from Mr. Russo was in the year 1974 and at no other time?*

A. That's correct. That's correct.

EXAMINATION BY COMMISSION FRANCIS:

Q. Mr. Casey, is it your testimony that the sharing broker was designated by the township committee and not the political party?

A. Definitely, sir.

Q. Would you disagree with testimony that the township committeeman was merely a conduit who passed the name along which he had received from the political party?

A. No, we never did that.

Q. I cannot hear you.

A. I says we never did that. The party didn't tell them who to appoint.

COMMISSIONER FRANCIS: That's all I have.

A. (Continuing) Both of these fellows were in there, I would say, from the mid-sixties. Ecklund had been a candidate for us one year and Dreher had been president of the Democratic Club, and they, through that, earned the appointment as brokers, I would say.

The Hudson County-Kearny Episode

This phase of the S.C.I.'s hearing, while revealing further abuses of the commission sharing practice, centered on questionable, interwoven activities of two public officials: Warren Fuhro, general purchasing agent for the County of Hudson, and Frank Arilotta, insurance director for the Township of Kearny, who also operated Kearny Realty Co. The issues raised by this segment of the S.C.I. investigation included:

1. Who paid for Mr. Fuhro's personal car insurance for 1977-78 as the Hudson County Board of Freeholders switched its insurance business to T.C. Moffatt Co. of Short Hills on Mr. Fuhro's recommendation?

2. What was Mr. Arilotta's role in bringing T.C. Moffatt to Mr. Fuhro's attention as a potential carrier for Hudson County's insurance after the township insurance director had swung Kearny's own insurance coverage to T.C. Moffatt?

3. What services, if any, did Kearny Realty (Arlotta) perform in return for sharing in the commissions paid to T.C. Moffatt on the Kearny and Hudson County insurance contracts?

4. What were the circumstances behind Kearny's 1979 insurance contract with United Agencies of Waldwick and its lucrative commission sharing arrangement with Mr. Arlotta, who stipulated the terms of the contract and persuaded the town to accept it?

5. What service, if any, was Kearny Realty (Arlotta) to perform in return for receiving half of the United Agencies' commission on the insurance coverage that Mr. Arlotta persuaded the town to purchase?

The indications of collusion permeating these inter-relationships reflected a point emphasized by S.C.I. Chairman Lane when he opened the public hearings: "Although commission sharing is the most glaring of the evils on which these hearings will concentrate, that practice is merely symptomatic of more fundamental weaknesses in the field of public insurance."

#### Mr. Fuhro's Car Insurance

In the summer of 1977 Warren Fuhro, the Hudson County purchasing agent, was "experiencing difficulty" in getting insurance for his personal car. He finally obtained a commitment to provide that insurance from T.C. Moffatt Co. on August 11, 1977, the same day the Hudson freeholders implemented his recommendation that T.C. Moffatt become the county insurer. The insurance premium for the car amounted to \$843.12. The S.C.I. investigation of this transaction focused on whether Mr. Fuhro's paid-up automobile policy related to T.C. Moffatt's winning the county insurance contract and to the arrangement for Kearny Insurance Director Arlotta's Kearny Realty Co. to share the Moffatt company's Hudson County insurance commissions. Testimony was sought to answer the over-riding question: Who paid Mr. Fuhro's \$843.12 car insurance bill?

S.C.I. Counsel Rhoads questioned Mr. Fuhro about T.C. Moffatt's successful bid for Hudson County's insurance policy:

Q. Directing your attention to August of 1977, did you, in fact, make any kind of recommendation to the Board of Freeholders with respect to an individual broker?

(The witness confers with counsel.)

A. I'm sorry. I did make a recommendation based on a bid received at that time, yes.

Q. All right. Was the agency that we are referring to T.C. Moffatt Agency?

A. Yes, I believe it was.

Q. And you, in fact, recommended that the freeholders accept their bid; is that correct?

A. Yes.

Q. And did they, in fact, accept it?

A. Yes.

Q. When was that accepted; do you know?

A. Sometime prior to that it was reviewed by the freeholders in caucus session and the actual resolution was a couple of days later.

Q. Would that have been August 11 --

A. I believe --

Q. -- 1977?

A. I believe so.

Q. The force and effect of that resolution then would be to actually award this contract to Moffatt?

A. That's correct.

Q. Who would then convey this message to T.C. Moffatt?

A. The Purchasing Department.

Although Witness Fuhro was primarily responsible for the County freeholders' decision to purchase insurance through T.C. Moffatt, he professed to know very little about the financial arrangements, including how much in commissions the Moffatt insurance program was going to cost the county, and who was to share in the coverage -- and in the commissions. It was at this point that Kearny Insurance Director Arilotta's involvement was first indicated. Counsel Rhoads continued his interrogation of Mr. Fuhro:

Q. T.C. Moffatt having been awarded the contract, would it then have been their responsibility to place the insurance for the county, at least that facet that they were awarded? Is that so?

A. Yes.

Q. Have you ever heard of any agency called Kearny Realty?

A. Yes.

Q. Have you heard of a name by the name of Frank Arilotta?

A. Yes.

Q. Do you know whether or not he's associated with Kearny Realty?

A. I believe he is.

Q. Now, with respect to T.C. Moffatt, just to digress for one moment, as part of their insurance package were they paid any commissions, to your knowledge?

A. Not in direct -- not separately. They were paid total premiums.

Q. They were given premiums paid by the County of Hudson; is that correct?

A. That's correct.

Q. And, to your knowledge, from those premiums did they exact any commissions?

(The witness confers with counsel.)

A. I don't know.

Q. You have no idea?

A. I don't know.

Q. Well, as general purchasing agent you made a recommendation to the freeholders recommending T.C. Moffatt Agency. At that time did you or did you not know whether T.C. Moffatt was going to take any commission out of these premiums?

A. I did not know.

Q. To your knowledge, did the Board of Freeholders ever discuss that matter?

A. Not to my knowledge. They may have. I wasn't a party to that.

Q. Well, to be more specific, did anyone ask you -- and by anyone I mean, an official of the Board of Freeholders or their representative -- ask you what the commission payments would be to T.C. Moffatt when you recommended them?

A. Not to my recollection.

Q. Might I ask why you recommended T.C. Moffatt?

A. Because the insurance, the insurance was expiring; there was no coverage on the automobiles, and that was the lowest responsive bid.

Q. When they made that bid, was that in a fashion where it would be, to use a simple term, laid out on a piece of paper where one might be able to see what their charges would be for the specific areas? Let's say, automobiles.

A. The specifications spelled out the limits of bodily injury, property damage; the number of vehicles involved; I believe a listing of the vehicles; collision coverage. And, of course, the successful bidder was required to provide copies of their licenses and agreements indicating that they were, in fact, licensed to handle insurance in the State of New Jersey, and that they were, in fact, representatives of the insurance companies that they indicated would be handling the coverage.

When S.C.I. counsel asked Mr. Fuhro if he was aware that Kearny Realty was sharing T.C. Moffatt's commission on its Hudson insurance contract, the witness replied: "No, I was not." He then admitted that he had received a letter indicating Kearny Realty would be servicing claims arising out of Moffatt's business with Hudson County. Despite this admission, however, when he was asked if that letter meant Kearny Realty would be sharing Moffatt's commissions, Mr. Fuhro said, "Not to my recollection" Mr. Fuhro's lack of information, subsequent questioning demonstrated, extended even to the most obvious responsibility of a governmental purchasing agent -- pinpointing the cost to the county of its freeholder-authorized purchases, including the insurance program Mr. Fuhro had recommended:

Q. Well, was there anything in that proposal that would indicate to you what the fee was, the commission, that T.C. Moffatt was going to be charging the county?

(The witness confers with counsel.)

A. To the best of my recollection, no.

X X X

Q. To your knowledge, did the Board of Freeholders?

A. I can't comment for what knowledge they had of commission structures if any. I have no knowledge of that.

Q. I'm not asking you to say what they knew. I'm asking was anything conveyed to you that would indicate to you whether or not the freeholders were ignorant of the fact of commissions.

A. No information was conveyed to me concerning commissions.

Q. All right. You tell me if I'm wrong, but isn't part of your duties as a general purchasing agent in making this recommendation to convey to the Freeholders what it's going to cost the county?

A. That was conveyed to them as the total bid. The amount of the total bid was the total amount of cost that the freeholders passed on resolution.

Q. Well, more particularly, what I am referring to is, is it part of your duties to convey to the freeholders what the T.C. Moffatt Agency is going to charge the county to place their insurance?

A. That was all included. The net amount of the bid was the net cost to the county. No commission amounts were shown as a separate item.

Q. No, I'm aware of that. What I am simply asking you is -- I will be as simple as I can -- if a freeholder were to say, "Well, what is Moffatt going to charge us to place this insurance?", you would not have been able to answer that; isn't that correct?

A. No, that's correct.

#### Mr. Fuhro's Car Insurance Problem

Counsel next asked Mr. Fuhro if he knew G. Fred Hockenjos, then the president of T.C. Moffatt Co. He said he knew Mr. Hockenjos and met him "on many occasions." He recalled a number of meetings and conversations with the T.C. Moffatt executive prior to August 11, 1977, when the county freeholders signed the T.C. Moffatt insurance contract, and particularly when the Moffatt people "came in to pick up specifications for bids." Counsel Rhoads:

Q. Did you have any conversations with Mr. Hockenjos on matters other than county insurance?

A. I may have.

Q. More particularly, on your own personal insurance?

A. I may have.

Q. You may have or did you?

(The witness confers with counsel.)

A. I did. Yes, I did.

Q. All right. With regard to the personal line of insurance, what were those conversations?

A. I had commented to Mr. Hockenjos that I was experiencing difficulty in placing my own personal insurance because the insurance company had cancelled me out because of my teenage daughter having an accident and I was attempting to obtain coverage, and Mr. Hockenjos commented that, if I had any difficulty, let him know and he was certain that he could somehow or other get me into the assigned-risk plan.

Q. This conversation you are alluding to, how much time was that before August 11, '77, using that as a point of reference?

A. To the best of my recollection, maybe a month or so.

Q. Well, did there come a time when he fulfilled his promise? By that I mean, was he able to get you into some sort of coverage?

A. I subsequently did get coverage in the assigned-risk program.

Q. When was that coverage effective?

A. To the best of my knowledge, around the middle of August. Middle of August.

Q. Sure. When Mr. Hockenjos offered to place your personal automobile liability insurance, for which you were having a problem placing it, this was prior to you recommending the T.C. Moffatt Agency, of which he was the president, to the Board of Freeholders?

A. Yes.



Q. Prior to the public bid even?

A. That was, if I understood your question, that time frame was be -- after the receipt of the bids, but prior to the award of the contract. Is that --

Q. Yes, that's what I had asked.

A. I'm sorry.

Q. So it was in between that period.

Now, to refresh your recollection, if I were to tell you that the date your coverage was effective was August 11, 1977, would that refresh your recollection?

A. Yeah, that sounds about right.

Q. And that's the day the resolution was passed awarding T.C. Moffatt the contract, wasn't it? Wasn't that so?

MR. O'CONNOR: (B. Dennis O'Connor of Trenton, Mr. Furho's lawyer): Answer.

A. Yes, yes.

Q. When were you given the assurance that you were going to be placed?

A. Well, I filled out an application, and that was submitted, and I received a temporary insurance card.

Q. And that temporary insurance card was effective for what date?

A. The same day I signed the application. I believe the date you mentioned, August 11.

Q. August 11, 1977?

A. Uh-huh.

X X X

Q. At that time you filled out this application was there any fee involved? By that I mean, did you have to tender any money to anyone for your coverage?

A. Not at that time, no.

Q. Well, under an assigned-risk policy, are you aware that you must send in a deposit with that policy?

A. Under the assigned-risk policy, I didn't know what the premium was or who the company was, and consequently I could not make any deposit. In fact, when I questioned if a deposit was required, I was told that as soon as it was known, as soon as the company was known, I would receive a bill.

#### The \$843 Question

Counsel asked who gave the witness his car insurance application. He said he got it from "a Mr. Morgan, I believe." This was the same James Morgan whose influence was such that whatever company he became attached to obtained insurance business from Hudson County or the Town of Kearny. It was Mr. Morgan who also picked up Mr. Fuhro's car insurance application. Asked if a fee was discussed, Mr. Furho testified that Mr. Morgan said he "would be advised" about any payment later. Counsel pressed Mr. Fuhro for details about who paid what, and how, regarding his car insurance:

Q. When did you receive a bill from T.C. Moffatt?

A. I'm not certain.

Q. I show you what's been previously marked Commission Exhibit 4. Would you please look at that? It purports to be a bill from T.C. Moffatt. Do you recognize it?

A. Yes.

Q. Is that a copy of the bill that you were alluding to?

A. That's one of the bills, yes.

THE CHAIRMAN: What's the date on that bill?

THE WITNESS: September 26, '77.

Q. Now, you say it's one of the bills?

A. Yes.

Q. You are implying that there were other bills?

A. There was another bill, as I indicated, that I had received from the insurance company.

Q. Well, I am now specifically referring to the one from T.C. Moffatt. Did you receive any other bill other than the one that's in your hands?

A. Not to my recollection.

Q. Now, you received a bill and it indicates that you owe how much money there?

A. \$843.

Q. And did you pay them the \$843?

A. Not at that time.

Q. Well, did you pay them at any time?

A. Yes, I did.

Q. When did you pay them?

A. Maybe a month or so later; month and a half later.

Q. So sometime in October you paid the bill?

A. I don't --

(The witness confers with counsel.)

A. I don't recall the exact date.

Q. By what method did you pay the bill?

A. In cash.

Q. To whom did you pay?

A. Mr. Hockenjos.

Q. Where did this transaction take place?

A. In my office.

X X X

Q. With respect to the date when Mr. Hockenjos was there, this meeting we are talking about, if I were to tell you it was September 21st, 1977, does that refresh your recollection?

A. To the best of my knowledge, yes.

Q. All right. Was anyone present other than you and Mr. Hockenjos when you paid him?

A. Not in my immediate office, to my recollection.

X X X

Q. Mr. Fuhro, what I am simply asking is, to your knowledge, did anyone else see this transaction? By that I mean, was anybody else in the vicinity when you paid Mr. Hockenjos?

A. Other people were in the vicinity, in the outer office. Whether they saw the transaction or not, I don't know.

Q. Okay. How much did you pay him?

A. Approximately eight hundred forty some-odd dollars.

Q. Did he give you a receipt?

A. Not immediately.

Q. Did you ask him for a receipt?

A. Yes, I did, and he said he would send it to me.

Q. Did he give you any sort of note at all, anything indicating that you had paid him this cash?

A. No, not to my knowledge. Not to my recollection.

Q. On September 21st, 1977, did you have a checking account?

A. Yes.

Q. Is there any reason why you didn't pay by check?

A. Yes, because when I had the money, I had no check in my possession.

Q. When you had the money, you had no check in your possession?

A. I had no -- I had the checking account in a branch. When the meeting was on, I had the cash in the morning. I got into the office prior to the bank's opening. When the meeting took place, I did not go to the bank. I did not have a blank check in my possession, nor would I issue a check on an account for which there were not funds at the time. So I paid him with cash.

Q. Did he tell you when he was going to send you a receipt?

A. No.

Q. Well, the bill before you, or I should say, the copy of the bill before you, is dated September 26, 1977, five days after you said you had paid him in cash. What did you do when you got that bill?

A. I did nothing, because I waited. I knew I had paid.

Q. You weren't alarmed at all when you got a bill indicating you owed T.C. Moffatt all that money --

A. No.

Q. -- when you had already paid him?

A. No.

Q. You didn't call anyone at T.C. Moffatt?

A. Not at that time.

Q. Well, did there come a time when you did?

A. Yes. When I, when I did not receive a receipted bill, I called a number of times asking for a receipted bill.

Q. Who did you speak to?

A. On one or two occasions I spoke to Mr. Hockenjos himself and he said he's take care of it. I also spoke to other people in the office. I don't recall who.

Q. Did there come a time when he did take care of it? And by that I suppose I mean by something indicating a receipt.

A. If you are saying did I subsequently receive a paid bill, yes.

Q. When did you receive that?

A. I don't recall the exact date.

Mr. Fuhro testified that he received a "paid bill" from George Sloan, vice president of T.C. Moffatt Co., who would testify later that Mr. Arilotta's Kearny Realty company had been charged for Mr. Fuhro's car insurance coverage. Nonetheless, the envelope Mr. Sloan gave the witness contained a receipt for the car insurance premium which had the word "paid" written on it and which was stamped by the Moffatt company and with the signature of a Linda A. Feeney. Mr. Fuhro said he did not know who had written on or stamped the receipt.

Counsel resumed questioning Mr. Fuhro about the alleged payment:

Q. With regard to this premium of \$843.12, did you have any conversations with Frank Arilotta of Kearny Realty with respect to that?

A. I may have.

Q. Well, do you know whether you did or whether you didn't?

A. If I -- I think, the best of my recollection, he had called me and asked me if -- who handled my insurance, and I told him, T.C. Moffatt, and he questioned me. He was a little concerned that he was being billed for my insurance, and he asked me how was that handled; was that done direct. And I said, yes, and he asked me could I sent him a copy of that bill, and I did.

Q. When did you do that?

A. I -- to my recollection, I sent him -- he had requested me or sent me a letter the early -- beginning of this year sometime, I believe. March, February-March of this year.

Q. Well, I will ask you this then: Did you have any idea that Frank Arilotta had been billed for your premium -- and by "your premium," I am referring to the \$843.12 -- prior to March of 1979?

A. Not that I recall.

Q. What I am asking, this Kearny Realty, other than the March of '79 correspondence, did you have any other correspondence with Kearny Realty with regard to your insurance policy?

A. Not to my recollection.

Q. Now, with respect to Frank Arilotta, did he play any role in the bid proposal of the insurance for T.C.Moffatt on the County of Hudson in August of '77?

A. Not to my knowledge.

Q. Had you had any dealings with a man by the name of James Morgan with regard to those bid proposals?

A. No.

Q. Did you have any conversations with Mr. Arilotta with respect to your insurance premiums that were insured through the T.C. Moffatt Agency?

A. No, not to my recollection.

Q. Your policy for the \$843.12 premium covered the time span of August 11, '77, to August 11, '78, did it not?

A. Yes.

X X X

Q. And did T.C. Moffatt retain your insurance subsequent to that time?

A. Yes.

Q. And you were billed for premiums?

A. Yes.

Q. Did you pay them in cash?

A. No.

Q. Why not?

A. Because I knew the payment was due. I received a bill and I wrote them checks.

Q. You wrote checks to T.C. Moffatt?

A. Yes.

Q. Because you knew what, the premiums were going to be due?

A. I got the bills and I --

X X X

Q. I am asking you, when did you talk to Mr. Hockenjos with regard to the amount of your premium which you said you paid September 21st, 1977?

A. He called me a day or two prior to that September 21, '77, date, and I paid him that money in my office, as I indicated, on September 21.

Q. Right. Now, why is it that you did not pay by check at that time?

A. I think I just explained that; that when I brought the cash from home -- we had been budgeting for it -- I left home in the morning, the banks weren't open. I had no blank check with me, and I did intend to write a check, even if I had a check, if I didn't have the funds in the bank I wasn't going to write a check.

Q. You had the two days' notice but did not have the time to go to your checking account to put the money in there; is that what you are saying?

A. Because I got the notice on a Friday, I believe, and I went into the meeting on the 21st.

Q. Mr. Fuhro, isn't it a fact that you did know that Kearny Realty was going to be billed your insurance premiums for your personal automobile liability insurance?

A. No.

Q. Isn't it a fact that that weighed very heavily in your recommendation for T.C. Moffatt for them to get the county insurance?

A. No.

Q. The fact is you did not pay Mr. Hockenjos that year's premium, did you?

A. Yes. Yes, I did.

X X X

Q. I show you what's been marked Commission Exhibit C-66. Would you look at that and tell me if you can identify it, please?

A. It's a diary.

Q. Whose diary?

A. Mine.

Q. Now, I am going to direct your attention to the date, a page with a date listed above, 21 Wednesday, September, 1977. Does that refresh your recollection what day of the week it was that you had the meeting with Mr. Hockenjos?

A. Wednesday.

Q. So the fact is, then, you knew two days in advance, which was a Monday, it was not a Friday, and you didn't have the weekend separating your opportunity to go to the bank, did you?

A. No, I said I, I wasn't sure of the time frame. It may have been on a Friday. I didn't say what date it was. It could have been the night before he called.

Q. All right. I'm asking you this then: You used a reason for not going to the bank the fact that the weekend came between your call and the meeting?

A. No, I did not. I said --



Q. Do you wish to change that?

A. I said it may have been a weekend. You asked me why didn't I have a check and I said it may have been a weekend.

Q. Well, now that you know it wasn't, what's your response to the question?

A. My response to the question is the same response I gave previously. Mr. Hockenjos called. He was coming in on the 21st. I left my home in the morning prior to the opening of the banks. I had the money at home that we were budgeting for and I gave Mr. Hockenjos the cash on that day.

Q. By the way, sir, while you have that open to that page, is there any entry on that page that would in any way be relevant to the conversation we are having now? By that I mean the payment of your premium.

A. No, just that it says, "Approximately \$850," and "Fred said he would send a receipt."

Q. Maybe I'm not making myself clear. Isn't that a reflection that you got your money from your wife to pay this premium?

A. Oh, yeah.

Q. Is that what's in there?

A. Sure.

Q. You got the call something like two days in advance, did you not?

A. I don't recall when I got the call.

Q. Well, is there any indication in your diary of when you got the call? Flip over a couple of pages.

A. No, I don't see any.

Q. You never got a call, did you?

A. Yes, I did.

Q. By the way, sir, before T.C. Moffatt had the county insurance there was a company by the name of Sweeney and Bell had it, wasn't there?

A. Yes, yes.

Q. And you had at one time your personal automobile liability insurance with Sweeney and Bell, didn't you?

A. Yes.

Q. Did you pay your premiums in cash to Sweeney and Bell or by check?

A. No, by check.

The Hudson Contract: Another Version

G. Fred Hockenjos followed Mr. Fuhro as a witness. He described how the T.C. Moffatt Co., won the Hudson County insurance contract with the help of Kearny Insurance Director Arilotta and the arrangements that existed between his company and Mr. Arilotta's Kearny Realty company. He also discussed Mr. Fuhro's personal car insurance, contradicting Mr. Fuhro's version of how it was paid and by whom. Counsel Rhoads questioned him first about events that led to the Hudson insurance contract:

Q. How did you go by way of obtaining that contract?

A. We were first introduced to the county people by Mr. Arilotta and Mr. Morgan, and at that point we proceeded to prepare bids and subsequently we obtained some of the bids for the business in the county.

Q. All right, sir. If I may, I would just like to go back to one point. You say you were first introduced to county people by Mr. Arilotta. Is that Frank Arilotta?

A. Yes.

Q. Is he the one that has the Kearny Realty Agency?

A. Yes.

Q. When Mr. Arilotta introduced you to Mr. Fuhro, was Mr. Arilotta physically present when he did that?

A. Yes.

Q. What would be the time period that took place?

A. It was after we wrote county -- Kearny. So sometime, I guess, in June or July. I'm not sure of the dates.

Q. With regard to the introductory period by Mr. Arilotta, what was discussed, if anything?

A. The county was having a very difficult time obtaining insurance for their package policy and at that time Mr. Arilotta seemed to think that we might be able to help since we'd placed Kearny, and it was on that basis we were presented that maybe we could help them place the package.

Q. So your relationship with Mr. Arilotta arose through your covering the Town of Kearny; is that so?

A. Yes, yes.

Q. Now, this conversation with regard to perhaps your agency handling the Hudson County insurance, were these conversations directed to, or at least involved Mr. Fuhro?

A. Yes.

Q. Well, what role did Frank Arilotta play in these conversations?

A. Merely the introduction at this point. Mr. Morgan is the one who was working on this for T.C. Moffatt at that time.

Q. All right. Staying again with this time frame, was there any indication at all that Mr. Arilotta would be involved in the insurance contract should your company be awarded it?

A. No. At a later date it was agreed he would service claims.

Q. When was that?

A. After we had obtained the account, as I remember it.

Q. All right. Would that have been December of -- somewhere in that area, December of '77?

A. It could well have been, because we were an Essex County agency and the judgment there was it would be better to have a Hudson County agency closer by servicing the claims.

Q. With respect to the bid you alluded to, you made a bid to the county. Was that by way of some sort of written proposal?

A. Yes.

Q. Did that proposal reflect what commissions, if any, you would be charging?

A. No, it was not separate. It was the way a bid normally is. It's not broken out, the commissions.

Q. All right. If I were, let's say, an interested party looking at that proposal, would I have any way of knowing just by looking at it what your commissions would be?

A. No, unless you were knowledgeable of the insurance business you would realize that the normal is anywhere from 15 percent would be a norm for a package of that type.

Q. Well, were there any conversations between yourself or any people in your agency, to your knowledge, with Mr. Fuhro with respect to what commissions T.C. Moffatt would assess?

A. No.

Q. How about with the freeholders?

A. Oh, no, none at all. The only time we got into remuneration at all was on one of our bids we did want to go a service fee, and that was because the -- it was assigned-risk, I believe, and the commission was not adequate to service the account. But other than that, money was never discussed.

Q. Now, with respect to the actual contract, there came a time when you involved the Kearny Realty Agency; is that so?

A. We wrote their account, yes.

Q. Well, they were involved in the coverage of Hudson County through T.C. Moffatt, were they not? Didn't they play some role in the servicing of the policy you mentioned?

A. Yes.

Q. What exactly did they do?

A. Their primary purpose, as I remember it, was to handle the claims.

Q. Now, with that regard, were they given any payment out of the commissions?

A. Yes, they were.

Q. What were they given?

A. Originally it was 50/50, and then I think it went 60/40.

Q. All right. When you say "originally," you were awarded a contract in August of 1977. Was it then a 50/50 split of the commission?

A. Yes, that's right.

Q. What are we talking about dollarwise; do you know? You can approximate for us.

A. I would say the commissions on that would have to have been somewhere around 30,000 on that particular contract.

Q. So that's the 50 percent of the total commission?

A. Right.

Q. Is that so?

A. Yes.

Q. I don't mean to sound facetious, but that \$30,000 then, would have made it a profitable venture for you; is that correct?

A. Yes.

Q. Now, with regard to Kearny Realty's 30,000, which is the 50 percent of the commission, what is it they're doing to earn this?

A. Well, it was obviously a poor judgment on the part of T.C. Moffatt & Company and the people that made the decision, including myself, but it was a tentative agreement to arrive at what actual work would have to be done, and obviously, had we continued to be the brokers we never would have continued paying that large amount of money for the amount of work performed.

Q. Now, you say if you continued to be the brokers. Well, did there come a time when you were no longer the brokers in Hudson County?

A. We are no longer the broker on that particular package policy that we wrote. They self-funded. Mr. Krieger, I think, decided to go self-funding. And the only thing, again, I've been away from it for six months, or almost six months, but I think the automobile renewal is, was the key to this policy, or the key policy. I think that expires pretty soon now, if I'm not mistaken.

Q. All right. With respect to the Town of Kearny, just to get into that for moment, you had the Town of Kearny insurance for a while. Is that so?

A. Yes, for not too long a period prior to the Hudson County, though.

Q. How long?

A. I would guess six months.

Q. Were you the brokers of record for the Town of Kearny?

A. Yes, we were.

Q. What was Frank Arilotta, if anything, for the Town of Kearny?

A. Well, Frank Arilotta was the -- I'm trying to use the right word. He was allegedly, I never saw that particular contract, but I think he was appointed by the Township Committee to handle the insurance, so he was, in effect, chairman of an insurance committee, if I'm using the right --

Q. Well, if I were to tell you insurance director, does that refresh your recollection?

A. Yes, that would be right. That's the term.

Q. Well, if I may, just to stick with that thought, with the Town of Kearny, who actually was the one who had the insurance? In other words, who did the town really give it to? Was it Kearny Realty who then ultimately brought you into it to place?

A. Yes, definitely.

Q. Okay. Now, with regard to that, you employed a man by the name of James Morgan, did you not?

A. Yes.

Q. Did he introduce you to Frank Arilotta?

A. Yes, he did, and to clarify that, Mr. Rhoads, he was brought in with no inclination whatsoever of any specific risk. He was brought in to be an underwriter in the casualty department, and it was when he came in that this was something he thought he could bring about.

Q. Prior to T.C. Moffatt getting the Town of Kearny through Kearny Realty, do you know what agency had it?

A. Yes, I subsequently found Sweeney and Bell.

Q. Was Mr. Morgan ever employed by them?

A. As far as I know, he was.

Q. How long a period of time was Mr. Morgan employed in your office?

A. I'm guessing. A year and a half, two years, something like that.

Q. Do you know when he left?

A. It was August of, I think it's '77.

Q. It was around the time you were awarded the Hudson County contract; isn't that so?

A. Yes, in fact, it was about a month or two after we were awarded it.

Q. Now, with regard to the commission share with Kearny Realty on the County of Hudson, it was 50/50 at one point and you then mentioned that it later went to 40/60. Who enjoyed the lion's share in that?

A. Mr. Arilotta did.

Q. Why was that? If you had said that you regretted the decision for the work you were getting from him on the 50/50, why did you increase his share to 60?

A. I regretted it after we increased it and looking backwards, not at the point of time that I did it.

Q. In retrospect now?

A. In retrospect; in retrospect. The difference was made because we had gotten requests to purchase tickets to political events, and at this point we said we would have nothing to do with entertaining, whether it were golf, whether it were luncheons or dinners or anything, and that's why that change was made.

Q. Wasn't part of the original 50 percent share, the motivation for that with Kearny Realty, wasn't part of that, at least, that Kearny Realty was going to be taking care of the political aspects? By that I mean buying tickets, et cetera.

A. That was the original thought. But when it came to, Mr. Arilotta didn't agree with it. That's why the other 10 percent was given.

Q. In other words, that was your thought, but not Mr. Arilotta's?

A. That's right.

Q. He wanted more to cover that?

A. That's right.

Q. How much more moneywise was given to Mr. Arilotta to cover that?

A. He got the extra 10 percent. I don't know what the dollars. My guess would be, if we were talking -- we must be talking \$6,000 or something like that would be my estimate.

Q. That \$6,000 it's fair to say was really specifically earmarked for the political functions, tickets?

A. Whatever come up. The idea was he would pick them up. And we have several instances after that where we billed him, and I think you have records of those.

Q. Have you ever been contacted as president of T.C. Moffatt and told that part of your award of this contract is going to be contingent upon making political donations, et cetera?

A. No, I was not.

Q. To your knowledge, was it ever conveyed to Frank Arilotta?

A. No, not to my knowledge. Well, in this respect: Did we receive in the mail from Mr. Arilotta tickets to some large political affair in either Jersey City or Hudson County. I really -- it escapes me. It was one of these \$100-a-dinner. And I took them and placed them back in an envelope and said, "This is your responsibility, not mine," and I don't remember exactly who they were from. But other than that, I had never been approached, nor did I have any knowledge that he was.

Q. That's what I am getting. What I am saying is, why did you feel you had to give away \$6,000 of your commissions to satisfy political donations?

A. It wasn't just the political. It was any entertaining that was involved, also.

Q. Riding with the political, the ticket buying, et cetera, why did you feel that that was a necessary expenditure?

A. I don't know. I really have no justification for it. I think it was a very bad decision.



Denies Payment by Fuhro

Counsel Rhoads turned next to Mr. Fuhro's personal car insurance -- and to the question of who paid the bill:

Q. All right. Now, with regard to Mr. Fuhro, did you ever have any conversations with respect to his personal automobile liability insurance?

A. I had several where he was having difficulty in with one of his children, I forget what it was, or past accident record, and he had asked me to have one of the girls in the Personal Lines Department call him. But other than that, I had nothing to do with it.

Q. Well, I assume it took place certainly subsequent to the time Frank Arilotta introduced you to Warren Fuhro. Isn't that correct?

A. After we had met him.

Q. Frank Arilotta has introduced you to Warren Fuhro --

A. Right.

Q. -- for the purpose of you getting together to bid on this insurance; isn't that so.

A. Right.

Q. You were awarded the contract August 11, '77, and the fact is that's when you do place the insurance for Mr. Fuhro. Isn't that so? Do you recall that?

A. I believe Mr. Morgan did it, to my knowledge. I don't recall when it was done. I think it was about that time.

Q. I show you what's been marked Commission Exhibit 61. If you will, will you look at this and particularly the last page, and it reads on the top, "T.C. Moffatt & Company, Applicant: Warren J. Fuhro," and over to the right it has a signature purporting to be G. Fred Hockenjos, and that at least purports to be your signature, does it not?

A. Yes, it certainly is my name, but not my signature.

Q. Did you ever see this document before?

A. Only when you discussed it to me in the closed hearing.

Q. With this document and the attachments to it -- by that I am referring now to the temporary insurance ID card, a check drawn from the Moffatt Company, a notice of assignment -- would that tell you what date this insurance was made effective? Any one of those or all of them.

A. Yes, it looks like 8/11.

Q. And that's the date that T.C. Moffatt was awarded the contract for the insurance, isn't it, for the County of Hudson?

A. Might well have been. I'm really not sure. I think so.

Q. All right. Now, I'm going to show you what's been marked previously identified, and for the record it's Commission Exhibit 65, it's been identified as the visitor's register for the County of Hudson, and I am going to show you an entry July 12, 1979, and it says, "G. Fred Hockenjos" there, "T.C. Moffatt & Company."

A. Right.

Q. Is that your signature?

A. No, it's not my signature. Mr. Morgan signed both of us in at that time.

Q. But you recall being there then?

A. July 12? I must have been.

Q. Okay. So this document speaks for itself?

A. Right.

Q. And, of course, that's well before August 11, '77?

A. Right.

Q. I will just be very pointed with you. Did you ever call Warren G. Fuhro, prior to September 21st, 1977, and tell him you are going to be there in his office September 21st and that you would like him to have the payment for it?

A. No. I didn't have anything to do with the Personal Lines Department.

Q. Did, in fact, Warren G. Fuhro pay you \$843.12 for his personal liability auto insurance premiums?

A. No.

Q. Did you ever give him a receipt for that payment?

A. A receipt might have been given to him through our Personal Lines Department, but, no, I didn't give it to him. I didn't give him a receipt.

Q. Why would one have been given to him for the payment of that premium?

A. Because it was paid.

Q. By whom?

A. Out of Mr. Arilotta's account.

Q. Kearny Realty paid it?

A. Kearny Realty paid it.

Q. Not Warren Fuhro?

A. Not Warren Fuhro.

Q. Sir, I want to be very clear on this point. Did Warren G. Fuhro -- and at this point I really don't care whether it's September 21st or not -- did he at any time ever give you \$843.12 in cash for payment for his August, 1977, through August, 1978, automobile insurance?

A. No, I have never received any cash from Mr. Fuhro for any policy at any time under any circumstance.

#### Kearny Realty Paid for Car Insurance

In an effort to clarify the question of who paid for the county purchasing agent's car insurance, Counsel asked Mr. Hockenjos for details on that transaction:

Q. All right. Now, sir, you had indicated that those premiums, and again for the record, it's the '77-'78 premium of Warren G. Fuhro, were, in fact, paid by Kearny Realty. Is that correct?

A. Yes.

Q. How would that payment have been made by Kearny Realty? By that I mean, what method did they pay it?

A. We issued to all of our brokers that we did broker with us an accounts receivable statement on a monthly basis, and, of course, on that bulk statement there are debits and there are credits, and this, in fact, was reduced from that particular item, and that's how it was paid. And a copy of that went to Mr. Arilotta, as it does to all of our brokers.

Q. All right. Sir, I am going to show you what's been previously marked Commission Exhibit 62. It purports to be a broker's statement and it reads as of 1/28/77, and that's the front page. Just for identification purposes, is that the statement we are talking about.

A. Yes.

Q. Now, I'm turning to the page that indicates broker's statement as of 11/20/77, and does that reflect that Kearny Realty was billed Warren G. Fuhro's insurance premiums?

A. Yes.

Q. And does that broker's statement indicate that they, in fact, paid the insurance premiums?

A. Yes.

Q. And is that the \$843.12 premium we have been talking about?

A. Yes, that's it.

Q. So you certainly didn't get paid twice for that premium, did you?

A. No, we sure didn't.

Q. Thank you.

Mr. Hockenjos, I will show you what's been previously marked Commission Exhibit 44, and, if you will, will you look at that? Tell me, can you recognize that?

A. Yes.

Q. What do you recognize that to be?

A. It's a copy of an invoice for \$843.12.

Q. And that's sent to whom?

A. To Mr. Fuhro.

Q. Did you, or to your knowledge, anyone in your agency ever get any phone call from Mr. Fuhro or any kind of response to the effect of "Why are you billing me for that money?"

A. No, not to my knowledge. But there again, that wouldn't be unusual because it would either be an accounting function or a personal lines function.

Q. I assume since he didn't pay you that you did not get any phone call from Warren Fuhro asking you for a receipt for the payment, did you?

A. No, I believe a receipt was issued.

Q. Why was the receipt issued?

A. Because it was paid, and I think Mr. Fuhro requested a receipt.

Q. He requested a receipt just to show that that premium was paid?

A. To show the premium was paid, yes.

Q. And when he requested the receipt, did he say anything to the effect that "You promised me a receipt"?

A. No, not that I remember. I don't remember that.

Q. What did he say?

A. I think it was just a question he wanted a receipt for his automobile policy -- his automobile insurance, and I just checked with Mr. Montgomery and found it had been paid and told the Personal Lines Department -- I'm not sure who it was at the time -- to send him a receipt.

Q. I will show you what's been previously marked Commission Exhibit 60. Would you look at that. Tell me, can you recognize that?

A. Yes. This is a receipt.

Q. Is that the receipt you are alluding to?

A. It must be the one, because, as I understand it, he was given this receipt.

Q. I am asking you to go back a little bit before that when you were present at T.C. Moffatt. When you asked someone to send a receipt to Warren Fuhro did you ever see that receipt go out?

A. No, I never saw that before.

Q. If you will, it's addressed to Warren G. Fuhro, 58 Raymond Street, Hasbrouck Heights, and to the bottom left, it says, "Customer No." and there is "BRO 952" there. What does that mean?

A. It should be the IBM code number of the customer.

Q. Do you know what "BRO" stands for?

A. Brokerage.

Q. Warren G. Fuhro is not a brokerage, is it?

A. No. I would assume that this is the Kearny account, but, again, I couldn't verify that. Mr. Montgomery could.

Q. What I am asking is that: This would really be a receipt showing that the broker paid?

A. Yes, definitely.

Q. Not that Warren Fuhro paid?

A. Absolutely.

Q. Now, for what period of time was Kearny Realty being billed for Warren G. Fuhro's insurance?

A. It was billed up until the renewal in January of '79, as far as I -- from memory.

Q. In any event, there came a time when Kearny Realty ceased paying for the insurance, didn't they?

A. Yes.

Q. In fact, didn't they at one point ask you to remit moneys to them?

A. Yes, we received a letter saying this was not their account and we should remit the money.

Q. And that wasn't until 1979?

A. '79.

Q. And when they were first billed in November of '77, did they make any similar complaint to your company?

A. No, they didn't.

Q. The fact was, the agreement was they were going to pay it, wasn't it?

A. Absolutely.

Q. Do you have any idea what changed their mind and made them decide that Warren G. Fuhro better start paying it?

A. Well, I have an idea, but it's speculation.

Q. What's the idea?

A. The idea is that that March 17th your office had been in their investigating.

#### Accountant Recalls the Car Insurance Bill

Additional details on Mr. Fuhro's car insurance bill came from William J. Montgomery, for 12 years the chief bookkeeper for T.C. Moffatt Co. Mr. Montgomery, the next witness, was asked to confirm company records showing Mr. Fuhro's car insurance was billed by T.C. Moffatt to Kearny Realty. Counsel:

Q. Okay. I'm going to show you various documents which have been previously marked as Commission Exhibit 62A, B and C, and, if you will, look at these documents and tell me, do you recognize them? If so, what are they?

A. These would be monthly statements sent to Kearny Realty, Inc., by T.C. Moffatt & Company for business transacted by them during each particular month.

Q. Do you know Frank Arilotta?

A. Not personally, no.

Q. Do you know of him?

A. I believe he owns Kearny Realty.

Q. All right. Now, with respect to what's been marked 62A, I am going to direct your attention to the November date, and reading along this page, there is three entries, and they all list Fuhro, Warren, has a policy number to the right, a date and it has amounts. What's the significance of those entries, if any?

A. The significance of these would be that the Warren Fuhro automobile policy would have been

billed to Kearny Realty and, therefore, shows on this monthly statement.

Q. Why was it billed to Kearny Realty? Do you know?

A. That I really couldn't say. I imagine whoever processed the policy was told to bill it that way.

Q. Now, that broker's statement, does that reflect that the moneys were actually paid by Kearny Realty?

A. They were paid by Kearny Realty.

Q. If I were an employee of Kearny Realty and I looked at that broker's statement, would that broker's statement tell me that I'm being charged for Warren Fuhro's insurance?

A. Yes.

Q. All right. What is it that tells me that?

A. The fact that his name and this policy number and so forth appear on here.

Q. Okay. Now, that date is for November of 1977, is it not?

A. That's the date of the statement.

Q. And does his name, Warren Fuhro's, appear on any other monthly broker's statements sent to Kearny Realty?

A. I believe there was one other one. Did you want me to find which one it was?

Q. Yes, please.

A. The May, 1978, statement shows a charge of \$59 for Warren Fuhro, which would have been an endorsement on his policy.

Q. So that was paid by Kearny Realty?

A. Yes, sir.

Q. They had an add-on car, isn't that so, and that was the add-on price that was assessed on his insurance?

A. Well, it would have been an endorsement. I really, you know, without having the policy couldn't tell you what exactly that endorsement was covering, but he obviously ordered a change of some nature.



Q. So this was some sort of surcharge on his policy?

A. Right.

Q. And again paid by Kearny?

A. I know he was adding his children as they became of age.

And on the February, '79, statement there is another charge for Warren Fuhro, which would have been the renewal of his assigned-risk policy.

THE CHAIRMAN: Who is that charged to?

THE WITNESS: That was charged to Kearny Realty.

A. And then on the April, '79, statement that charge was reversed off of Kearny Realty's statement and it no longer appears on there.

Q. Okay. You say in February of '79 Kearny Realty is being charged a certain amount of money for Warren Fuhro's premium; is that so?

A. Correct.

Q. Then in April of '79 they are no longer charged for that?

A. Correct.

Q. What is the process by which they're no longer charged?

A. Well, the invoice was offset with an invoice for the exact same amount as a credit.

Q. And if you will, going through those brokers statements, is there anything of that nature with regard to the November, 1977, statement? By that I mean, were they ever given back the \$843.12?

A. No, sir, they were not given that money back.

Q. Why were they given back the April, '79, payment, if you know?

A. Again, someone must have been told to do that.

Q. Why is it, or what led you to reimburse this money to Kearny Realty in April of '79?

A. Well, again, whoever did the work in our office was apparently told to back that charge out.

Q. Sir, I am going to show you what's been previously marked Commission Exhibit 561. It purports to be an invoice addressed to Kearny Realty with a broker number on it. Do you recognize that?

A. It's a T.C. Moffatt invoice.

Q. And looking under this block which contains "Customer No.," what's that number?

A. That would be the number assigned by the computer service to Kearny Realty.

Q. What is the number, the actual number? Can you read it?

A. BRO 952.

Q. Okay. Now, this is Commission Exhibit 60. I will represent to you that it's been identified as purporting to be a receipt to one Warren J. Fuhro for the payment of \$843.12, and I am going to address your attention to "Customer No." and what number is there in?

A. "BRO 952."

Q. Again, whose number is that?

A. That would be Kearny Realty number.

Q. Is that number reflected anywhere in the broker's statement? The broker's statements, sir, these. Is it reflected in there anywhere?

A. That is the number for Kearny Realty, BRO 952.

Q. Well, it says "Customer No." under here and has a broker number. Isn't that Kearny Realty?

A. That's Kearny Realty's number and it would indicate the item was paid.

Q. It's not Warren Fuhro's number, is it?

A. No.

X X X

Q. Again am I correct in saying that the insured's name is not really the customer?

THE CHAIRMAN: Not the person paying for it, is that what you are saying?

MR. RHOADS: Yes, sir.

A. That's correct.

A Revealing Memo

The next witness, George Sloan, the vice president of T.C. Moffatt, described the meaning of a memo or note he wrote and put into his company's files relating to Mr. Fuhro's car insurance bill:

Q. With reference to the county insurance, do you know a man by the name of Warren Fuhro?

A. Yes, I do.

Q. He is the general purchasing agent, is he not, for the County of Hudson?

A. Correct.

Q. And as such, are you aware that he played a role in the award of the T.C. Moffatt contract? By that I mean, did you know that he recommended your agency to the freeholders?

A. Yes, I was aware of that, yes.

Q. Sir, I am going to show you what's been previously marked Commission Exhibit 63. Would you please look at that. First tell me, can you identify it?

A. It's my handwriting, my initials.

Q. So it's fair to say you wrote that note, did you not?

A. Correct.

Q. Would you read it, please?

A. "Warren Fuhro's personal auto to be billed to Kearny Realty, taken out of money paid to Frank Arilotta. Paid bill to be sent to Warren Fuhro."

Q. Who is Frank Arilotta?

A. He is the president or owner of Kearny Realty.

Q. And, of course, that note directs that Kearny Realty be billed and pay the premiums for Warren J. Fuhro's insurance, does it not?

A. Yes, as the note states, yes.

Q. And along those lines, it further directs that a receipt be sent to Warren Fuhro to show that Kearny Realty paid his premiums; isn't that so?

A. Correct.

Q. Was there a receipt sent to Warren Fuhro?

A. There is a receipt, yes, for Mr. Fuhro's auto policy, yes.

#### The Peripatetic Mr. Morgan

James G. Morgan, a Jersey City insurance broker, confirmed that the Hudson County and Kearny insurance contracts were switched from time to time to whichever insurance agency he became associated with. But he vehemently denied having anything to do with the arrangements for billing and paying of Mr. Fuhro's personal car insurance. Counsel Rhoads first questioned Mr. Morgan about his various agency connections:

Q. Mr. Morgan, was there a time when you were employed by the T.C. Moffatt Agency?

A. Yes, Counselor.

Q. In what capacity were you employed by them?

A. Originally as what they call in the insurance business a commercial underwriter.

Q. For how long were you employed by the T.C. Moffatt Agency?

A. Approximately a year.

Q. And prior to that time were you ever employed by a company known as Sweeney and Bell?

A. Yes, Counselor.

Q. And they were also an insurance agency?

A. Yes, Counselor.

Q. Are you presently employed by United Agencies, Inc.?

A. Yes, Counselor.

Q. And they also, of course, are an insurance company?

A. Yes, Counselor.

Q. For a moment, with Sweeney and Bell, was there a time when they insured the County of Hudson?

A. Yes, Counselor.

Q. Did they insure the Town of Kearny?

A. Yes, Counselor.

Q. You were with them when those contracts were in force; is that so?

A. Right.

Q. Then you went to the firm of T.C. Moffatt?

A. Yes, I did.

Q. Did there come a time when they got the County of Hudson?

A. Yes, Counselor.

Q. And did they get the Town of Kearny?

A. Yes, Counselor.

Q. Did there come a time when you went with United Agencies, Inc., that they got the Town of Kearny?

A. Yes, Counselor.

Q. Do you know Frank Arilotta?

A. Yes, Counselor.

Q. He's the insurance director for the Town of Kearny, is he not?

A. Yes, he is.

Q. Is he involved in the award of the contract in any fashion for the Town of Kearny?

A. Yes, he is.

Q. Well, then, whatever agency it appears that you were with, at least the Township of Kearny, that contract was given to that agency; isn't that so?

A. It would seem that way, yes.

Q. Well, it is that way, isn't it?

A. Yes, Counselor.

Q. Do you enjoy somewhat of a favorable relationship with Mr. Arilotta?

A. Yes, I do.

The interrogation of Mr. Morgan now turned to Mr. Fuhro and his car insurance:

Q. Now, with regard to Warren Fuhro, did T.C. Moffatt handle his personal automobile liability insurance?

A. Did T.C. Moffatt? Yes, they did.

Q. Were you instrumental in some fashion with Mr. Fuhro filling out his application? Did you have something to do with that?

A. Yes, I did.

Q. What did you do?

A. Evidently, Mr. Hockenjos has spoken to Mr. Fuhro and I was given instructions to take what we call an assigned-risk application down to Mr. Fuhro's office and I brought the assigned-risk application down for Mr. Fuhro to assist me in completing it and then take it back to T.C. Moffatt where it would then be sent into the assigned-risk pool to have a company designated.

Q. Did you have any conversations with Mr. Fuhro with respect to handling his assigned-risk automobile policy prior to bringing the application to him?

A. No, no, I was directed by Mr. Hockenjos to take it down to him.

Q. Mr. Morgan, there came a time when you went to an employee in T.C. Moffatt's office, one Stephanie DeMercer, and told her to bill Kearny Realty for his insurance, didn't you?

A. No, sir, no way.

Q. You deny ever telling her that?

A. I never told anybody to bill, to bill Frank Arilotta for Mr. Warren Fuhro's automobile. When I -- I took Warren Fuhro's automobile applications up in August, and I was shortly terminated thereafter. I didn't even know what completion, what company or whatever transpired. I left Moffatt right after, about the middle of August.

Q. I just want to make sure we are clear on this point. Did you ever tell, forgetting the name Frank Arilotta, did you ever tell Stephanie DeMercer to bill Kearny Realty for the premiums for Warren Fuhro's personal automobile insurance?

A. Absolutely not, no, sir.

Mr. Morgan is Contradicted

A version of how the Fuhro car insurance was billed that differed from Mr. Morgan's was related by Mrs. Stephanie DeMercer, who was a personal lines representative handling assigned risks policies for T.C. Moffatt at the time. She was the next witness questioned by S.C.I. counsel:

Q. And along those lines, do you know a man by the name of Warren Fuhro?

A. Yes, we wrote an insurance policy for him.

Q. Was that an assigned-risk policy?

A. Yes, it was.

Q. Who did you bill on that?

A. I believe we billed Warren Fuhro when the policy initially came into the office.

Q. And then there came a time when you billed someone else, wasn't there?

A. There was. I remember there was a time when we were told it was going to be billed through Mr. Arilotta, I believe, who had an agency, so I believe it was a brokered account.

Q. Just to repeat for a moment, you say there came a time when you were told to bill to Frank Arilotta's agency, isn't that so?

A. Yes.

Q. That was Kearny Realty; do you recall?

A. I believe so, yes.

Q. Perhaps if this refreshes your recollection tell me. We had a phone conversation last week during which time you told me that it was James Morgan who had told you to bill Kearny Realty.

A. Yes, I believe it was.

Q. Do you recall that?

A. Yes.

Q. Isn't that who in fact told you to do that?

A. Again, I believe it was a conversation. I'm not sure whether he directly told me, but he was involved in telling me. I think there was a conversation with Mr. Kane, Mr. Morgan and myself.

Q. Did you question either one or both of those two men as to why it is you are billing Kearny Realty?

A. No.

Q. Did you, in fact, bill Kearny Realty?

A. Yes.

Q. I will show you what's been previously marked Commission Exhibit 44. It purports to be a bill to a Warren Fuhro. Is that the first bill that you alluded to?

A. I believe it is, yes.

Q. What's the date of that bill?

A. September 26, 1977.

Q. What's the amount of that bill?

A. \$843.12.

Q. And subsequent to September, is that when you had this conversation with the two gentlemen about rerouting the bill, let's call it, in other words, billing someone else?

A. I'm not positive. The conversation could have been before this. The policy was in effect prior to this date. It was an August policy and there may have been a discussion concerning the billing before September. But it was billed when the actual policy came in. It may have -- there may have been a discussion prior to this about what was going to happen to the policy.

Q. You said there did come a time now when you were told to bill Kearny Realty; isn't that so?

A. Yes.

Q. I show you Commission Exhibit 56. Is that the bill to Kearny Realty that we are discussing now?

A. Yes, it is.

Q. And it's for the exact same amount that was previously billed Mr. Fuhro, isn't it?

A. Yes.

Q. And this bill reflects a customer number here?

A. It's a broker number.



Q. Whose broker number is that?

A. I imagine it was Kearny Realty's broker number. We had several accounts that we did broker through --

Q. It's a broker's number, is it not?

A. Yes.

Q. If you look here, it says "Insured's name if different from customer file" and it has under there "Warren Fuhro."

A. That's correct.

Q. Am I correct in stating that the customer is whoever has that broker number, Kearny Realty, assuming it has that number, but the insured is Warren Fuhro?

A. That's right.

Q. So the person responsible for payment of Mr. Fuhro's insurance policy is Kearny Realty?

A. As far as payment to our office, yes.

#### Kearny's "Insurance Director"

Frank Arilotta as broker of record for Kearny automatically assumed the title of "insurance director" for that town, although he himself subsequently could not directly place municipal insurance through his own company, Kearny Realty, because of its lack of access to adequate carriers. Nonetheless, he personally swung Kearny's insurance business to various other agencies at a considerable profit to himself in the form of shared commissions, for which he did little work beyond routine processing of claims. He was questioned about his commissions, about the services he performed in return for such compensation -- and about being billed for Hudson County Purchasing Agent Fuhro's \$843 car insurance premium. Counsel Rhoads first asked Arilotta about his role as town insurance director:

Q. How long have you been the insurance director?

A. Since the year of February of 1975.

Q. If you will, will you explain to the Commission, what are the duties and functions of an insurance director?

A. If possible, I get the insurance placed with the companies; service the policies; handle all claims; sell -- consult -- I'm sorry -- and direct the Mayor and Council, Mr. Rhoads.

Q. Now, sir, you say "direct the Mayor and Council." With respect to what?

A. In what type of insurance that they need; what they should have; in going out and getting quotes from different companies, and in that manner.

Q. Now, the agency Kearny Realty, are you the principal in that agency?

A. Yes, I am, Mr. Rhoads.

Q. All right. Now, did Kearny Realty at any time have the insurance for the Town of Kearny?

A. Yes. Yes, we do, Mr. Rhoads.

Q. When did the Kearny Realty have the insurance for the Township of Kearny?

A. When I became insurance director, in the year of February, 1975.

Q. So as insurance director, you also had the insurance for the town; is that so?

A. Yes. What the insurance director, Mr. Rhoads, not to confuse the issue, would mean broker of record.

Q. So that whoever is the broker of record automatically becomes the insurance director?

A. Is insurance director.

COMMISSIONER PATTERSON: Does the title itself -- does pay go along with the title?

THE WITNESS: No, it doesn't, sir. No pay, no hospitalization, no benefits whatsoever. No Blue Cross, no Blue Shield, nothing. That doesn't come with the position.

COMMISSIONER PATTERSON: It's merely a title?

THE WITNESS: It's just paid on commissions.

X X X

Q. So I understand, what you did, then, as insurance broker, you went around to other brokers; solicited packages from them and went back to the town. Is that so?

A. No. What I did is this, Counselor: First of all, I called up interested companies, and I tried to get it myself through the companies, like, you know, like Fireman's or Motor Club of America, and different companies.

Q. Excuse me a minute. Your problem is that you, in fact, don't represent any carriers, do you?

A. Oh, yes, I do.

Q. Who do you represent?

A. I represent Motor Club of America, and the other company -- no, I don't represent anybody else. But I have personal lines which I do put through other carriers, and, you know, we share commissions, like, if I had it today. For instance, if you came and said, "Frank, I want a homeowner's policy, "Motor Club of America wouldn't take it. No companies will take it. So --

Q. Mr. Arilotta, let me, if I may, just ask you a couple of questions here. Just to clarify the point, Kearny Realty, in fact, is the agency of only one carrier, Motor Club of America?

A. That's true.

Q. So the needs for insurance coverage of the Town of Kearny you couldn't possibly place yourself as the agent, could you? Isn't that true?

A. That's true, because I don't have any companies.

Q. Right. So you had, by definition, to go to other agencies for them to place the insurance for the town?

A. Exactly, Mr. Rhoads, exactly.

Q. Yet you become the broker of record and the insurance director; isn't that true?

A. That's true.

X X X

Q. Do you have any idea why they retained you as the broker of record and not simply go to someone who was able to handle all their needs for them?

A. Well, you know, I -- like I say, I went after it. I did a good job. I tried and, you know, then they know what type of fellow I am and I always try to do my utmost in anything that I had, and I didn't think there was anything wrong. If I thought there was anything wrong, I wouldn't do it. I wouldn't do it.

Q. Mr. Arilotta, if I may. The Town of Kearny did not pay you to be the insurance director, did they?

A. No, they didn't, sir.

Q. Well, you certainly didn't do all that work for nothing. Who paid you?

A. On my commissions.

Q. From whom?

A. Well, at that time I placed it with Sweeney and Bell.

Q. So Sweeney and Bell is giving back of their commissions to you, aren't they?

A. Yeah.

Q. Did the town know that; the Town Council, the Mayor?

A. Sure, they knew it. They knew it was with Sweeney and Bell.

Q. They knew Sweeney and Bell was placing their insurance for them. My question is if the Town Council knew at the time that you were unable to place the insurance.

A. I believe they did know, Mr. Rhoads.

Q. You believe they did?

A. I believe they did know. We're going back to 1975. I can't remember.

Q. Let me ask you directly. Did you tell them that you were unable to place insurance for them?

A. I would say --

Q. That you had to go to someone else?

A. I would say I did.

Q. Your answer is yes, you told them?

A. Yes, I would say I did.

Q. So they did know?

A. But actually, Counselor, going back to 1975, I can't remember, really. And I don't want to lie. I just can't remember.

Q. All right. Well, in 1975 Sweeney and Bell is then the agency that actually places the insurance for the Town of Kearny; isn't that correct?

A. Right.

Q. But you, of course, are the broker of record and the insurance director?

A. Right.

Q. And they share their commission with you; isn't that so?

A. That's true.

Q. What percentage?

A. They were taking 60, I was getting 40. That's an agreement between both agencies and I understand that, you know, it's an agreement between, you know, like Mr. Burns at that time and myself, whatever agreement that we both agreed to.

Q. Well, your agreement with Sweeney and Bell was that you got 40 percent?

A. Yes.

Q. How much was that in dollars?

A. Oh, I don't have the figures on me, Counselor.

THE CHAIRMAN: Is it \$10,000 your 40 percent? Was it \$20,000 or \$5,000?

THE WITNESS: I would say that it's -- you know, I really don't know, but I would say that it would be over 10,000. But I don't want to. I don't think you would want me to lie either, Commissioner.

THE CHAIRMAN: It was over \$10,000?

THE WITNESS: I would say, yes. I would say.

THE CHAIRMAN: Was it over 15?

THE WITNESS: I don't know. I would say, yes, probably.

THE CHAIRMAN: Was it over 20?

THE WITNESS: I don't think so, sir.

Q. All right. Well, Mr. Arilotta, just staying with the year '75 and Sweeney and Bell for a moment. Did Sweeney and Bell go directly to the Mayor and Council with their proposal, or did you do it?

A. No. What happened is, Counselor, we had -- the Mayor and Council at that time was entertaining all quotes, and at that time I had went with -- I remember it was Joe Burns was there, and it was another gentleman. I forget what his name was. We went and we sat myself -- we sat with the Mayor and Council, I think, on probably three different occasions because they were looking for certain types of what to have in the insurance, and I believe on three different occasions we sat with the Mayor and Council until we came up to, you know, their expectations.

Q. All right. Well, Mr. Arilotta, what I am saying is this: Mr. Burns is employed by Sweeney and Bell, is he not?

A. At --

Q. At the time.

A. He was the boss. He's the head man.

Q. He's the head of Sweeney and Bell at the time?

A. Right.

Q. The two of you are sitting there with the Town Council. My question is this: Did you let it be known to the Town Council that, in fact, Sweeney and Bell is the one that's handling the entire insurance for them and is going to place it or did you let them think perhaps you were aiding Sweeney and Bell or Sweeney and Bell was someone of your employees?

A. No, they knew I was placing the insurance through Sweeney and Bell.

Q. You made them aware of it?

A. Sure. Sweeney and Bell was there.

Q. Do you have any idea why, then, the Town Council wouldn't simply make Sweeney and Bell the brokers of record and eliminate you?

A. Well, I think -- I'm not -- it's not that I know, but I don't -- number one, I don't know why, but if you are asking me personally, we have the office a block away from the Town Hall; we can do a better job in handling claims; people that come into the office, and maybe that's their reason. I don't know. I really don't.

Q. Well, Mr. Arilotta, did you tell the Sweeney and Bell Agency, their representatives, that if they didn't deal with you, that if they didn't share the commissions with you, that they wouldn't have any chance at all in getting the Township of Kearny's insurance? Did you tell them that?

A. Absolutely not, absolutely not.

Q. What is it you did for that 40 percent?

A. Well, what we do is that, you know, we get the quotes for the insurance; we place -- we service the policies; we handle the claims; and this is what we do.

Q. All right. Now, when you say you handle the claims and you service the policy, is there a difference there?

A. Well, there would be because there is a -- in handling claims, people come in; we write them up; service the claim; send them to the companies, and that would be the difference.

Q. Well, that's a little bit above the whole, then, isn't it? In other words, what you are doing, then, is handling the claims, period? Right?

A. Right, we would service the policies.

Q. If someone were to come with a claim, let's assume someone in the town is in an automobile accident, what have you, does that individual come right to Kearny Realty's office and report it?

A. Yes, they do.

Q. Who takes down this form?

A. My secretary.

Q. So that no one in the township government in the Town of Kearny is responsible for the reporting of claims; it's strictly Kearny Realty that does it?

A. Right.

Q. Now, there came a time when T.C. Moffatt & Company picked up the township's insurance, did they not?

A. Yes, they did, sir.

Q. When was that?

A. They picked it up, I believe, in the beginning of -- they picked it up in 1977.

Q. And you remain the insurance director, don't you.

A. Well, I would be insurance director for the years of 1975, 1976, 1977, and then I was re-appointed in 1978, sir.

THE CHAIRMAN: I have some information here that -- and to see if it helps your recollection -- indicating the commissions were, in '77, \$20,365. Would that be approximately right?

THE WITNESS: Commissioner Lane, you know, I'd be lying, honest. I don't -- I don't.

THE CHAIRMAN: Maybe this would help. I have the same information for '78 that your commissions were \$29,860, almost \$30,000.

THE WITNESS: Probably right.

BY MR. RHOADS:

Q. That's with T.C. Moffatt, is it not? That's when they have the insurance?

A. Right.

Q. They have the Town of Kearny and in '77 they gave you \$20,365, and from the County of Hudson, which they also had, they gave you \$29,573?

A. I don't --

Q. T.C. Moffatt, in 1977.

A. No, no. We're going now from Kearny, we're into the county.

Q. Yes. You are involved in the county's insurance, weren't you, with T.C. Moffatt?

A. Right, right.

Q. And they gave you money?

A. Yes.



Q. And that's the amount they gave you, isn't it?

A. I don't know.

Q. In 1977 a total is roughly \$50,000, isn't that so, of these commissions that are being shared, in other words, your end of it?

A. From both of them?

Q. Sure.

A. Very possible. I don't know.

Q. And for that you are servicing these claims? By that I mean, somebody gets an injury, they come to you. Right?

A. Well, they come to, they come to me and -- yes.

Q. All right. Now, with T.C. Moffatt, who did you deal with in that agency, if any particular individual?

A. I had dealt with Fred Hockenjos.

Q. Do you know James Morgan?

A. Yes, I do.

Q. Did you deal with him?

A. Yes, I did deal with him.

Q. So James Morgan is with Sweeney and Bell. He leaves, goes with T.C. Moffatt and you switch from Sweeney and Bell to T.C. Moffatt for the Township of Kearny, don't you?

A. Yes.

Q. Then there came a time when James Morgan left T.C. Moffatt and he went with United Agencies, Inc.?

A. Yes.

Q. And they're also sharing their commissions with you, are they not?

A. Yes.

Q. Did you go to any representative of United Agencies, Inc., and tell them that "If you don't share commissions with me, you are not going to get the Township of Kearny's insurance"?

A. I did not; I did not.

Q. Again, is the Mayor and Council aware of the fact you are actually having all these other agencies place insurance for them, that your company is not doing it?

A. Yes, yes.

Q. They are aware of that?

A. I assume they are.

Q. With regard to United Agencies, Inc., they just recently took that over, did they not?

A. Yes, they did. Counsel, yes, they did.

X X X

Q. All right. Did you tell the Town Council, "This is not my proposal, it's United Agencies' proposal"?

A. Sure. I gave copies to each one. Mayor and Council had a copy, Counselor. Each one had a copy. The Mayor and Council all had a copy.

Q. Along those lines, did you make them aware of the fact that, if U.A.I. gets that insurance contract, you, meaning Kearny Realty, is going to benefit because you are going to share in the commissions?

A. I had it right out there. I had the commission, everything right out there.

Q. I would like to invite your attention to Commission Exhibit 64. Is this the bid that was submitted? It obviously is not the bid. It's a reproduction of the bid, blow-up, submitted by United Agencies, Inc., for the Town of Kearny. Is this it?

A. Yes, it does look like it, sir. Yes, I said that's it.

Q. All right. Mr. Arilotta, we are, then, agreed that this is the blow-up reproduction of the bid submitted to the Town Council through you on behalf of U.A.I. Is that correct?

A. Yes, sir.

Q. Assume for the moment that I am the Town Council. Where on this does it tell me that Kearny Realty or Frank Arilotta is sharing in the commissions?

A. It just don't say that, sir.

Q. Well, then, maybe I misunderstood you. What was it that made the Town Council aware that, if they gave that insurance to U.A.I., that Kearny Realty is going to share in the commissions?

A. Because I would be the insurance broker for the Town of Kearny. I, I -- that's -- you know, what more can I say? It was me to go out and get it. I get the insurance, I place it. I work -- I try to get the best price for them, and it took a couple of months of work, and like anyone else, we're all entitled to get paid.

Q. Well, let me ask you this: If, suppose U.A.I. had gone directly to the Mayor and Council with their bid and said, "We would like to handle the insurance for the Town of Kearny." Would you have been consulted and would they have been told to go through you?

A. I would say this, if I could say this: That I assume as long as I would be the broker of record, then they probably would have to come to me because I'm the broker of record. I assume that -- I don't know this to be a fact, but maybe if I was not the broker of record, if they went directly, they could probably get it directly, sure.

Q. All right. Now, with respect to the County of Hudson, there came a time in 1977 that T.C. Moffatt was awarded the contract for the County of Hudson, did there not?

A. Yes, there was, sir.

Q. And after they were awarded the contract to service the County of Hudson you were contracted to do some part of the work on that insurance policy, were you not?

A. True.

Q. What was it that you were doing?

A. Well, what we did on the Hudson County, we filed all claims for the county; we sent the original to the company, a copy to the agent; and this, our office, would receive and transmit settlement checks to the county for payment of claims from the company.

Q. Now, you were instrumental in T.C. Moffatt being awarded the insurance contract, were you not?

A. Yes, I would -- I read it in the Jersey Journal and I called up on it and, --

Q. Who did you call?

A. I called Mr. Grimes.

Q. Grimes. And who is he?

A. I called Mr. Grimes. He's the assistant purchasing agent. I called him up and I asked Mr. Grimes that I was interested and what would I have to do. And at that time Mr. Grimes tells, told me that it would have to go out on bid. Now, I don't remember. He took my -- he knew my name, address. But I don't know whether or not he sent it to my office and I brought it to T.C. Moffatt & Company or I had them send it to T.C. Moffatt & Company and then I called Mr. Hockenjos. That part I don't remember.

Q. Did you meet a Warren J. -- Warren Fuhro in the County of Hudson, purchasing agent?

A. Do you mean do I know him or did I meet him?

Q. Well, do you know him?

A. I had seen him on a few prior political occasions that I have gone to, sir.

Q. So your answer is, yes, you know him?

A. And I was introduced to him by Mr. Grimes and spoke to him a few times.

Q. Did you introduce Fred Hockenjos to Warren Fuhro?

A. Yes, I did.

Q. Anyone else from T.C. Moffatt?

A. Yes. I believe it was Jim Morgan, George Sloan, and there was another fellow, Chris something. He's not there no more. Chris. I forget what his last name is.

Q. When was the decision made that, if T.C. Moffatt is awarded the contract, that you would share their commissions and perform some services for them?

A. Well, excuse me, Counsel. Being that we had a prior relationship with Mr. Hockenjos on the Town of Kearny, and I had called Mr. Hockenjos, this was a, you know, a known thing; that we would share in the commissions, and, you know, we worked together.

Q. The fact is that, when he did get the contract, you did share the commissions, didn't you?

A. Yes, sir.

Q. What was the percentage?

A. 50/50.

Q. I believe we did go over the amounts. Did there come a time when that percentage was increased? By that I mean you benefited by getting a higher percentage.

A. Well, in the latter part of the year, sir, the latter part of the year, at the time I had met with Mr. Hockenjos and at that time I met with Mr. Hockenjos because the county insurance policies would be, like, I believe every month. They were not like the Town of Kearny, once a year. And we used to meet and we used to have lunches, and I would always pay for the lunches, and then I had -- which, believe me, --

You know, not wrong, but I would have tickets and testimonials to go to and different things, and I had asked Fred, because Fred was out of the country a lot and out of the state a lot. I said, "You know, Fred, if there is any way you want to work this, either you submit this with me half and half," because we never knew really what commission was entailed because we lost policies, too. I lost policies, too. I mean, we don't have all Hudson County's insurance.

So I said to him, I said, "You know, Fred, if you want to pay half and half of the expenses or maybe you could throw me 10 percent, whatever it is. He decided, look, I don't want to know headaches, Frank. I'll be happy to give you the 10 percent.

X X X

Q. Hear me out. You would then get 60 percent and he would retain 40 percent. That was the actual agreement?

A. That's right.

Q. The uprise in this percentage on your behalf is due to the fact that you are now encumbered with buying political tickets, making donations, taking people to dinner that work for the county or the town, what have you. Isn't that correct?

A. That's true.

Q. Did you feel, in order to retain the insurance contract for the County of Hudson, that you would have to attend these political functions and buy tickets to them, et cetera?

A. I don't know. I only -- like -- no, because I'll tell you why. I've been a Democrat all my life. I'm a county committeeman, and I was gald to do it.

Q. All right. So your answer is no?

A. I was glad to do it. My answer would be, no, I was happy to do it.

Q. If your answer is no, that you didn't think it was contingent, then why, if you know, why on earth would Hockenjos give you 20 percent more of the commission than he's getting to make all these political payments if they're not necessary to keep the contract?

A. Twenty? I don't understand 20.

Q. You are both at 50/50 and then he drops to 40 and you go up to 60. Right?

A. Well, I -- yes.

Q. Okay.

A. I told him, because we were approached, I was approached and to me -- you know, I thought it was the right thing to do, I mean. Nobody got a gun and said you had to do it. No one says that you won't get the insurance. But I just thought that it was the right thing to do. I don't condemn anyone for doing it.

#### The Insurance Director's Mentor

Mr. Arilotta indicated he was willing to make political contributions when they were requested by Ed Grimes, the assistant Hudson County purchasing agent. Mr. Grimes, as a member of the Kearny Town Council, was Mr. Arilotta's sponsor for the insurance director's job. Counsel questioned the witness about his political relationship with Mr. Grimes:

Q. Who approached you?

A. Well, we had, you know -- well, in the county, Mr. Grimes.

Q. Mr. Grimes approached you?

A. In the county.

Q. What is it that he wanted you to do?

A. Nothing. He said, "Would you take a couple of tickets?" Then which I was very happy to because I think he's a fine man.

X X X

Q. Well, Mr. Grimes was the assistant purchasing agent in the County of Hudson at the time T.C. Moffatt got the insurance contract, wasn't he?

A. Yes, he was.

Q. And he played some influential role in who would get the insurance contract, didn't he?

A. No, because we had to go on bid. We went on bid, sir, and there was no such thing, there was no such thing as, "Here, you have the insurance." When we -- we went on bid and the first one that we got was in July and we had the auto, the fleet, and we went on bid. So Mr. Grimes couldn't do anything for me.

Q. Were you aware that the purchasing agent's office, meaning Fuhro and Grimes, et al, would recommend to the Board of Freeholders what insurance agency to award the contract to?

A. I was not. But I understand that, when the bids are opened, it's opened before the freeholders. Now I understand that's the way it is, and they're read off. This is as far as I know. But I never was in a freeholders' meeting. I never went --

Q. No, I know that. All I'm asking you is, did you have any idea whether the purchasing agent, Mr. Fuhro and his assistant, Ed Grimes, who you just said solicited you for political contributions which you gave, had anything at all to do with the decision of the freeholders in who would get the contract?

A. No, I didn't. No, I didn't.

Q. Why didn't you just tell Ed Grimes, "Look, I don't want to buy those tickets from you"?

A. Well, maybe I felt embarrassed because I, you know, I know the man.

Q. You what?

A. I mean, I know the man. I felt embarrassed. I figured that maybe he had -- you know, I didn't buy them, you know, like -- I wanted to go. I really wanted to go to the affair. It's not that I had to buy them. But I wanted to go. I was happy to go. I bought them to the Governor and the Governor don't give me insurance. I was happy to go to the Governor's Ball and I bought those. I was happy to go.

Q. Ed Grimes, in addition to being the assistant purchasing agent, is also on the Town Council of the Town of Kearny?

A. Yes, he is.

Q. And, of course, the Town Council votes on who's going to get the Kearny insurance, as well, doesn't it?

A. Not who's going to get the insurance.

Q. You probably do that, but they vote on whose going to be director?

A. Yes, right.

Q. You got insurance director by resolution, didn't you?

A. Mayor and Council.

Q. Ed Grimes sponsored that resolution, didn't he?

A. True, but it could have been knocked down.

Q. Did you feel that, if you hadn't bought those tickets or whatever it was from Ed Grimes, that perhaps: A, T.C. Moffatt might lose the county insurance; and, B, you may no longer be insurance director for the Town of Kearny for which you made in 1975 a grand total of \$79,412? Did that ever cross your mind?

A. Maybe it did. Maybe, you know.

Q. It may have?

A. It may have, but, like I say, again -- I'm a staunch Democrat and I'm happy to do it. I've done it before I had the insurance. I've always done it. I've always been a good Democrat. I've gone to many political affairs throughout the state and I was happy to do it. This should not make the difference there, Counselor.



The Car Insurance Bill, Again

Counsel Rhoads next asked Mr. Arilotta about Hudson County Purchasing Agent Fuhro's personal car insurance bill. Mr. Hockenjos previously testified that neither Mr. Fuhro nor his own T.C. Moffatt Co., which obtained the insurance, had paid that bill. Rather, Mr. Hockenjos had confirmed that T.C. Moffatt, as indicated by brokerage records marked as public hearings exhibits, had billed Mr. Arilotta's Kearny Realty agency for Mr. Fuhro's \$843.12 premium in 1977 and that it had been deducted from Mr. Arilotta's shared commissions' account with T.C. Moffatt. Mr. Arilotta was questioned about this procedure:

Q. Did you indicate to Warren Fuhro that you would pay his automobile insurance premiums and that you would have T.C. Moffatt place it for him?

A. No, I didn't, sir.

Q. Mr. Arilotta, in your dealings with T.C. Moffatt, do you have assigned by T.C. Moffatt a broker number or do you just as an agency have broker numbers?

A. We have broker numbers, sir.

Q. What's your broker number?

A. I believe it's 852. Is that 852? Or 952.

Q. Well, if I were to tell you it's 952, does that refresh your recollection?

A. I would say that's it.

Q. Mr. Arilotta, I am going to show you what's been previously marked Commission Exhibit 55. Will you look at that? It's been previously identified as an invoice from T.C. Moffatt. Do you recognize that? Have you ever seen that before?

A. No, sir.

Q. I am going to show you Commission Exhibit 56. Would you look at that and tell me, do you recognize that?

A. No, sir.

Q. Did you ever see that before?

A. Not that I could recollect, sir.

X X X

Q. All right. If you will, that invoice is addressed to you, is it not? By "you," I mean your agency.

A. Yes, addressed to us all right.

Q. All right. If you will, it's addressed to Kearny Realty, 350 Kearny Avenue, Kearny, New Jersey. That's the address of your business, isn't it?

A. Right.

Q. And it's from T.C. Moffatt & Company, is it not?

A. Yeah, but I never seen this.

Q. Well, I'm not asking you that, Mr. Arilotta.

THE CHAIRMAN: Just answer the question, please. They're simple questions.

Q. It's a document. I am only asking you about this document.

A. Yes, sir.

Q. And it's from T.C. Moffatt, is it not?

A. Yes, it is, Counselor.

Q. And it appears to be a bill charging \$843.12 --

A. Right.

Q. -- to Kearny Realty, doesn't it?

A. Yes.

Q. Looking over to this portion that I am pointing my finger, and it reads, "Customer No." and within a small rectangel it has "BRO 952." That's your broker's number, isn't it?

A. That's right.

Q. In a larger rectangular box immediately to the right above that it says, "Insured's name if different from customer," and within the box, it says, "Fuhro, Warren," doesn't it?

A. I never seen it. Yes, it does.

X X X

Q. Does this bill purport, does it hold out to bill Kearny Realty for Warren Fuhro's insurance?

A. I would say, yes, the way it is.

Q. Kearny Realty paid that bill, didn't they?

A. No, they didn't, sir.

Q. I am going to show you what's been previously marked Commission Exhibit 62A. It's been identified as a broker's statement from T.C. Moffatt to Kearny Realty, and I am turning to the statement which indicates broker's statement as of November 30, 1977, and it has "Customer BRO 952." That's you, isn't it?

A. Uh-huh.

Q. Would you look at that and tell me again, do you want to change your answer as to whether Kearny Realty paid Mr. Fuhro's insurance?

A. I never paid this, Counsel.

Q. Well, what's the significance of that document before you?

A. I can't account for what T.C. Moffatt & Company put on my statement. I can't account for it. I could only tell you that, when this came in on my statement, I called Mr. Hockenjos and I told him about it, and Mr. Hockenjos apologized to me and said that it would be removed, and this is the gospel truth.

X X X

Q. All right. Let me ask you this: T.C. Moffatt was the broker of record for the County of Hudson, were they not?

A. Yes, they were, sir.

Q. And they used you to handle claims or what have you, and, also, they paid you to handle these political contributions, et cetera. They got the premiums from the County of Hudson from which they took their commission and then out of their commission they gave you your share, didn't they?

A. True, but we never knew what our share was, because --

Q. Well, they're the broker of record?

A. -- the reason why is that when I would call Mr. Hockenjos, and I said, Fred, I thought we were supposed to get this amount of money, "Fred would say, "Well, now, the company is paying less percent here." Or we never had a statement with our checks, like I stated before, Counselor.

Q. I know. You don't have to repeat that. I appreciate that.

All I am asking you is this: That they owe Kearny Realty certain moneys. Now there is a bill, Warren Fuhro's automobile insurance, and it happens to have been for \$843.12, and they owe Kearny Realty X number of dollars, a sum of money. They deduct from that sum of money \$843.12.

A. I didn't know that because we never had no statements, sir. He wouldn't send us a statement.

Q. You had the broker's statement?

A. No. He would never send us -- with our commission he would never send us a statement what he would take out. That's why we didn't know.

Q. Mr. Arilotta, what about this piece of paper which has been previously identified as the broker's statement; tells you that they are charging you for Warren Fuhro? Why did you even call Mr. Hockenjos then?

A. I don't know whether they're charging me. Like I tell you, Counselor, Counselor, that I -- when I receive a commission bill, he doesn't send me a breakdown. I don't know what I'm paying for, and that was our arrangement with T.C. Moffatt & Company, like I said before. Out of 12 commission bills, I only got five statements.

Q. Mr. Arilotta, please. Here's the name Warren Fuhro, here's the policy number, here's the date August 11, 1977, here's the amounts, and it totals up to \$843.12, I believe it is. Doesn't that indicate to you that they're charging you that amount or doesn't it? Just answer yes or no.

A. It would indicate that they are, but --

Q. All right. Okay. That's fine.

#### Mr. Fuhro's 1978-79 Car Insurance

Counsel pressed the witness for an explanation of T.C. Moffatt records showing that Mr. Arilotta's Kearny Realty account also was charged for Mr. Fuhro's car insurance subsequent to 1977. In fact, it wasn't until 1979 -- after S.C.I. agents were investigating Mr. Fuhro's car insurance -- that Mr. Arilotta wrote a letter complaining about T.C. Moffatt's billing process. Mr. Arilotta was asked about his broker's account with T.C. Moffatt in 1978:

Q. What I am asking you is, it shows up on your broker's statement. It's your business, Mr. Arilotta. You are the principal. They're charging you in May of '78 for Warren Fuhro's insurance. You paid it. Your company paid it out of money they owned you. What did you do?

A. If -- I recall that Elaine got the bill and sent it to Mr. Fuhro. I also recall that I spoke to Mr. Hockenjos and I told Fred again this appeared on his statement. I said, "I don't want it there. I have nothing to do with it." And I was very, very stern with him, and, get it out of there.

Q. Mr. Arilotta, isn't it true that when you got those statements you didn't do anything?

A. It's not true.

Q. Because the fact is you were paying his insurance and you wanted to?

A. It's not true, sir. It is not true. And the thing is that -- no, I did not pay, Counselor.

Q. Mr. Arilotta, I am going to show you what's been marked 62C, Commission Exhibit. It's been previously identified again as broker statement. T.C. Moffatt to Kearny Realty, and once again, February of 1979, T.C. Moffatt, despite all your protests, is still charging Kearny Realty for Warren Fuhro's insurance. Now what's happening?

A. All right. You have to understand one thing, Counselor. Insurance is not a thing that does every day, every month. It comes once a year.

Now, when I seen this, then I took immediate action and sent certified letters through the mail and even with that I was unsuccessful. Even with that I was unsuccessful.

Q. Mr. Arilotta, you finally take pen and ink and write a letter to T.C. Moffatt for the very first time?

A. I wrote.

Q. For the very first time in 1979, isn't that a fact?

A. Yes.

Q. Didn't you decide to write that letter after agents from the State Commission of Investigation had come up and interviewed you?

A. If this was the case, Mr. Rhoads, if this was the case -- then I could have made a copy, phoney copy, and stuck it into my file after they came in on the first statement if I wanted to lie, if I wanted to cheat, if I wanted to do anything. But I'm being honest with you. I told you I called him. I could have just had a copy made up, put it into my files and said, maybe T.C. Moffatt & Company threw it out. I'm being honest with you, I didn't do that.

Q. I suppose the rebuttal would be you wouldn't have the receipt to say they ever got it. But, in any event, the first letter you ever write in regard to the policy, the horrible mistake the T.C. Moffatt made, was March 17, 1979, isn't it?

A. I guess so.

Q. In fact, even though the fact is you forgot to ask for the \$843.12 that they had charged you way back in 1977?

A. I know one of our letters asked for it.

Q. You wrote a subsequent letter in April, didn't you, when you found out that you had paid his 1977-78 policy? Then in April, '79, you decided to ask for that money back?

A. I didn't even know they took it out because I have no statements of the money he took out of my commissions. That's what I'm trying to tell you.

#### What Kearny's Mayor Knew About Town Insurance

Mayor David C. Rowlands of Kearny, who followed Mr. Arilotta as a witness, was questioned about Mr. Arilotta's activities as town insurance director and about the various insurance contracts the town signed at Mr. Arilotta's direction. His testimony would confirm the S.C.I.'s investigatory findings that many governmental entities know, or professed to know, very little about public insurance, rarely sought professional counseling on the coverage they purchased and seldom questioned whether commissions generated by insurance programs were excessive or what services, if any, were performed by those who received or shared in such commissions. At the outset, counsel asked the Mayor to describe Mr. Arilotta's job:

Q. Well, would you consider it political?

A. Yes and no. I would say that it's certainly a professional position, but at the same time there are some politics involved in the obtaining the job.

Q. When did Mr. Arilotta become the insurance director for the Town of Kearny?

A. In February of 1975.

Q. And concurrently with that, does that mean he is the broker of record for the town?

A. Yes.

Q. Now, at the time he became the broker of record were you aware that Mr. Arilotta was not able on his own to place the town's insurance? By that I mean he was not the agent of any carrier other than Motor Club of America.

A. I thought that he was as qualified as any other candidate, so the answer to your question would be, no.

Q. You did not know that. Did there come a time when you ever knew that without going to some other agency, Mr. Arilotta would be unable to --

A. Yes.

Q. -- service the Town of Kearny?

A. Yes.

Q. When did you find that out?

A. Approximately two years later.

Q. So that would be somewhere in the neighborhood of --

A. '77.

Q. How did you get that information?

A. Okay. He had placed the insurance with Sweeney and Bell. They were -- I get a little confused with who is an agent and who's -- and the insurance company was Royal Globe, and two years later he decided to change the carrier, I guess, or agent I guess it would be, to Moffatt. That was questioned by one of the members of the Council. Our town attorney rendered an opinion and the opinion was that he could because he was not, in fact, insurance director, he was broker of record, place the insurance, and at that time I got a little more involved just how insurance works in the Town of Kearny and that's when I realized that he would have to place it in another agent.

THE CHAIRMAN: Excuse me. What was the reason, the stated reason for changing those agencies?

THE WITNESS: Okay. Mr. Arilotta's reason was, was that he did not have good line of communication with Sweeney and Bell. A certain individual had left and he wasn't getting good responses from them.

Q. Would that individual, by any chance, have been James Morgan? If you know.

A. I don't know.

Q. All right. The fact is he then switches to T.C. Moffatt, does he not?

A. Correct.

Q. Is it along that period of time when at least you yourself as mayor learn that Frank Arilotta, meaning Kearny Realty, could not actually place the insurance for the town; that they had to use another broker?

A. Right. In 1977, when we got involved with this controversy, I then myself realized that he would have to have another agent in order to place the town's insurance.

Q. All right. Then why is it not that you as mayor would then go to the Council and alert them to that fact and perhaps pick T.C. Moffatt as your insurance director? Why do you keep with Arilotta?

A. Okay. He serves as a buffer between the Town Council and various insurance problems. For example, a lady falls in front of the Town Hall and she writes a letter to me. I will refer that letter to Mr. Arilotta.

It was also explained to us that no matter what the commissions are, the commission would stay the same whether we had Mr. Arilotta and Moffatt, for example, or if we had Moffatt alone. So, therefore, in that value judgment, if it's not costing the town any more money to have Mr. Arilotta, we kept him.

Q. Did Mr. Arilotta explain that to you?

A. No. It was explained to me by various people. Councilman Grimes, one of our councilmen, questioned Moffatt Company -- I'm not sure who -- and received that response; that the commission would be the same whether they had Mr. Arilotta as a go-between or not.



Q. All right. When you vote on the award of the insurance, does Mr. Arilotta make recommendations in his role as insurance director?

A. Yes.

#### The Switch to United Agencies

Mayor Rowlands recalled that in February, 1978, Kearny was warned of rising insurance costs because "insurance companies didn't want to insure municipalities" and that the town was going to have to "vote on a much higher rate of premium." An inquiry into the possibility of Kearny becoming its own insurer ended in early 1979 when Mr. Arilotta "brought in" two bids for the town's coverage -- one by the Moffatt company and a "much lower quote" by United Agencies of Walldwick. The mayor said Mr. Arilotta recommended acceptance of the United Agencies bid. Counsel:

Q. Did he also tell you during the time of this recommendation that he was going to share the commissions with United Agencies?

A. Probably didn't tell us, but certainly we assumed it.

Q. You assumed that he would?

A. I'm certain that he would be making money somewhere, sure.

Q. Who was the broker of record? Is it U.A.I. or is it Frank Arilotta now?

A. The way it's been explained to me by our town attorney through a resolution is that Mr. Arilotta is a broker of record.

Q. All right.

A. And United Agency is an agent.

Q. Who do the premium checks go to? Do you know?

A. They asked me before. I should have checked. I would guess the premium checks go to Mr. Arilotta. It's only a guess.

THE CHAIRMAN: Do you have any idea of the commissions, the shared commissions?

THE WITNESS: All right. We heard that the -- not heard. There is a service fee this year instead of a commission, because the company they placed the insurance with does not charge commissions. It's a service fee, and it's somewhere in the neighborhood of \$80,000.

Q. All right. Mr. Rowlands, sticking with that for a moment, I will direct your attention to Commission Exhibit 64, and do you recognize what's depicted on here as being the proposed bid from U.A.I.?

A. Yes.

Q. And the administrative fee that you are referring to, is that reflected by the 80,000 here where it says --

A. Yes.

Q. -- "Consultation placement service fee"?

A. Yes.

Q. And was that conveyed to you as the mayor that that would be the only commission or fee, say, charged by U.A.I. for placing your insurance?

A. In my opinion, yes. By that I mean, I could have missed it, but in my opinion, I think that's the only service fee that we have to pay.

Q. Other than the \$80,000 did you think there was going to be anything more charged by U.A.I.?

A. No.

Q. All right. So when you voted, you thought that's what it's going to cost you with respect to U.A.I.?

A. Yes, correct.

X X X

Q. Okay. As far as you know, the \$80,000 was a fee charged by U.A.I. and presumably paid to U.A.I. Is that correct?

A. Correct.

Q. But you assume Frank Arilotta must have gotten part of it?

A. I assume so, sure.

"If I Want to Bid It, That's What I Have to Do"

In order for United Agencies of Walldwick to bid for Kearny's insurance, according to Ralph A. Scafuro, a partner,

the firm had to split an \$80,000 "service fee" 50-50 with Kearny Insurance Director Arilotta's Kearny Realty agency. But what none of the Kearny officials who subscribed to the United Agencies contract knew was that the contract contained additional commissions for that firm which were hidden in the premiums for various types of municipal coverage that were to be provided. Mr. Scafuro was the last witness to testify in the Kearny-Hudson County phase of the S.C.I. investigation. He confirmed that the total \$387,870 insurance program it sold to Kearny included commissions both to the firm and to Mr. Arilotta. Counsel Rhoads focused his initial questioning of Mr. Scafuro on the events which led to the signing of the contract in February, 1979:

Q. Do you know Frank Arilotta?

A. Yes.

Q. Did you know that he was the insurance director for the Town of Kearny?

A. Yes.

Q. Did you give your bid to him?

A. He knew of the bid before submitting it, yes.

Q. Who actually submitted it, though? Did Frank Arilotta or did you?

A. We submitted it.

Q. You submitted it --

A. Yes.

Q. -- to the Mayor and Council?

A. Yes.

Q. All right. I will direct your attention to what's been marked Commission Exhibit 64, and it's a blow-up. Would you look at that and tell me, is this a fair reproduction of the bid you submitted to the Town of Kearny?

A. Yes.

Q. And the fact is, you were eventually awarded the contract?

A. Yes.

Q. I direct your attention to item number 9. It reads, "Consultation, placement and service fee," and reading across it says, "\$80,000." What does that mean?

A. It means that we were sharing a consultation and placement service fee of \$80,000.

Q. Now, if you will, it has item number 1, automobile liability 500,000 combined single limit, premium \$61,877. Did you charge any commission on that to the town?

A. We were paid a commission of approximately 7 percent of that policy.

Q. Seven percent on item number 1. So you got 7 percent of the 61,877, did you not?

A. That's right.

Q. And item 2, automobile physical damage, 14,000. What percent, if any, did you get of that?

A. The same.

Q. Seven percent?

A. Right.

X X X

THE CHAIRMAN: Before we go any further, is this in addition to the 80,000 or is this going to add up to the 80,000.

THE WITNESS: In addition to.

THE CHAIRMAN: In addition?

THE WITNESS: Yes.

Q. Item number 4, by letter and machinery, \$50,000 premium amount thirteen fifty-two. What percentage of that did you get?

A. Fifteen percent.

Q. Fifteen. Item number 5, the premium's 45,000 without reading the entire thing. What percent did you get of that?

A. I believe, seven and a half. I could be wrong by a point or two, but seven and a half.

Q. Item Number 6, the premium's \$54,000. What percentage did you get of that in commissions?

A. That policy there, we were just quoting what the existing policy premium was. We did not quote any service charge nor receive any commission for that policy.

Q. So you got no commission on the 54,000?

A. That's right.

Q. How about the 20,000?

A. Yes, there was about a 10 percent commission there. Ten to 15 percent.

Q. And on the \$21,641?

A. Seven and a half percent.

Q. Mr. Scafuro, as I understand it, you've got percentage commissions on everything here absent the multiperil and this item number 6, the excess workers' comp; is that correct?

A. That's correct.

Q. Yet there is no indication of that on your bid proposal, is there?

A. No, there isn't.

Q. Well, why, if you got commissions on these various items, why did you charge an \$80,000 consultation and placement fee? Isn't that what the commission is supposed to be for?

A. When -- let me just explain. We were asked to bid on the insurance as a result of the present carrier canceling or nonrenewing the coverage. First of all, when it was offered to us, it was offered to us on a basis that it was a co-brokered item, and that there had to be a brokerage fee paid for, to the Kearny Realty for the services they provide as far as servicing the claims.

Q. Now, let me interrupt you. You say it was offered to you on the basis that there would be a co-broker and he must be paid out of your commissions?

A. Right.

Q. Is that what you just said?

A. Yes.

Q. Who offered it to you on that basis?

A. Mr. Arilotta.

Q. He was the insurance director, was he not?

A. Yes.

Q. The fact is he told you in so many words, if you want to have the Township of Kearny, you are going to have to share your commissions with me?

A. If I want to bid it, that's what I have to do.

Q. When you submitted your proposal, Mr. Scafuro, did you tell the Mayor and Council that there are commission rates on those various amounts, or did you simply leave it the way it is and let the document speak for itself, in other words, the \$80,000 appearing to be the total charge for everything?

A. Just as you see is how it was submitted. There was no breakdown to advise the Mayor and Council that there was in addition a commission.

Q. Now, the amount of money that you received in commission and service fee of the 80,000, what percentage of that was given to Mr. Arilotta?

A. Fifty percent.

Q. Now, if I were to tell you that your total commissions were \$94,935, does that sound about right to you?

A. Yes, it does.

Q. And of that, you gave Mr. Arilotta half?

A. That's right.

Q. Roughly, let's say -- I don't know -- \$46,000?

A. That's true.

Q. What did Mr. Arilotta do to earn that money other than guarantee you the contract?

A. He has acted between us and the bureau as far as getting any additional information requested.

He has, on behalf of the bureau requested endorsements, policy changes, et cetera. He has filled out all of the claims on behalf of the bureau; all of the work that was done, I guess, beforehand in putting information together for the bid. But, basically, that's it. The claims take a lot of time. Most of the time during the year is spent in the handling of the claims.

THE CHAIRMAN: Would you think it took one-fifth of his working days, or one-third, or one-eighteenth or what would your estimate be for all this filing of claims, so forth?

THE WITNESS: On an average, on an average, I said maybe two to three hours a day, possibly.

COMMISSIONER FRANCIS: By a couple of well-trained secretaries?

THE WITNESS: Yes.

THE CHAIRMAN: Maybe one?

THE WITNESS: Possibly.

Q. I only have a couple of more questions. Of the roughly \$46,000 that you paid Mr. Arilotta, is it fair to say that the greater percentage of that money was paid to Mr. Arilotta because he was the insurance director and got you the contract for the Town of Kearny, or was a greater percentage paid to him for this amount of work he was doing to help you? It was the former, wasn't it?

A. Do I have to answer that?

Q. If you refuse to answer, that's no problem.

A. Yes.

EXAMINATION BY COMMISSIONER FRANCIS:

Q. Mr. Scafuro, was the \$46,000 that your company retained sufficient to cover your overhead and give you a profit?

A. Yes.

THE TESTIMONY -- Second Day

Transitional Statement

The S.C.I. prefaced its second day of hearings on Wednesday, June 20, 1979, with a brief statement of transition from the previous day's work. Chairman Lane reviewed Tuesday's testimony on the mishandling of public insurance in Union Township in Union County, in Kearny in Hudson County, and in Hudson County where witnesses exposed an "inappropriate use of taxpayers' dollars involving free car insurance for a county purchasing agent influential enough to divert contracts to his benefactors." Chairman Lane concluded:

*Today's testimony will further emphasize the potential for misconduct in the public insurance field, particularly the unwarranted intrusion of political pressures and the susceptibility of the process to widespread conflicts of interest and the callous waste of taxpayers' dollars. Today's work also will extend to another governmental level.*

*In addition to spotlighting commission-sharing machinations in two more counties, Burlington and Gloucester, this session's testimony will demonstrate how the public interest and public welfare take a back seat to political influences in the awarding of insurance business by the Atlantic City Expressway Authority.*

*John Dillion of our legal staff will question the first witness on today's schedule.*

The \$66,000 Fee in Burlington

Forthcoming testimony would focus on the award in Burlington County of public insurance contracts to influential brokers favored by the political party that happened to be in control of county government at the time. Prior to 1977, when Democrats dominated the Burlington Board of Freeholders, a prominent lawyer was able with political help to swing to his wife's brother-in-law a contract which brought a \$66,000 fee to the wife. In 1977, when Republicans regained control of the freeholder board, an insurance contract switch was authorized that resulted in a \$15,000 payment to a politically favored "back-up broker" who did



little or no work in return for the payment. In addition, more than \$20,000 in political contributions were made by the new broker-of-record.

Details of the incidents prior to 1977 were entered into the public hearing record first. The proceedings began with Counsel Dillon's questioning of Mrs. Catherine A. Costa of Willingboro, a majority Democrat on the Burlington freeholder board prior to 1977 and a lone minority member afterward:

*Q. In 1974, while you were a freeholder in Burlington County, were you involved in the award of the county insurance contract to the Burlco Agency?*

*A. Yes.*

*Q. And how did you cast your vote on that award?*

*A. For the Burlco Agency.*

*Q. And who is the president of the Burlco Agency?*

*A. Joseph McBride.*

*Q. Who placed the name of the Burlco Agency, or Joseph McBride, in nomination?*

*A. I have to go by memory, and it may not be exact, so please take that into consideration. I believe it was Mr. Szychosky. Freeholder Szychosky. S-z-y-c-h-o-s-k-y.*

*Q. Thank you. What was the vote count on this award? How was it broken down?*

*A. I believe it was 3-2, according to the party lines. Three Democrats and two Republicans at that time.*

*Q. Had there been a change in the political structure of Burlington County just prior to the award of this contract?*

*A. Yes, the Democrats had just taken over the majority of the Board.*

*Q. Did the Republicans submit their own nomination, their own broker?*

*A. Yes.*

Q. Prior to the award of the contract was it discussed whether the Burlco Agency should or would receive this contract?

A. Among, among us, yes.

Q. When you say "among us," you mean the members of the Board of Freeholders?

A. Right, among the Democratic members of the Board of Freeholders, yes.

Q. I see. Was there anyone else present at these meetings?

A. I believe there was -- let's see. I'm trying to think. The Chairman of the party was there.

Q. And who was that?

A. George Lee.

Q. When were these meetings held?

A. Oh, prior to reorganization, we have a number of meetings.

Q. Now, prior to reorganization, that's in January?

A. That's January, that's right.

Q. How long prior to the organization?

A. I guess right after election we meet and discuss various decisions and various functions that we would be holding on the Board of Freeholders.

Q. Why was Mr. Lee present at the meetings?

A. He was the chairman of the party.

Q. Well, what was the purpose of this meeting? To discuss appointments generally?

A. Well, after the election and in our meetings we'd been discussing, well, first of all, who would be the Director of the Board, and that was the first time we were in the majority, and there is quite a discussion on that, and different offices, you know.

Q. Mr. Lee wasn't a freeholder, was he?

A. No, he was not.

Q. Why was he present at the meetings?

A. Because he was the chairman of the party. I guess, perhaps to help us make our decisions.

Q. All right. Where were they generally held?  
I mean, in a number of different places or --

A. It could have been at the party headquarters,  
or it could have been -- there was one that was  
at Dr. Erlich's house.

Q. On how many occasions was the award of the  
contract to the Burlco Agency discussed?

A. I don't recall it being discussed at great  
length.

Q. Do you recall what was said about the  
contract?

A. The only thing I know is that Burlco Agency  
was the one that we -- the name that was given  
to us by George Lee as the insurance agent, and  
I don't think I knew who Burlco Agency was.

Q. Well, had Mr. Lee submitted the names of  
any other agencies?

A. No.

Q. Had any of the other Democratic members in  
the majority at that point submitted the names  
of any other agencies?

A. No. Mr. Szychosky, I believe, had been  
involved in insurance and I felt that his ex-  
pertise was something that I should rely on,  
too.

Q. At these meetings who was the first person  
to suggest Burlco?

A. The only person I heard was George Lee.

Q. Okay. Well, how did Mr. Lee go about  
proposing to you or the other members of  
the Board of Freeholders Burlco?

A. It's a while back and I -- the only thing  
I can remember is that that was the name given  
to us as the insurance agent.

Q. Did you have any questions concerning his  
recommendation?

A. The only one I spoke of was knowing who  
the insurance company was. I.N.A. was the one  
that would be the insurance agent. I mean the  
insurance company.

Q. At this point in time, that's 1974, how influential was George Lee in your decisions as a freeholder?

A. I'm hesitating because I'm a rather independent person, and George Lee had a lot of influence in the party as chairman, but I might state at this point I have never been given the key to the executive washroom in either party.

Q. I see. But it's fair to say that, in the discussions of an appointment, his recommendation would weigh very heavily in your ultimate vote; is that true?

A. It would as long as I didn't have somebody in mind. If there was any question in my mind, I would always question. That's why -- I would not accept anything from anyone just on -- because somebody told me to do so. The fact that I accept that, because I didn't have any question about it. I didn't have anybody else that I could put up.

Q. Were there any discussions, prior to the award of the contract, concerning Burlco's qualifications as an insurance agency for the contract?

A. No. When I later learned that Joe McBride was Burlco, I was pleased because he used to be my son's teacher and I know him to be a very honest man, and if I were given that choice of Burlco or any other agency, I would have selected Joe McBride based on Joe McBride.

Q. Well, when you say you later learned, was that prior to the award of the contract or after the award?

A. After the award. I don't believe that I knew that Joe McBride was Burlco at that time.

Q. Were you aware of the names of any of the other officers in the Burlco Agency at the time of the award?

A. No.

Q. Prior to the award of the contract, did Mr. McBride or any of the other officers of Burlco submit to you any quotes or proposals on the terms of this contract?

A. No, other than, as you see, the cost to the county was less than it was the previous year.

X X X

Q. Well, then, other than the premium charge, which you seem to suggest you had knowledge of prior to the award of the contract?

A. No.

Q. Well, then, I assume that you really had no knowledge of the terms of this contract at that point?

A. That's right, you are right.

Q. Were you aware of the commission to be awarded to the agency under this contract?

A. No. I assumed that Burlco Agency would be receiving a commission.

Q. You didn't know the amount, though?

A. No, I did not.

Q. Burlco was George Lee's selection and the Democratic membership of the freeholders voted for it; isn't that correct?

A. That's correct.

#### The Burlco Agency

Testimony by Joseph W. McBride of Moorestown, president of Burlco Agency, Inc., since 1963, followed Mrs. Costa's presentation. S.C.I. counsel Peter M. Schirmer questioned Mr. McBride:

Q. For the years 1974 through 1976, my understanding is that you had the insurance for Burlington County.\*

A. That's correct.

Q. How did it come about that you acquired that insurance business?

A. I acquired the business through a solicitor, Barbara Hartman, who brought the account to us.

Q. Could you tell me any conversations that you had with various people prior to the actual award of that contract in January of 1974?

A. Prior to January of '74? Yeah, I had a conversation with my brother-in-law, Frank Hartman, and --

\*See Chart, P. 168.

Q. How is Frank Hartman related to you?

A. His wife and my wife are sisters.

Q. What happened?

A. And he indicated, and -- I'm sorry. I didn't answer your question. He indicated that there was a possibility that I might be able to write the insurance business for the County of Burlington.

Q. When did this conversation take place?

A. I would say it was after, after the election in -- what? -- '73.

Q. Sometime in December; would that be correct?

A. Sometime probably in the month of December, thereabout, yes.

THE CHAIRMAN: May I interrupt. This election had been a turnover of power; Republicans had lost, the Democrats had won. Is that correct?

THE WITNESS: That's right, Mr. Chairman. For years the Republican Party had been in control in our county, and it's my understanding that they controlled the insurance for a number of years and then with the change in political parties there was a possibility of the change of the control in insurance, that's right.

EXAMINATION BY MR. SCHIRMER:

Q. What did you say when Mr. Hartman asked you whether you would be interested in the contract?

A. I said I would be interested in writing the insurance business for the county, yes.

Q. -- what happened next?

A. I guess the next thing that transpired was that I had to meet with George Lee and Frank Hartman, and in the meeting basically what transpired was a concern on the part of Mr. Lee as to my qualifications; whether or not I could handle the account, because, as he indicated, it was a large account. And I tried to reassure him that my insurance agency had the capacity and the capability of handling an account the size of Burlington County.

As I recall, the best -- this goes back a number of years now. As I recall, I think one of his concerns was the company that I might use, or companies, and at that time I indicated to him that I felt that probably of all the

companies I had in my office the company that would be best capable of handling an account this size would be I.N.A., Insurance Company of North America.

Q. Why did you meet with Mr. Lee? Because he was not a freeholder; is that correct?

A. He was the Democratic Party Chairman of the county, that's correct. Why did I meet with him?

Q. Mr. Lee would not award the contract; correct?

A. Not as far as I knew. I'll tell you, I was a neophyte. I didn't know about the political workings of things, and I didn't know whether he had total control or whatever. I subsequently found out that the Board of Freeholders had to vote on it, and if there were a majority in favor of one given agent, then that was the agent who would be named as the broker, county broker.

Q. You may have been naive, but were aware at that point that was a patronage job?

A. I would have to say, yes, you know, that would be a fair statement.

Q. What happened next? You have spoken to Mr. Lee and Mr. Hartman together. What happened next?

A. I guess the next thing of any significance that happened was I got a phone call from Frank Hartman sometime prior to the swearing in, which would have been around January 1st or thereabout of '74, indicating that it looked like there would be a strong possibility that I might get the nomination and be prepared to go to the courthouse, which is where they held the swearing in, and a vote would be taken at that time, and if we succeeded in getting the majority of the votes, then I would be the appointee or the broker.

Q. Prior to the award of the contract in January of 1974 --

A. Yes.

Q. -- did you meet with the freeholders?

A. No, I don't believe I did. I think the only thing that I was called upon, and I could check the record, I think I was asked to write a letter. To whom escapes me. It was either to George Lee or to the Board of Freeholders, and I'm not certain. But I remember writing a letter wherein I had to spell out my qualifications and give them some background information; college and subsequent training, military service, et cetera, companies I represent.

Q. Was this the same type of information that Mr. Lee was concerned about when he met with you with Mr. Hartman?

A. I guess to a degree, yes, uh-huh.

Q. Then I understand your testimony to be that you didn't submit proposals or bids or --

A. No, I did not, not at that time. I had to get the appointment first, okay, and once I was appointed I had an almost herculean task of placing, you know, millions of dollars worth of insurance in a relatively short period of time.

As I recall, the best of my recollection, the majority of the policies expired January 27, and I wasn't appointed until somewhere in the very early part of the month, first, second, thereabout, so, as a result, I had to move quickly to obtain the necessary coverage in a very short period of time.

Q. Did you ever meet with the freeholders?

A. When?

Q. After the contract was awarded.

A. Yes, I did.

Q. How were you notified of the fact that you would be the broker of record?

A. Well, we, in attendance at that meeting, the swearing in, it was obvious that Burlco Agency had been made the broker of record. So it was, you know, a public knowledge at that point.

Q. Were you invited to that meeting by someone?

A. Yes.



Q. Who was that?

A. Frank Hartman told me that there was a good possibility that I would be appointed, so it would be best that I be there.

Q. So it seemed clear to you at that time prior to the award of the contract that Mr. Hartman certainly had an influence in the award of the contract to Burlco Agency; is that correct?

A. Yes, I would say so.

Q. Now, was there a solicitor on the account?

A. Yes, Barbara Hartman.

Q. What did Barbara do? Barbara Hartman do?

A. What did she do? She was the solicitor that was responsible, directly indirectly, in having the business placed with the Burlco Agency. Had she been a solicitor, I presume, with some other agency, that agency would have gotten the business.

Q. Let's first define terms if I may. I'm not sure everybody understands what a solicitor is. If you could, briefly describe what a solicitor is?

A. First off, it's a legal designation. A person who works for an insurance agency can be licensed in the capacity of an agent or a solicitor, and in this case Barbara Hartman, for almost, I guess, over 10 years at that point had been a licensed solicitor for the Burlco Agency.

Q. What does a solicitor do to earn his or her fee?

A. Solicit insurance.

Q. What does that mean?

A. It means to exercise those talents that one has in obtaining insurance business. It might be -- you know, it's a multiplicity of things. Could result --

Q. Could we boil it down to bring two parties together; bring an insurance agency, for instance, the Burlco Agency, together with the County of Burlington and you get the insurance through her aegis; is that correct?

A. That's a possibility.

Q. Is there some other definition that we could work with? Is there something else that she could do which would allow her to earn that commission?

A. Not, not as a solicitor. I mean she has to solicit the business and bring the business to the agency, and if she's successful in doing that, and the agency ends up writing that business, then she's entitled to her compensation; commission.

Q. What is the procedure for a solicitor to determine what fee that they're going to earn on a contract? Is there --

A. It will vary upon the circumstances. You know, there is no set rule that -- it depends on the circumstances; the size of the account, the complexity of the account.

Q. Let's specifically talk about the Burlington County account.

A. Yes.

Q. What was the rate of commission for Barbara Hartman on that account?

A. Approximately half the commission.

Q. Fifty percent of your commission?

A. Yes.

Q. Now, your testimony so far is that Mr. Hartman met you; asked you whether you were interested in the account; later on you met with Mr. Lee and Mr. Hartman; you were then called by Mr. Hartman, said that it looks good for you; you ultimately were notified that you would have the account. Is that correct?

A. I would say that's fair.

Q. What did Barbara Hartman do?

A. Well, she was instrumental in getting the account. Now, what she did, how she did it, I have no idea because, first off, I don't trail around after my solicitors to find out how they curry favor with people and what time and effort they spend in bringing in an account. So I really can't answer that, Mr. Schirmer, because I don't know.

All I know is this: That she was successful in being instrumental in bringing that business to the Burlco Agency as a licensed solicitor.

Q. What did she do? I'm not sure. How do you know that she was the one that --

A. I said I can't tell you what she did because I don't know. You don't want me to tell you a fabrication, do you?

THE CHAIRMAN: You know what Mr. Hartman did. Yoy told us a few things that he did. Do you know of any overt act performed by Mrs. Hartman in connection with this business?

THE WITNESS: Well, Judge, Mr. Chairman, I would say that, to my knowledge, Barbara Hartman has been involved in politics for many years and it's just like any other account; if one of my solicitors had an in with, let's say, RCA and they were able to, through family connections or whatever kind of connections, be instrumental in bringing an RCA account into my office, I wouldn't sit down and say, who did you know? How long did you know them? What was your technique? Generally speaking, I wouldn't approach it that way. I would be satisfied with the business coming in and my paying that person a commission for their efforts, and that's the situation with Mrs. Hartman.

THE CHAIRMAN: And you can't really point to one act or one person she communicated with in connection with obtaining this business?

THE WITNESS: That's right, Mr. Chairman. That's impossible. One over the years ingratiates themselves with people through work effort, whatever, and they're the person that ends up being in a position to control that business.

BY MR. SCHIRMER:

Q. Isn't it true that Mr. Hartman brought that account to your agency?

A. I would think, Mr. Schirmer, it's fair to say that he was instrumental to a degree. But that doesn't dismiss the effort that Barbara Hartman apparently --

Q. But you do not know what effort she expended? You certainly know the effort Mr. Hartman expended; is that correct?

A. No more than I do of Mrs. Hartman. I know Mrs. Hartman was politically active and I know Mr. Hartman is politically active.

Q. Let's just review your meetings. You met with --

A. Yes.

Q. -- Mr. Hartman?

A. Yes.

Q. You met with Mr. Hartman and Mr. Lee; you were called by Mr. Hartman, and you were invited to the meeting by Mr. Hartman?

A. Yes.

Q. You did not mention once in that dialogue what Barbara Hartman did. Do you know if Barbara Hartman ever talked to the freeholders?

A. I don't know whether she did or she didn't.

Q. Did Mr. Hartman make you aware, or were you aware of the fact, that if you did not designate Barbara Hartman as a solicitor on the account, that she could go to another agency and deliver the contract to that agency?

A. He never came right out and said that, but I'm not a little boy. I'm sure if I were not going to pay Barbara Hartman a solicitor's business I would not have gotten the business.

Q. And isn't it a fact Mr. Hartman went to your agency because he knew that his wife had been able to receive a commission and you were aware of that fact?

A. I think that's a fair assumption, yes.

X X X

Q. The initial contact between you and ultimately receiving this contract was through Mr. Hartman. You then met with Mr. Hartman and Mr. Lee. You then were called by Mr. Hartman and ultimately awarded the contract at a meeting that you were invited to by Francis Hartman.

A. No, no, I was not only awarded the contract at that meeting, Mr. Schirmer. I did not say that. I told you that there was a vote taken on the part of freeholders.

Q. You are misinterpreting me.

A. I was -- I did not know until they actually voted in that courthouse on the day of the re-organization, which was January 1st or 2nd, whether or not I would be officially the appointee of the county brokerage, and when they voted, it was 3-2, as I recall. There were three Democrats and two Republicans. The three Democrats voted in Burlco's favor. The two Republican's voted in Burlco's disfavor. At that moment I knew I was the broker of record and I set to the task of obtaining the best program of insurance that I could for the county.

Q. How was it decided that Barbara Hartman would be the solicitor on the account?

A. Because she is a licensed solicitor for Burlco, and she, working in conjunction with her husband, were instrumental in bringing that account to Burlco. As I said before, if she were licensed with the Schirmer Agency, the Schirmer Agency would have gotten it assuming that they qualified to do the job.

Q. And assuming that Barbara Hartman did some work?

A. Sure. Her work was the work that she had -- the work and effort that she had expended over the years by being politically active. It was through that, I presume, that she was able to be in a position to be able to write that business.

#### Mrs. Hartman's Fees

Counsel Schirmer next reviewed with Mr. McBride his company's files on Mrs. Hartman's earnings as Burlco Agency solicitor. These documents, which were entered as exhibits into the public hearing record, showed that Mrs. Hartman's solicitor fees were minimal before and after the windfall resulting from the 1974 appointment of Burlco as broker of record. Counsel:

Q. Now, without going into the exact amount, the first file that I showed you for the years 1973 and prior, would it be fair to characterize the amount of money that Barbara Hartman received as a solicitor was minimal; less than a thousand dollars?

A. Assuming that this record reflects an accurate picture, then I would say that's accurate.

Q. After the contract expired in 1977 did Barbara Hartman bring a large solicitation into your office? Was there a large amount of money that she earned as a solicitor after the Burlington County contract had expired?

A. To the best of my recollection, Mr. Schirmer, I don't remember any large account in '77.

#### Lawyer Hartman's Role

The next witness, Francis J. Hartman of Moorestown, a prominent lawyer who was influential in the Democratic Party in Burlington County, testified about his efforts to assure the appointment of Burlco as the new insurance broker for the county. After the Democrats won control of the Freeholder board in November, 1973, he said he "became aware of the fact" that the county's public insurance contract "would be awarded to somebody by the Democratic freeholders who probably was a supporter or a friend of the Democratic Party." He said he asked his wife "if she would be interested in being the agent to solicit the contract" and then spoke to Mr. McBride for whose agency Mrs. Hartman was a solicitor. He next spoke to George Lee, the Democratic county chairman, and to the freeholders. Counsel Schirmer questioned Mr. Hartman:

Q. What did you say when you spoke to the freeholders?

A. I told them that I thought the Burlco Agency was an agency that could service the contract for the County of Burlington; that at least the solicitor for the agency had been active politically; that I felt that the county, if they awarded it to a Democratic agency, ought to consider that agency.

Q. Did you make the freeholder, Freeholder Costa, aware of the fact that Joseph McBride was your brother-in-law?

A. I, I don't know that I specifically ever said to her that Joseph McBride is by brother-in-law. I would have assumed that she knew that. If she did not know that and we talked about Mr. McBride, I feel reasonably certain that I would have told her that he was my brother-in-law. I certainly didn't attempt to conceal that fact from her, that's for sure.

X X X

*Q. And why did you go and see Mr. Lee?*

A. Because, in my experience, the county chairman is a person of influence with the elected officials, and because he was a personal friend of mine, I felt that he might be inclined to use what influence he had with the Board to try to secure the award to someone I was interested in as opposed to somebody else.

*Q. And what was your influence on Mr. Lee, apart from your personal relationship with him?*

A. It was a personal relationship and a political relationship, and to the extent that at any time I could have done him some good, I did, and to the extent that he could have, I think he did. I considered him a personal friend and a political friend.

*Q. Had you been a strong contributor to the Party, not necessarily financial but in terms of services?*

A. Yes. I contributed my service as an attorney to the Party on legal matters. I gave my advice and counsel to the Party on political matters. I worked ringing doorbells as a county committeeman. I guess I served in whatever way at whatever time the Party asked me to the best of my ability at that time.

*Q. Have you been influential in Mr. Lee's career?*

A. I think I have had some influence upon his career, and, as I indicated to you in my executive testimony, both plus and minus with respect to his career.

*Q. But you had acted as the campaign chairman when he ran for the County Democratic Chairman in 1970. Correct?*

A. True. When George Lee first ran, I was his campaign manager. When he last ran, I guess I was his campaign manager. Once he won and once he lost.

Q. So you were aware of the fact when he recommended the name of the Burlco Agency to Mr. Lee that, based on your social contacts and political contacts, that he certainly would consider that?

A. I certainly would hope him to. I think he did indicate that he would consider it. I also asked him to consider my appointment. I didn't get it. So I suppose it's like everything. He considered it and weighed it along with a lot of other factors.

#### Sought a Job for Himself

The "appointment" Mr. Hartman sought from Mr. Lee was as member and/or solicitor of the Burlington County Bridge Commission. However, Counsel asked whether, if he got such a job, "it would be less likely that your wife or the Burlco Agency would be awarded the insurance contract." The witness testified that he believed in "political considerations, either to an area or to a person or to a law firm..." But such considerations involved "balancing," Mr. Hartman said, since it would be unlikely that two important appointments would go to the same family or the same town. Therefore, he added, "I think that one appointment might decrease the possibility of the other appointment." Counsel Schirmer's questioning returned to the subject of the county insurance contract:

Q. You first spoke to Mr. McBride prior to the award of the contract; asked him whether he would be interested in that contract; he indicated that he would be interested; you then said that you would speak to Mr. Lee; you then spoke to Mr. Lee and then later on you called Mr. McBride back and said that it looks good to him. He was not aware of any meetings you had with the Board of Freeholders, but your testimony is that you met with at least one, if not all, the Board of Freeholders and asked them to vote for the Burlco Agency. Is that correct?

A. That is correct.

X X X

Q. Now, you had an interest in the Burlco Agency because --

A. No, I had no interest in the Burlco Agency. I have never had any interest in the Burlco Agency.



Q. That wasn't my question.

A. I'm sorry.

Q. I didn't finish. My question was you had an interest in the Burlco Agency getting the contract because that was your brother-in-law?

A. True.

Q. Were there other more important reasons that you would like to see the Burlco Agency get that contract?

A. I think I would like to have seen my wife be responsible for producing the business more than I would like to see my brother-in-law get the business.

Q. Because this would mean that you would benefit, indirectly or directly, through the commissions that she earned; is that correct?

A. It was a factor.

Q. Do you recall making this fact clear to Mr. McBride whether you first spoke to him, or at some point prior to the award of the contract, that your wife would be designated the solicitor on the account?

A. Well, again, my wife had been, up to that point, a solicitor of insurance for the Burlco Agency, and when she was responsible for the production of business, she earned a commission. I don't know whether the subject was specifically raised, but it certainly would have been my understanding and assumption that, if she were responsible for the award of this work to the Burlco Agency, that she would receive a commission.

Q. Now, how was your wife responsible?

A. By being the only person in the Burlco Agency who at that time was active politically and, therefore, the only one to whom the party would have any sense of loyalty or allegiance in awarding the contract.

Q. Well, how about Frank Hartman?

A. I had no connection with the Burlco Agency except by reason of the fact that I was married to a woman who worked there as solicitor and I was related by marriage to the owner of the agency, who was my brother-in-law.

Q. Well, they recommend -- from the testimony that we have so far, the Burlco Agency is recommended because you recommend the Burlco Agency, not because Barbara Hartman has anything to do with it. And isn't it because of the fact you had an interest in the Burlco Agency getting that contract because your wife would financially benefit that you made that recommendation?

A. No, sir.

Q. That had no --

A. It had something to do with it, the only reason I say "No, sir" is because I recommended other people for other positions and, if my recommendation carried some weight and they got those positions, I profited not at all economically.

Q. But the fact in this situation is that you did recommend the Burlco Agency --

A. Yes.

Q. That recommendation was followed through by the Party Chairman?

A. Yes.

Q. And your wife benefited by earning 50 percent of the commission on that contract. Is that correct?

A. That's correct.

Q. And I have not heard yet in any testimony that your wife met with anyone other than yourself. Did she meet with the freeholders?

A. I really don't know whether she met with them or not.

Q. Did she meet with the Party Chairman? Specifically to discuss this subject.

A. Again, I don't know that she ever met with him specifically to discuss this subject. My wife had her own independent political activity before I married her. While I was married to her, we were often at political meetings together. She may very well have spoken to either the freeholders or the county chairman in the course of one of those meetings, not necessarily in my presence.

*Q. Would you disagree that the person responsible for bringing the contract or recommending Burlco and having that recommendation ultimately followed through on was yourself and that you were responsible for the contract in a sense you were the solicitor on that contract?*

*A. I can only say to you that I wish that I had what I think you are implying I had, namely the ability to determine the award. I've told you what I did, and if you want to say in a sense that I was the solicitor on the contract, you may characterize it that way if you wish. As far as I'm concerned, as I told you, I made recommendations for myself; I made recommendations for other people; I made recommendations for the agency with which my wife was concerned. Some of them worked out and some didn't. If you want to say that I was responsible for helping, certainly, I would agree to that. If you say I was the sole cause, I would not agree to that. Somewhere in between the two positions, I guess, is where the objective truth lays.*

X X X

*Q. Did you meet with Mr. McBride after the contract was awarded and discuss with him, with your wife, how much the solicitor fee would be?*

*A. I have no recollection at all of a specific meeting to discuss what the commission rate was. I believe that the commission rate that my wife received was the same commission rate that she had received on the sales of other businesses, that is other business, not businesses, other business for the agency. I believe that she was entitled to the same 50 percent commission if she sold a bond or if she sold a fire insurance policy or whatever she sold.*

*Q. And you had no part in those discussions?*

*A. I discussed with my wife at one point, and I may have discussed with Mr. McBride, the matter of whether the commission should be paid all in one lump sum or whether they should be spread over the period of the contract. But I believe that's the only area in which I could have discussed commissions with Mr. McBride.*

Q. When you spoke to Mr. Lee the first time, did you make him aware of the fact that your wife was to receive a portion of the commission earned on this contract?

A. I don't know whether I specifically did that. Again, knowing Mr. Lee as well as I do, I think that he knew my wife was in the insurance business. I think he understood that she was in it to make money out of being it, not just because it was an avocation or a hobby. I assumed that he felt that if the contract were awarded to the agency, that she would receive a commission. But I have no specific recollection of saying one day, "George, you know that Barbara will receive a commission if this contract is awarded."

Q. Is he aware of the fact that you would indirectly through your wife receive a commission on this contract?

A. I never indirectly through my wife received any commission, so I don't know how he could be aware of something which was not true. He may have thought that it would be helpful to my family unit in his own mind, and I won't speak for what was in his mind. But the reality of it is, whatever was in his mind, I did not receive the money directly or indirectly. My wife received the money.

Q. Well, when your wife financially benefits or you financially benefits certainly the other party in the marriage benefits?

A. Is that a statement or --

Q. I am asking, is that a true fact, in your situation?

A. In a general sense, to the extent my wife has money to spend for something that she wants, that may save me spending money. If that's a benefit to me, fine.

Q. After 1968, after you married your wife in 1968, how much income was she earning from her solicitations of the insurance contracts?

A. Without looking at either my income tax returns or her records, which I believe you had already subpoenaed, I would not know.

Q. Would you agree with me that it was very little?

A. Well, again, I don't know what "very little" means to you. I think she earned a couple of thousand dollars in certain of those years, but I really don't know the figures. A couple of thousand dollars is not little to me, so that's why I answer that question that way.

Q. After you married her in 1968 and prior to 1974?

A. Yes, I believe she made a couple of thousand dollars in some of those years. More in the beginning because she was more active. As we were married she became less active as her family responsibilities increased.

Q. Isn't it true that the Burlco Agency, without your recommendations, would not have gotten the contract?

A. I have no way in the world of knowing that. It had my recommendation. It got it. If it would have gotten it without it, who knows.

Q. But the fact is they got the contract?

A. True.

Q. And you recommended it?

A. Absolutely.

#### The Political Connection

George W. Lee, whose testimony followed Mr. Hartman's, became Assistant Secretary of State in 1977. Prior to that, between 1970 and 1977, he served as Burlington County Democratic chairman. He also was a member of the Burlington County Bridge Commission. He recalled that he recommended that the Burlco Agency be awarded the Burlington County insurance contract in 1974 and that he had been asked to do so by Lawyer Hartman. Counsel Schirmer:

Q. Were you aware of the fact that Barbara Hartman was a solicitor for that agency?

A. I can't recall that. I don't remember that. I know that she had something to do with the business before she was married and evidently carried over even afterwards.

Q. Did he make you aware of that, Mr. Hartman make you aware of that fact?

A. I can't recall it.

Q. Did you ever meet with Barbara Hartman concerning the award of the insurance contract in the year 1974, prior to the actual award?

A. I can't remember that. But I may have spoken to her, but I can't remember.

Q. You have no specific recollection?

A. No, I don't.

Q. Your only recollection is that you met with Mr. Hartman first. Your initial meeting concerning that contract was with Mr. Hartman. Is that correct?

A. I wouldn't say it was a meeting, but he discussed it with me, then I met McBride, oh, a week or two later.

Q. Did the freeholders accept your recommendation?

A. Yes, they did.

Q. And then your recommendation, which originally came from Mr. Hartman, was ultimately carried out through the freeholder award of the contract to the Burlco Agency; is that correct?

A. Yes.

Q. As the county chairman, do you often make recommendation to the Board of Freeholders?

A. To the elected members of the Democratic Party, yes.

Q. In fact, you discuss all appointments, all patronage appointments?

A. Yes.

Q. Generally, do the freeholders agree or follow your recommendations?

A. Yes, for the most part.

Q. Are you a personal friend of Frank Hartman?

A. Yes. When you say "personal friend," I know Frank a long time. I graduated from high school with Frank Hartman.

Q. And certainly as the past Democratic Chairman, you are aware that Mr. Hartman has made considerable contributions to the Party, both in terms of financial and services offered?

A. Yes.

Q. And, in fact, Mr. Hartman ran your campaign when you became the county chairman in 1970; is that correct?

A. That is correct.

Q. Were you aware of the fact at the time the contract was awarded to the Burlco Agency that Barbara Hartman would earn a substantial commission for the award of this contract?

A. No, I did not.

Q. When did you first find out this fact?

A. I guess when you told me.

Q. And when was that?

A. I don't have the date. When you told me when I testified at the Executive hearing.

#### Burlco Agency's Solicitor

Barbara McGann Hartman, wife of lawyer Francis Hartman, had been insurance solicitor for the Burlco Agency since August, 1963. She testified about the circumstances of her designation as solicitor for the 1974-77 insurance contract awarded to Burlco. She confirmed a series of checks from the Burlco Agency showing that she gained more than \$66,000 on the 1974 insurance contract but that she had earned less than \$800 in commissions during the five years preceding 1974. Counsel Schirmer questioned her:

Q. Could you explain to the Commission what you did to be appointed the solicitor on that contract?

A. Well, I did what I usually do if I have a contact to sell insurance and I use that contact to acquire the business for the agency.

Q. Who is your contact?

A. For that particular account, I believe I spoke with Mr. Lee; George Lee.

Q. Was your contact your husband, Francis Hartman?

A. Not really.

Q. What did Mr. Lee say?

A. I do not recall at this moment.

Q. Do you recall whether you asked your husband to speak to Mr. Lee?

A. I'm sure I discussed the matter with my husband.

Q. Was that prior to the award of the contract?

A. Yes.

Q. Why would Mr. Lee take your recommendation?

A. Well, Mr. Lee was county chairman. He knew the insurance was up for -- and he -- I assume that he knew that I was interested.

Q. When you spoke to Mr. Lee, was your husband present?

A. I don't recall.

Q. Mr. Lee's testimony indicates that his recommendations originated from your husband speaking to him about the Burlco Agency. Would you tend to disagree with that testimony?

A. My husband may have spoke to Mr. Lee, but I also had talked with Mr. Lee.

Q. But you don't know what you spoke about specifically?

A. I told him I was very interested in getting that insurance contract.

Q. Well, did he recommend that you talk to the freeholders?

A. No, he did not.

Q. It was enough that you speak to him?

A. Well, I, I knew the freeholders knew me. I didn't think there would be a problem about getting the contract.

Q. Well, as a solicitor, what do you do as a solicitor to get a contract?

A. I make contacts with people and try to sell; tell them that I'm interested in having the insurance.



Q. Do you speak to the people who can ultimately give you the contract?

A. Many times I do.

Q. So if we were to follow that procedure in this case, you would have spoken to the free-holders, but you did not?

A. I don't recall speaking to anyone other than Mr. Lee, Mr. McBride.

Q. Did you speak to Mr. Lee and give him approximately how much the insurance would cost?

A. No, I did not.

Q. Did you explain to Mr. Lee why the Burlco Agency would be able to handle the account?

A. Well, I told him we were agents for the Insurance Company of North America. I believe Insurance Company of North America presently had the insurance. There was not a problem with that.

Q. Did you know, at the point you spoke to Mr. Lee, whether the Burlco Agency could get the insurance coverage from a carrier?

A. Yes, I believe they could.

Q. How did you know that fact?

A. Because we represented the same insurance company that already had the insurance program.

Q. So to earn the solicitor fee that you earned on this account, your testimony is that you spoke to Mr. Lee and that's all you can specifically remember; is that correct?

A. No. I spoke with Mr. McBride. I also spoke with my husband.

Q. Well, certainly you can't sell a contract to Mr. McBride. Correct?

A. No, but I discussed with him whether he was interested in obtaining the business and, of course, he was, and that's -- you know, we discussed other things.

Q. Could Mr. McBride have gone to the free-holders himself?

A. He may have.

Q. He could have done that. Correct?

A. You mean obtaining the business?

Q. Gone directly to the freeholders and obtained the business in that manner. There was no reason to have a solicitor? Or was there a reason?

A. Well, I don't know. I'm sure Mr. McBride could solicit business. I was the one who knew that the contract was up and that the freeholders were not in control and that it was possible to get the insurance at that time.

Q. I would like to show you several checks, which represent commissions that you earned in those years. The first check, which has been marked C-72 is dated 7/30/1974. It's made from the Burlco Agency to Barbara McGann Hartman in the amount of \$11,180.34.

Do you recognize that check?

A. Yes, I do.

Q. And that's part payment for your solicitation fee?

A. I believe it was commission.

Q. On the county contract?

A. It may have been for other commissions, also.

Q. Did you earn a lot of other commissions other than the Burlington County contract in this year, 1974?

A. I would have to check my records.

Q. I'm going to show you a second check, marked for identification 73, dated 10/17, 1974, in the amount of \$3,097.97 to Barbara Hartman from the Burlco Agency. Do you recognize that?

A. Yes, I do.

Q. And again, would that be attributed to, or largely attributed to, the Burlington County business?

A. Yes, I believe it is.

Q. I'm going to show you a third check, marked for identification 74, from the Burlco Agency, to Barbara Hartman, dated April 10th, 1975, in the amount of \$14,292.69. Would that be another check which is largely attributed to the Burlington County business?

A. I believe it is.

Q. I'm going to show you a fourth check, marked for identification, from the Burlco Agency to Barbara Hartman, dated November 25th, 1975, in the amount of \$2,158.11. Would that be another check that is largely attributed to the Burlington County business?

A. Yes, sir.

Q. Another check, 76 for identification, from the Burlco Agency to Barbara Hartman, dated 4/15/1976 in the amount of \$16,323.60. Would that be another check that is attributed or largely attributed to the Burlington County account?

A. I believe so.

Q. I am going to show you another check, 77 for identification, from the Burlco Agency to Barbara Hartman, dated 7/6/1976, in the amount of \$11,571.44. Would this be another check that you earned as a solicitor on that account, the Burlington County account?

A. Yes, sir.

Q. I am going to show you another check marked 78 for identification, from the Burlco Agency to Barbara Hartman, dated 7/13/1977, in the amount of \$3,567.25. Would that be another check that you earned as a solicitor?

A. Yes, sir.

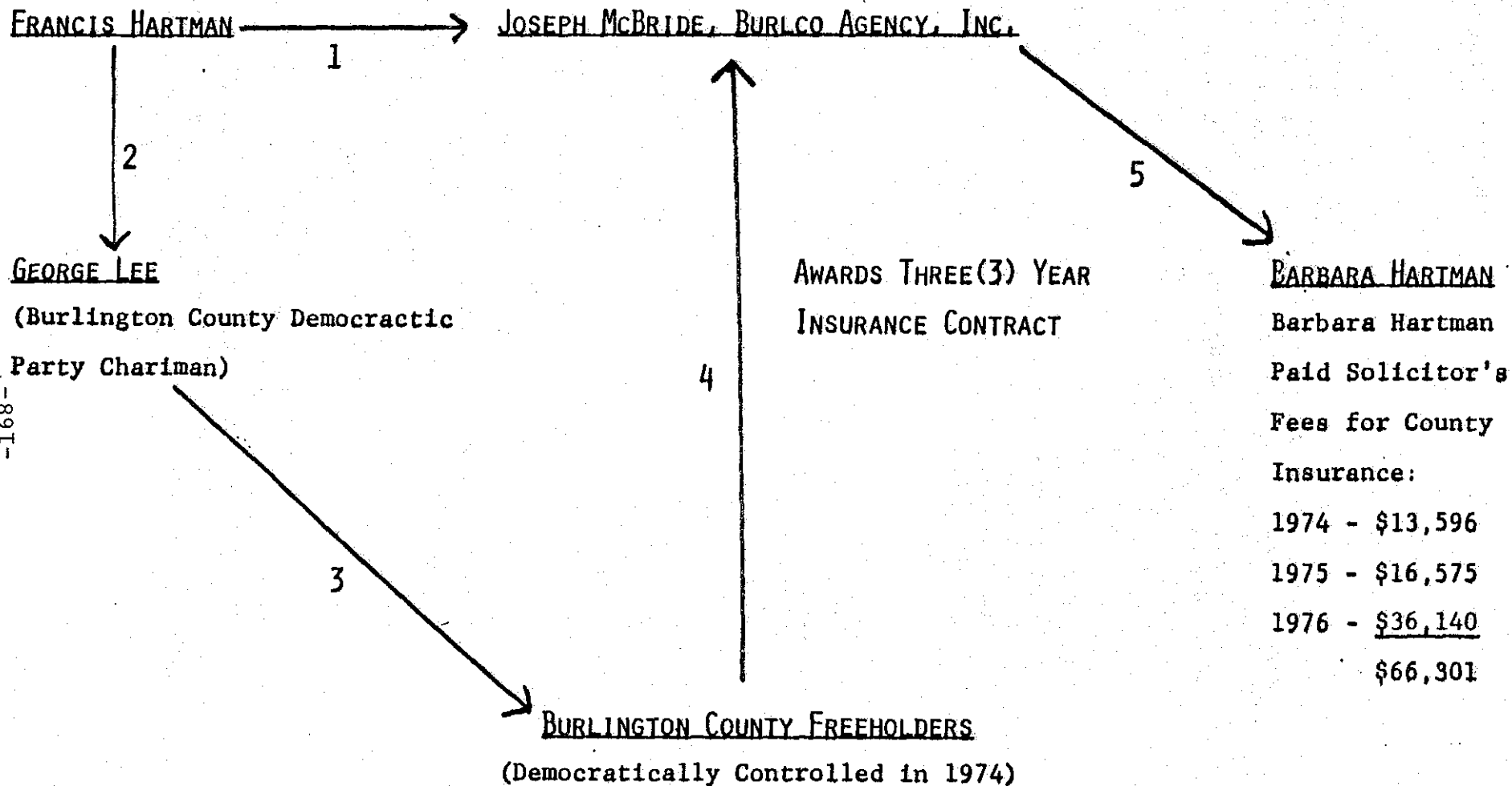
Q. Based on records that the State Commission of Investigation acquired from Mr. McBride from the Burlco Agency, we have composed a chart,\* which is 79 for identification, and it shows the extent in Burlington County. Francis Hartman spoke to Joseph McBride. We had no prior testimony that you had spoken to Mr. Lee. In any event, Mr. Hartman spoke to Mr. Lee. Mr. Lee made a recommendation to the Board of Freeholders. Ultimately the contract was given to the Burlco Agency, and over the course of three years you earned a sum total, based on Mr. McBride's records, of \$66,301, and the two people that you spoke to were Mr. Lee, possibly, and your husband, Francis -- and Mr. McBride; is that correct?

A. Correct.

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\*See Chart, P. 168.

BURLINGTON COUNTY INSURANCE FINDER'S FEES - 1974-1976



Q. I am next going to show you a file, which is the 1973 and prior years ledgers of Mr. McBride showing the commissions that you earned in those years. So we are talking about a time period 1969 to the end of 1973, prior to your becoming involved in the Burlington County contract.

I will ask you, if you would like, to inspect them and then I would like to tell you what they represent.

The records indicate the following: In 1968 you earned \$190.97 as a solicitor; in 1969, you earned \$129.28 as a solicitor; 1970 you earned \$121.99 as a solicitor; in 1971 you earned \$160.50 as a solicitor; 1972 you earned \$76.08; 1973, the year prior to the award of that contract for Burlington County, you earned \$110.10, for a sum total over the course of five years of \$780.84. You weren't very active prior to the award of that contract; is that correct?

A. No, I was not.

#### Public Insurance Under Burlington's GOP

In January, 1977, the Burlington County Freeholders were under Republican control. The GOP had assumed control the previous January as a result of election victories in November, 1975. However, the three-year contract the former Democratic majority had signed with its politically favored broker, Burlco, did not expire until 1977. At that point, Frank M. Monaghan, general manager of Chesley & Cline of Mount Holly, became the broker of record at the behest of the Republican leadership. Thereafter, although political control of the county had changed, the public insurance machinations continued. As the testimony was to demonstrate, there were different players in the field -- Republican instead of Democratic officials, politicians and brokers -- but they abided by the same ground rules.

Mr. Monaghan, the only witness in this public hearing segment, played a key role in the continuing, politically influenced mishandling of public insurance funds. He assured the McCay Corp. a piece of the action as a "back-up broker." The McCay Corp. had been bypassed, reluctantly, as the primary broker because of an indictment, later dismissed, against one of its principals. He also contributed more than \$20,000 from his commissions to the GOP during his tenure as the broker of record. Mr. Monaghan was asked to explain how he became the county's broker. Counsel John Dillon questioned this witness:

Q. How did you obtain the Burlington County account?

A. Okay. I initially had a conversation of some sort with one of the freeholders-elect at the time, a Mr. Shinn, and at that time he was inquiring as to the abilities of two agencies in Burlington County. He asked me my professional opinion of these two agencies, and I asked him why, and he said they were being considered as the county insurance brokers.

X X X

Q. At the time the proposed change was to take place, and that is a new broker, how many brokers were under consideration for this contract?

A. When my initial conversation that I had asking about the professional abilities, fellows, I assume the two, the two agencies he mentioned to me were the two being considered.

Q. Who were they?

A. The Stockwell-Knight Agency and the McCay Agency.

Q. And you had this discussion with Mr. Shinn?

A. Yes, and he asked me what I thought of their abilities and I told him.

Q. And what was the substance of that conversation?

A. Well, about the professional ability of these two agencies, which I gave him my opinion, if I was purchasing insurance, which of the two I would have used.

Q. What was your opinion?

A. The McCay Agency, because I thought it was better-staffed and more capable of handling an agency of -- an account of that size that I imagine the county was.

Q. Were there any problems with the McCay Agency, that you were aware of?

A. Not that I, you know, that rang my bells with me, no.

Q. Well, did you have a later or subsequent conversation with Mr. Shinn?

A. Yes, I did. He called me at a later date and, or I talked to him -- I don't know how the conversation took place or where it took place. But I know there was one and he told me that they possibly were having some difficulty in coming up and deciding which agency they were going to appoint and asked me if I would be interested in handling the account and my answer

to that was, I really didn't know, I'd have to look at the records; could they be made available to me so that I could see whether I could do it, because I didn't want to get into something that I couldn't possibly handle.

*Q. What were the problems that Mr. Shinn discussed with you concerning that agency?*

A. He indicated that -- I would have assumed that the McCay Agency was the favored one from the discussion, and that one of the principals of that agency evidently had a legal problem that was unresolved and for that reason they weren't interested in appointing that agency, at least, that appeared to be the situation to me.

*Q. So that unresolved legal problem would have caused problems with the award of the contract to the McCay Corporation?*

A. I guess they thought it would create some problems. I don't know what problems they thought.

*Q. As it turned out, the McCay Corporation didn't get the contract, did it?*

A. No, they didn't.

*Q. Did you ever have conversations with Mr. DeMarco, the County Republican Chairman of Burlington County, concerning this contract?*

A. I had one conversation with him. It was recommended that I talk to the various freeholders and lay out my credentials to them, what our background was as an insurance brokerage firm, and I was also told that they thought I should, if I knew DeMarco, and I said, vaguely, that I had seen him a few times at political dinners and such, and that I also tell him of my credentials.

*Q. Was it clear to you that Mr. DeMarco, the Republican Chairman, would have some impact on the final decision in the award of this contract?*

A. You know, I didn't really know, quite frankly. From reading newspaper articles, I saw that, you know, if somebody was going to be appointed a judge or something, that the Party Chairman of either Party seemed to have something to do with those people going. So I didn't think it was peculiar.

Q. When you spoke to Mr. DeMarco, did you indicate to him that you or your agency had been good contributors to the Republican Party?

A. Yes, I did. I went through my background as an agent, but I did that. I felt that there was no harm in blowing my own horn.

Q. And what was his response to this statement?

A. His response was that he was aware that we had contributed to the Republican -- I think I also told him that we were contributors to the Democratic Party, also.

Q. When were you notified that you had been awarded the contract of insurance?

A. Sometime in the latter part of December.

X X X

Q. How much was the premium for the first year of this contract?

A. In the neighborhood of \$700,000, as I recall.

Q. Now, prior to the award of the contract, did you submit any proposals, suggested prices, contract terms or other data to Mr. Shinn or to the other freeholders?

A. No. We told them that we would reserve the entire thing and give them, you know, the best price that was available at that time.

Q. Had you ever negotiated premiums for a contract of this size before?

A. I don't think anybody in Burlington County has, quite frankly.

Q. Is it a normal procedure for you to -- for an insurance salesman or a broker to receive a contract without submitting these proposals or quotations beforehand?

A. Yes. It's not abnormal, let's put it that way.

Q. Regarding this contract, what was the commission you were paid or you were awarded?

A. It was varying degrees of percentages. In other words, we have a contract, an agency contract, with various companies and it outlines the percentage of commission that you are to get; like on a liability policy the amount of commission that you are to get, on multi-peril policy, on automobile policy and so on down the line. They're standardized commissions.



Q. What was the dollar amount?

A. The dollar amount of commission, as I recall, was in the range of \$80,000.

X X X

Q. I am going to show you a series of four checks. The first check, marked C-83 for identification, dated 4/28/77, made payable to the McCay Corporation in the amount of \$7,500. I will ask you if you recognize that check.

A. Yes, I do.

Q. Is that your check?

A. Yes, it is.

Q. All right. I have a check here marked C-84 for identification, payable to McCay Corporation, dated 6/14/77 in the amount of \$7,500. I will ask you if you recognize that check.

A. Yes, I do.

Q. Are you the signator to that check?

A. Yes, I am.

Q. I have a check here marked C-85 for identification, dated 4/27/78, payable to the McCay Agency in the amount of \$7,500, and I will ask you if you recognize that check.

A. Yes.

Q. Are you the signator to that check?

A. Yes.

Q. I have a check here marked C-86 for identification, dated 6/8/78, payable to the McCay Corporation, in the amount of \$7,500, and I will ask you: Do you recognize that check?

A. Yes, I do.

Q. Are you the signator to that check?

A. Yes, I am.

Q. Those checks are all on the account of Chesley & Cline?

A. Yes, they are.

Q. Can you tell me, Mr. Monaghan, what those checks were for?

A. A very good friend of mine, Raymond Houlihan, was a principal of the McCay Agency. I've known him for over 20 years. And it was obvious to me that he had been trying to get this account, so at that time I felt that I should visit him and, when we were informed that we were getting the account, and indicate to him that I had not gone out to try and undercut him or anybody else; that he just wasn't going to get the account due to some legal problems of his associate, and that we were going to get the account. I made a business decision at that time to ask him to assist me on the account in the placing of any business that I couldn't place. He agreed that he would do this.

I told him that I would arrange some remuneration for him, but at that time I wasn't sure exactly what the remuneration would be because I wasn't that deeply involved in the account. I just figured it was sort of killing two birds with one stone. I was keeping a friendship and I was getting a back-up from an excellent agency that has tremendous background.

Q. Are they the only agency that received any money for you for backup services?

A. Yes, they are.

Q. And you decided that they would get 15,000?

A. I was -- it was my decision solely.

Q. And when did you decide that?

A. I decided -- well, where the conversation took place, I was on a trip, an insurance trip, with Mr. Houlihan. It was a group of insurance men, in the Dominican Republic, and at that time I said I had looked into the account sufficiently and that I thought that I could give him \$15,000 out of my commission for the services that I wanted him to render at any time. I looked upon 15,000 due to the tax bracket that we're in as really \$7,000.

Q. Well, you stated that you might have needed him for backup placement, and this conversation in the Dominican Republic, when did it take place?

A. That took place in February of 1977. But at that time I had already made the arrangement. All I did here was, was indicate how much money that I was willing to pay for his services and availability.

Q. But you had already placed the insurance, hadn't you?

A. Not all of it. We were still working on some degree of it at that time. We still had items --

Q. But you experienced no problems in placing it?

A. Yes, we did experience some problems.

Q. Did he assist you in that?

A. At that time I had maybe a couple of conversations with him, but I was able to work all my problems out. And I had enough ego to want to place it all myself, quite frankly, if I could.

Q. So he actually -- he placed no insurance in this backup status?

A. He actually -- no, if I wanted to create a subterfuge and let him place some, I could have. But I didn't. I saw no reason to. I wasn't really ever hiding anything.

Q. Well, why did you continue to pay him in the second year that's indicated here in '78?

A. Because when I made the original arrangement, I asked him if he would be on a retainer for the entire three years I had my contract. One of the reasons was I wasn't sure where I stood legally. I had undertaken a three-year contract. If somewhere down the line that I couldn't effectively handle the insurance or my companies had deserted me or anything along that line, I needed somebody to back it up, because if I had no place to go I could have possibly been in some legal problems with accepting a three-year contract.

Q. Do you have, or have you had, any other insurance contracts where you required this backup service?

A. I've never had anything of this magnitude before.

A. I've never had anything of this magnitude before.

Q. Then where had you developed the idea of a backup broker?

A. It was an idea that, when I saw the size of the account and saw some of the problems in it, I had some fears of placement because it was a very tight municipal market at that time, and there still is.

Q. Did you, in fact, consider this not only payment for anticipated services, but also benevolence on your part because you felt McCay would have gotten the contract under other circumstances?

A. It was calculated benevolence. I didn't want Mr. Houlihan to be upset with me and to possibly come down into the area that is our service area and start going after accounts down in my area, so to speak.

Q. How did you arrive at the amount of \$15,000?

A. That was -- you know, I have no idea. It was sheerly out of my own head that I arrived at that amount. I could have just as easily arrived at 12,000 or 20,000. Fifteen just seemed like a decent amount at the time. I didn't want to seem cheap.

Q. Now, after you communicated to Mr. Houlihan that you would be paying him \$15,000, what did he say?

A. He indicated that it was a very nice gesture on my part, and I think he also indicated that he didn't know whether if he was in the same position that I was he would be quite as, quite as good.

Q. Did you discuss the fact that the McCay Agency was receiving \$15,000 from you with any members of the Board of Freeholders?

A. I don't recall ever really discussing that. I don't think that that matter ever became public with any of them until the time of the first visit from Mr. Hutchinson (S.C.I. Agent Richard S. Hutchinson).

#### Political Contributions Increased

Counsel Dillon turned to the practice prevalent in other public entities of converting insurance commissions into political contributions. S.C.I. files showed a marked increase in Mr. Monaghan's political gifts after he became broker of record. Counsel:

Q. The year prior to your receiving this account, again, that's 1976, what was the total amount of money that your contributed to political parties, approximately?

A. I think around five to \$6,000.

Q. Now, do you know approximately how much you contributed in 1977?

A. Around \$10,000.

Q. And in 1978?

A. Around \$13,000, all of which was legally reported, to the best of my knowledge, by the parties. I didn't -- you know, I never thought I was doing anything --

Q. Why did your political contributions increase significantly, it appears, after you received the account?

A. Because I had a large account, and was interested in showing my appreciation for receiving the account, and I also was hoping possibly at a later -- you know, to perpetuate myself. I was new in the account and figured, you know, if they stay in, maybe they'll appoint me three years down the line.

Q. I gather it's your feeling that political contributions and governmental accounts go hand-in-hand?

A. I would have -- it's my personal feeling that, yes.

Q. Was it expected, once you received this account, that you would make political contributions?

A. That was something that I expected to do. I assumed it was.

Q. If you ceased to make these political contributions, would you fear that you might lose this account or other governmental accounts?

A. Well, I couldn't lose that account because I had a three-year appointment. I just in my own mind, whether it was real or imagined, could see I could suffer a degree of cooperation with the people I needed cooperation with in order to function as an insurance professional.

Q. You have had this contract with Burlington County for two years. You have contributed to the McCay Corporation approximately \$30,000. You have made contributions, political contributions, of approximately \$25,000. Is this insurance contract still profitable?

A. It's touch and go, because I also have another thing in there where I have to have all the buildings in the county appraised during my three-year term and have to pay for the appraisal, and the appraisal, the contract has been let for that for \$18,600.

Q. Would you take the contract after the year 1979 for another three year?

A. If I could set the ground rules, I would consider it. But I would have to set the ground rules this time.

EXAMINATION BY COMMISSIONER PATTERSON:

Q. What kind of ground rules would you set?

A. I would at this juncture, after experience what I have gone through here, I think that I would indicate that any political contributions would have to be reported outright to somebody and published, and that if I was going to use a broker for any arrangement, that I would have to report to the freeholders once a year who and where everything went to, and that way I don't think I would be sitting here today.

Q. Well, it's my understanding that no one made you, one, take on the McCay Agency; you did it out of the kindness of your heart?

A. Right.

Q. And number two, that you didn't -- the contributions that you made were purely voluntary?

A. Right.

Q. So I don't understand what the ground rules would be.

A. Well, I just feel that I'm being criticized for what I did, and I figure that if this information had to be made public, then the criticism would not be available. It would be known when you take the contract that you had to do things such as that.

Q. I get the inference that you felt you had to make the contributions to get the contract.

A. Not to get the contract.

Q. To keep it?

A. To get cooperation and such.

Q. That a contract with an insurance business with the county is tied into political contributions?

A. I think I'm not --

Q. And that maybe that fellow, also, that you have to take -- you have to take the McCay Agency on as a co-broker or whatever you want to call them, advisor, also for the same reason.

A. No, well, I didn't do that. The McCay Agency wasn't had anything to do with the other thing.

Most of the people that do business with counties appear to me to be the obvious contributors because if you go to a political dinner or anything, that's who's there.

Q. And we heard that yesterday.

A. Well, it's -- unfortunately, I guess it's a way of life.

### Gloucester County's Experience

How political rather than professional considerations dominated the public insurance process was particularly illustrated in Gloucester County, where the practice of sharing commissions was utilized to reduce a political debt by \$6,500. The S.C.I. investigation disclosed that a so-called "insurance advisory committee" was created in 1974, but not noted in the minutes of the County Board of Freeholders until 1975. One member of this committee, Samuel P. Martin, subsequently was terminated from the sharing process, not by the Freeholders but as a result of a political dispute. What would have been his share of the commission was applied against the political debt. The advisory committee was not reappointed in 1977 -- but the use of split fees for political purposes continued. Witnesses scheduled to testify about public insurance events in Gloucester would emphasize the influence of Assemblyman Kenneth A. Gewertz, the County Democratic chairman, in commission sharing activities. The first witness from Gloucester was John Maier of Deptford, a Democratic county freeholder. He was questioned by S.C.I. Counsel Robert M. Tosti:

Q. Do you have any training or experience in the field of municipal insurance?

A. No, sir, I do not.

Q. Did you become aware that Mr. William Dalton was broker of record for Gloucester County insurance business?

A. Yes, I did.

Q. When was that?

A. Mr. Dalton was the broker of record before I was on the Board of Freeholders and he has remained broker of record until the present time.

Q. Do you recall freeholder action concerning the broker of record in January, 1975?

A. Yes, sir. Each year at the January organization meeting a broker of record is appointed.

Q. I would like to show you a document, previously marked C-89 for identification, which purports to be page 4 of the January 3rd, 1975, meeting, annual meeting, of the Board of Chosen Freeholders of Gloucester County, and I ask if you recognize that document.

A. Yes, I do, sir.

Q. And Mr. Dalton was reappointed as broker of record at that time?

A. That's correct.

Q. Does that also indicate that an insurance advisory committee was designated?

A. Yes, sir. It indicates that after the nomination was made to appoint a broker of record I suggested to the Board that we also appoint an advisory committee.

Q. Okay.

A. Naming Mr. Dalton, Mr. Martin and Mr. Marks to said committee.

Q. Was that your original idea?

A. Yes, sir.

Q. Personally, that is?

A. Yes, sir.

Q. How did that come about?

A. I had previously served as the mayor in Deptford Township. We had -- it had been the custom to have a broker of record. I changed that practice to awarding insurance, and I thought -- this is my first action in the county -- that it would be more appropriate to have other than one broker of record, more individuals look at the county insurance or the way that's handled.

Q. Were the responsibilities of this insurance advisory committee ever defined by the freeholders?

A. No, they were not. It was a committee appointed with, I think, just the information that is in the minutes and that was to look at the method of how county insurance is handled.



Q. Was this insurance advisory committee continued beyond 1975?

A. Yes, sir, it was again reappointed in '76 with two additional members added, and at that time they were specifically instructed to find out for me for the Board of Freeholders whether it would be better to bid the insurance than simply to award it to Mr. Dalton.

Q. Again, I would like to show you another document, previously marked C-90 for identification, which purports to be page 3 of the January 3, 1976, minutes of the Gloucester County Board of Chosen Freeholders, and ask if you can identify that document.

A. Yes, sir. It indicates here that Freeholder Maier proposed that C.J. Hendrickson of Woodbury and Tony Canuso of Pitman be added to the existing advisory board of William Dalton, Ron Marks.

Q. Were these two designees to the committee, were they Republican?

A. It was my understanding that they were. I was told that they were supposed Republican individuals.

Q. So now the committee was composed of three Democrats and --

A. Three Democrats and two Republican individuals. It would be a bipartisan committee to report back to the Board of Freeholders.

Q. Was this advisory committee continued in the year 1977?

A. No, sir, it was not.

Q. And again, I would like to show you another document marked C-91 for identification, which purports to be page 4 of the January 7, 1977, minutes of the Gloucester County Board of Chosen Freeholders, and ask if you can identify that.

A. Yes, sir. This is a copy of the minutes, Gloucester County Board of Freeholders, January 7, 1977.

Q. And do those minutes indicate that Mr. Dalton was again nominated and appointed broker of record?

A. That is correct.

Q. And does it also contain any reference to the insurance advisory board?

A. No, it does not.

Q. So the freeholders took no action, then, to reappoint or reconstitute an advisory board for '77, 1977?

A. That's correct. These minutes show that it was a bipartisan nomination of Mr. Dalton in this particular year for the insurance broker of record.

Q. I would like to show you another document, previously marked C-92 for identification and a document marked C-93 for identification, which purport to be pages from the annual minutes of the annual meeting of the Board of Chosen Freeholders for the years 1978 and 1979, and ask if you can identify these documents.

A. Yes, sir, this is the copy of the minutes of Gloucester County Board of Freeholders, January 5th, 1978, and on these minutes it does show that William Dalton was again nominated and bipartisanly elected or appointed as insurance broker for the County of Gloucester.

There is a copy of the Gloucester County Board of Freeholders minutes, January 3rd, 1979. Again, there is a nomination of Mr. Dalton as insurance broker of record for the county where Mr. Dalton was unanimously appointed by the Board of Freeholders.

Q. And is it also correct that the freeholders took no action to reappoint an advisory board for the years 1978 or 1979?

A. That is correct.

Q. Going back to the original formation of the advisory committee in 1975, did you understand at the time Mr. Marks and Mr. Martin were appointed to this advisory committee that they were to receive part of the commission earned by Mr. Dalton, the broker of record?

A. No, sir.

Q. Did the freeholders ever direct Mr. Dalton to share his commission with other brokers?

A. No, sir.

Q. Did you ever become aware that Mr. Dalton was sharing his commission with the other brokers?  
A. I have heard of such.

Q. Did you hear how it came about that Mr. Dalton began to share his commission with the other brokers?  
A. It was, it was -- I was informed or I had heard in discussion between Mr. Marks and/or Mr. Dalton that Mr. Marks and Mr. Martin were, in fact, working for Mr. Dalton.

Q. It was your understanding they were performing services for Mr. Dalton?  
A. That was the conclusion, yes, sir.

Q. And your conclusion was reached on the basis that you learned they were receiving money, so you concluded that they were performing services?  
A. Yes, sir. I was still serving as mayor of Deptford Township in '75 and as a freeholder. Ron Marks was a councilman in Deptford Township, and through discussions -- and I don't have exact time or date -- I was aware that Mr. Marks was providing services or working for Mr. Dalton in regards to county insurance.

Q. Did Mr. Martin or Mr. Marks ever meet with and confer with the freeholders with respect to the Gloucester County insurance program?  
A. Not to my recollection. No, sir.

Q. Did you understand that no such meetings were expected to take place?  
A. I wasn't aware of any meetings to take place or if any had taken place.

Q. Were you aware of any work actually performed by Mr. Martin or Mr. Marks?  
A. No, sir.

Q. Did you gain any insight into the amount of work being done by Mr. Marks in any other way?  
A. In a conversation over a year ago I had occasion to meet with Mr. Marks when we were on vacation in Maryland. Mr. Marks informed me that he had been called or questioned by the State S.C.I., and he said he had been asked about working on county insurance with Mr. Dalton.

And I said, "Well, what were you asked about it? What were they inquiring?" He said, "They wanted to know what I did, and I said I did nothing."

Q. So basically you learned that at least Mr. Marks said he did nothing for the commissions he was receiving?

A. He said he did nothing for Mr. Dalton or for the commissions if he was receiving any, yes, sir.

Q. Now, this insurance advisory committee was originally named to determine if bidding as opposed to the present system might be a better approach to appointing a broker -- than appointing a broker of record. Is that correct?

A. That is correct.

Q. Now, Mr. Dalton was receiving a substantial commission for his work; is that correct?

A. I know Mr. Dalton was being paid for providing insurance coverage for the county.

Q. Okay. And you subsequently learned that Mr. Martin and Mr. Marks were also sharing in this commission; is that correct?

A. Yes, sir.

Q. Mr. Dalton, as well as Mr. Marks and Mr. Martin, were receiving some compensation as a result of the insurance system as presently -- as then constituted in Gloucester County. Is that correct?

A. Mr. Dalton was the agent of record for the county, and apparently it was obvious or I was knowledgeable of the fact that he had a sub-agreement or a subcontract agreement with Mr. Marks and Mr. Martin.

Q. Did you believe it well-advised to then ask these three same individuals to recommend to the Board of Freeholders what form the insurance program should take?

A. I will answer that by saying that I was familiar with Mr. Marks as an insurance agent; I was familiar with Mr. Dalton as an insurance agent. I found them both to be competent individuals. We had added two other names that I was not personally familiar with, two gentlemen who supposedly are from a different political persuasion, to this committee, and I thought that the men who were most familiar with the county's insurance could provide us with the most factual and accurate information as to how we should provide county insurance.

Q. T.C. Moffatt having been awarded the contract, would it then have been their responsibility to place the insurance for the county, at least that facet that they were awarded? Is that so?

A. Yes.

Q. Have you ever heard of any agency called Kearny Realty?

A. Yes.

Q. Have you heard of a name by the name of Frank Arilotta?

A. Yes.

Q. Do you know whether or not he's associated with Kearny Realty?

A. I believe he is.

Q. Now, with respect to T.C. Moffatt, just to digress for one moment, as part of their insurance package were they paid any commissions, to your knowledge?

A. Not in direct -- not separately. They were paid total premiums.

Q. They were given premiums paid by the County of Hudson; is that correct?

A. That's correct.

Q. And, to your knowledge, from those premiums did they exact any commissions?

(The witness confers with counsel.)

A. I don't know.

Q. You have no idea?

A. I don't know.

Q. Well, as general purchasing agent you made a recommendation to the freeholders recommending T.C. Moffatt Agency. At that time did you or did you not know whether T.C. Moffatt was going to take any commission out of these premiums?

A. I did not know.

Q. To your knowledge, did the Board of Freeholders ever discuss that matter?

A. Not to my knowledge. They may have. I wasn't a party to that.

Q. Well, to be more specific, did anyone ask you -- and by anyone I mean, an official of the Board of Freeholders or their representative -- ask you what the commission payments would be to T.C. Moffatt when you recommended them?

A. Not to my recollection.

Q. Might I ask why you recommended T.C. Moffatt?

A. Because the insurance, the insurance was expiring; there was no coverage on the automobiles, and that was the lowest responsive bid.

Q. When they made that bid, was that in a fashion where it would be, to use a simple term, laid out on a piece of paper where one might be able to see what their charges would be for the specific areas? Let's say, automobiles.

A. The specifications spelled out the limits of bodily injury, property damage; the number of vehicles involved; I believe a listing of the vehicles; collision coverage. And, of course, the successful bidder was required to provide copies of their licenses and agreements indicating that they were, in fact, licensed to handle insurance in the State of New Jersey, and that they were, in fact, representatives of the insurance companies that they indicated would be handling the coverage.

When S.C.I. counsel asked Mr. Fuhro if he was aware that Kearny Realty was sharing T.C. Moffatt's commission on its Hudson insurance contract, the witness replied: "No, I was not." He then admitted that he had received a letter indicating Kearny Realty would be servicing claims arising out of Moffatt's business with Hudson County. Despite this admission, however, when he was asked if that letter meant Kearny Realty would be sharing Moffatt's commissions, Mr. Fuhro said, "Not to my recollection" Mr. Fuhro's lack of information, subsequent questioning demonstrated, extended even to the most obvious responsibility of a governmental purchasing agent -- pinpointing the cost to the county of its freeholder-authorized purchases, including the insurance program Mr. Fuhro had recommended:

Q. Well, was there anything in that proposal that would indicate to you what the fee was, the commission, that T.C. Moffatt was going to be charging the county?

(The witness confers with counsel.)

A. To the best of my recollection, no.

X X X

Q. To your knowledge, did the Board of Freeholders?

A. I can't comment for what knowledge they had of commission structures if any. I have no knowledge of that.

Q. I'm not asking you to say what they knew. I'm asking was anything conveyed to you that would indicate to you whether or not the freeholders were ignorant of the fact of commissions.

A. No information was conveyed to me concerning commissions.

Q. All right. You tell me if I'm wrong, but isn't part of your duties as a general purchasing agent in making this recommendation to convey to the Freeholders what it's going to cost the county?

A. That was conveyed to them as the total bid. The amount of the total bid was the total amount of cost that the freeholders passed on resolution.

Q. Well, more particularly, what I am referring to is, is it part of your duties to convey to the freeholders what the T.C. Moffatt Agency is going to charge the county to place their insurance?

A. That was all included. The net amount of the bid was the net cost to the county. No commission amounts were shown as a separate item.

Q. No, I'm aware of that. What I am simply asking you is -- I will be as simple as I can -- if a freeholder were to say, "Well, what is Moffatt going to charge us to place this insurance?", you would not have been able to answer that; isn't that correct?

A. No, that's correct.

#### Mr. Fuhro's Car Insurance Problem

Counsel next asked Mr. Fuhro if he knew G. Fred Hockenjos, then the president of T.C. Moffatt Co. He said he knew Mr. Hockenjos and met him "on many occasions." He recalled a number of meetings and conversations with the T.C. Moffatt executive prior to August 11, 1977, when the county freeholders signed the T.C. Moffatt insurance contract, and particularly when the Moffatt people "came in to pick up specifications for bids." Counsel Rhoads:

Q. Did you have any conversations with Mr. Hockenjos on matters other than county insurance?

A. I may have.

Q. More particularly, on your own personal insurance?

A. I may have.

Q. You may have or did you?

(The witness confers with counsel.)

A. I did. Yes, I did.

Q. All right. With regard to the personal line of insurance, what were those conversations?

A. I had commented to Mr. Hockenjos that I was experiencing difficulty in placing my own personal insurance because the insurance company had cancelled me out because of my teenage daughter having an accident and I was attempting to obtain coverage, and Mr. Hockenjos commented that, if I had any difficulty, let him know and he was certain that he could somehow or other get me into the assigned-risk plan.

Q. This conversation you are alluding to, how much time was that before August 11, '77, using that as a point of reference?

A. To the best of my recollection, maybe a month or so.

Q. Well, did there come a time when he fulfilled his promise? By that I mean, was he able to get you into some sort of coverage?

A. I subsequently did get coverage in the assigned-risk program.

Q. When was that coverage effective?

A. To the best of my knowledge, around the middle of August. Middle of August.

Q. Sure. When Mr. Hockenjos offered to place your personal automobile liability insurance, for which you were having a problem placing it, this was prior to you recommending the T.C. Moffatt Agency, of which he was the president, to the Board of Freeholders?

A. Yes.



Q. Prior to the public bid even?

A. That was, if I understood your question, that time frame was be -- after the receipt of the bids, but prior to the award of the contract. Is that --

Q. Yes, that's what I had asked.

A. I'm sorry.

Q. So it was in between that period.

Now, to refresh your recollection, if I were to tell you that the date your coverage was effective was August 11, 1977, would that refresh your recollection?

A. Yeah, that sounds about right.

Q. And that's the day the resolution was passed awarding T.C. Moffatt the contract, wasn't it? Wasn't that so?

MR. O'CONNOR: (B. Dennis O'Connor of Trenton, Mr. Furho's lawyer): Answer.

A. Yes, yes.

Q. When were you given the assurance that you were going to be placed?

A. Well, I filled out an application, and that was submitted, and I received a temporary insurance card.

Q. And that temporary insurance card was effective for what date?

A. The same day I signed the application. I believe the date you mentioned, August 11.

Q. August 11, 1977?

A. Uh-huh.

X X X

Q. At that time you filled out this application was there any fee involved? By that I mean, did you have to tender any money to anyone for your coverage?

A. Not at that time, no.

Q. Well, under an assigned-risk policy, are you aware that you must send in a deposit with that policy?

A. Under the assigned-risk policy, I didn't know what the premium was or who the company was, and consequently I could not make any deposit. In fact, when I questioned if a deposit was required, I was told that as soon as it was known, as soon as the company was known, I would receive a bill.

#### The \$843 Question

Counsel asked who gave the witness his car insurance application. He said he got it from "a Mr. Morgan, I believe." This was the same James Morgan whose influence was such that whatever company he became attached to obtained insurance business from Hudson County or the Town of Kearny. It was Mr. Morgan who also picked up Mr. Fuhro's car insurance application. Asked if a fee was discussed, Mr. Furho testified that Mr. Morgan said he "would be advised" about any payment later. Counsel pressed Mr. Fuhro for details about who paid what, and how, regarding his car insurance:

Q. When did you receive a bill from T.C. Moffatt?

A. I'm not certain.

Q. I show you what's been previously marked Commission Exhibit 4. Would you please look at that? It purports to be a bill from T.C. Moffatt. Do you recognize it?

A. Yes.

Q. Is that a copy of the bill that you were alluding to?

A. That's one of the bills, yes.

THE CHAIRMAN: What's the date on that bill?

THE WITNESS: September 26, '77.

Q. Now, you say it's one of the bills?

A. Yes.

Q. You are implying that there were other bills?

A. There was another bill, as I indicated, that I had received from the insurance company.

Q. Well, I am now specifically referring to the one from T.C. Moffatt. Did you receive any other bill other than the one that's in your hands?

A. Not to my recollection.

Q. Now, you received a bill and it indicates that you owe how much money there?

A. \$843.

Q. And did you pay them the \$843?

A. Not at that time.

Q. Well, did you pay them at any time?

A. Yes, I did.

Q. When did you pay them?

A. Maybe a month or so later; month and a half later.

Q. So sometime in October you paid the bill?

A. I don't --

(The witness confers with counsel.)

A. I don't recall the exact date.

Q. By what method did you pay the bill?

A. In cash.

Q. To whom did you pay?

A. Mr. Hockenjos.

Q. Where did this transaction take place?

A. In my office.

X X X

Q. With respect to the date when Mr. Hockenjos was there, this meeting we are talking about, if I were to tell you it was September 21st, 1977, does that refresh your recollection?

A. To the best of my knowledge, yes.

Q. All right. Was anyone present other than you and Mr. Hockenjos when you paid him?

A. Not in my immediate office, to my recollection.

X X X

Q. Mr. Fuhro, what I am simply asking is, to your knowledge, did anyone else see this transaction? By that I mean, was anybody else in the vicinity when you paid Mr. Hockenjos?

A. Other people were in the vicinity, in the outer office. Whether they saw the transaction or not, I don't know.

Q. Okay. How much did you pay him?

A. Approximately eight hundred forty some-odd dollars.

Q. Did he give you a receipt?

A. Not immediately.

Q. Did you ask him for a receipt?

A. Yes, I did, and he said he would send it to me.

Q. Did he give you any sort of note at all, anything indicating that you had paid him this cash?

A. No, not to my knowledge. Not to my recollection.

Q. On September 21st, 1977, did you have a checking account?

A. Yes.

Q. Is there any reason why you didn't pay by check?

A. Yes, because when I had the money, I had no check in my possession.

Q. When you had the money, you had no check in your possession?

A. I had no -- I had the checking account in a branch. When the meeting was on, I had the cash in the morning. I got into the office prior to the bank's opening. When the meeting took place, I did not go to the bank. I did not have a blank check in my possession, nor would I issue a check on an account for which there were not funds at the time. So I paid him with cash.

Q. Did he tell you when he was going to send you a receipt?

A. No.

Q. Well, the bill before you, or I should say, the copy of the bill before you, is dated September 26, 1977, five days after you said you had paid him in cash. What did you do when you got that bill?

A. I did nothing, because I waited. I knew I had paid.

Q. You weren't alarmed at all when you got a bill indicating you owed T.C. Moffatt all that money --

A. No.

Q. -- when you had already paid him?

A. No:

Q. You didn't call anyone at T.C. Moffatt?

A. Not at that time.

Q. Well, did there come a time when you did?

A. Yes. When I, when I did not receive a receipted bill, I called a number of times asking for a receipted bill.

Q. Who did you speak to?

A. On one or two occasions I spoke to Mr. Hockenjos himself and he said he's take care of it. I also spoke to other people in the office. I don't recall who.

Q. Did there come a time when he did take care of it? And by that I suppose I mean by something indicating a receipt.

A. If you are saying did I subsequently receive a paid bill, yes.

Q. When did you receive that?

A. I don't recall the exact date.

Mr. Fuhro testified that he received a "paid bill" from George Sloan, vice president of T.C. Moffatt Co., who would testify later that Mr. Arilotta's Kearny Realty company had been charged for Mr. Fuhro's car insurance coverage. Nonetheless, the envelope Mr. Sloan gave the witness contained a receipt for the car insurance premium which had the word "paid" written on it and which was stamped by the Moffatt company and with the signature of a Linda A. Feeney. Mr. Fuhro said he did not know who had written on or stamped the receipt.

Counsel resumed questioning Mr. Fuhro about the alleged payment:

Q. With regard to this premium of \$843.12, did you have any conversations with Frank Arilotta of Kearny Realty with respect to that?

A. I may have.

Q. Well, do you know whether you did or whether you didn't?

A. If I -- I think, the best of my recollection, he had called me and asked me if -- who handled my insurance, and I told him, T.C. Moffatt, and he questioned me. He was a little concerned that he was being billed for my insurance, and he asked me how was that handled; was that done direct. And I said, yes, and he asked me could I sent him a copy of that bill, and I did.

Q. When did you do that?

A. I -- to my recollection, I sent him -- he had requested me or sent me a letter the early -- beginning of this year sometime, I believe. March, February-March of this year.

Q. Well, I will ask you this then: Did you have any idea that Frank Arilotta had been billed for your premium -- and by "your premium," I am referring to the \$843.12 -- prior to March of 1979?

A. Not that I recall.

Q. What I am asking, this Kearny Realty, other than the March of '79 correspondence, did you have any other correspondence with Kearny Realty with regard to your insurance policy?

A. Not to my recollection.

Q. Now, with respect to Frank Arilotta, did he play any role in the bid proposal of the insurance for T.C.Moffatt on the County of Hudson in August of '77?

A. Not to my knowledge.

Q. Had you had any dealings with a man by the name of James Morgan with regard to those bid proposals?

A. No.

Q. Did you have any conversations with Mr. Arilotta with respect to your insurance premiums that were insured through the T.C. Moffatt Agency?

A. No, not to my recollection.

Q. Your policy for the \$843.12 premium covered the time span of August 11, '77, to August 11, '78, did it not?

A. Yes.

X X X

Q. And did T.C. Moffatt retain your insurance subsequent to that time?

A. Yes.

Q. And you were billed for premiums?

A. Yes.

Q. Did you pay them in cash?

A. No.

Q. Why not?

A. Because I knew the payment was due. I received a bill and I wrote them checks.

Q. You wrote checks to T.C. Moffatt?

A. Yes.

Q. Because you knew what, the premiums were going to be due?

A. I got the bills and I --

X X X

Q. I am asking you, when did you talk to Mr. Hockenjos with regard to the amount of your premium which you said you paid September 21st, 1977?

A. He called me a day or two prior to that September 21, '77, date, and I paid him that money in my office, as I indicated, on September 21.

Q. Right. Now, why is it that you did not pay by check at that time?

A. I think I just explained that; that when I brought the cash from home -- we had been budgeting for it -- I left home in the morning, the banks weren't open. I had no blank check with me, and I did intend to write a check, even if I had a check, if I didn't have the funds in the bank I wasn't going to write a check.

Q. You had the two days' notice but did not have the time to go to your checking account to put the money in there; is that what you are saying?

A. Because I got the notice on a Friday, I believe, and I went into the meeting on the 21st.

Q. Mr. Fuhro, isn't it a fact that you did know that Kearny Realty was going to be billed your insurance premiums for your personal automobile liability insurance?

A. No.

Q. Isn't it a fact that that weighed very heavily in your recommendation for T.C. Moffatt for them to get the county insurance?

A. No.

Q. The fact is you did not pay Mr. Hockenjos that year's premium, did you?

A. Yes. Yes, I did.

X X X

Q. I show you what's been marked Commission Exhibit C-66. Would you look at that and tell me if you can identify it, please?

A. It's a diary.

Q. Whose diary?

A. Mine.

Q. Now, I am going to direct your attention to the date, a page with a date listed above, 21 Wednesday, September, 1977. Does that refresh your recollection what day of the week it was that you had the meeting with Mr. Hockenjos?

A. Wednesday.

Q. So the fact is, then, you knew two days in advance, which was a Monday, it was not a Friday, and you didn't have the weekend separating your opportunity to go to the bank, did you?

A. No, I said I, I wasn't sure of the time frame. It may have been on a Friday. I didn't say what date it was. It could have been the night before he called.

Q. All right. I'm asking you this then: You used a reason for not going to the bank the fact that the weekend came between your call and the meeting?

A. No, I did not. I said --



Q. Do you wish to change that?

A. I said it may have been a weekend. You asked me why didn't I have a check and I said it may have been a weekend.

Q. Well, now that you know it wasn't, what's your response to the question?

A. My response to the question is the same response I gave previously. Mr. Hockenjos called. He was coming in on the 21st. I left my home in the morning prior to the opening of the banks. I had the money at home that we were budgeting for and I gave Mr. Hockenjos the cash on that day.

Q. By the way, sir, while you have that open to that page, is there any entry on that page that would in any way be relevant to the conversation we are having now? By that I mean the payment of your premium.

A. No, just that it says, "Approximately \$850," and "Fred said he would send a receipt."

Q. Maybe I'm not making myself clear. Isn't that a reflection that you got your money from your wife to pay this premium?

A. Oh, yeah.

Q. Is that what's in there?

A. Sure.

Q. You got the call something like two days in advance, did you not?

A. I don't recall when I got the call.

Q. Well, is there any indication in your diary of when you got the call? Flip over a couple of pages.

A. No, I don't see any.

Q. You never got a call, did you?

A. Yes, I did.

Q. By the way, sir, before T.C. Moffatt had the county insurance there was a company by the name of Sweeney and Bell had it, wasn't there?

A. Yes, yes.

Q. And you had at one time your personal automobile liability insurance with Sweeney and Bell, didn't you?

A. Yes.

Q. Did you pay your premiums in cash to Sweeney and Bell or by check?

A. No, by check.

The Hudson Contract: Another Version

G. Fred Hockenjos followed Mr. Fuhro as a witness. He described how the T.C. Moffatt Co., won the Hudson County insurance contract with the help of Kearny Insurance Director Arilotta and the arrangements that existed between his company and Mr. Arilotta's Kearny Realty company. He also discussed Mr. Fuhro's personal car insurance, contradicting Mr. Fuhro's version of how it was paid and by whom. Counsel Rhoads questioned him first about events that led to the Hudson insurance contract:

Q. How did you go by way of obtaining that contract?

A. We were first introduced to the county people by Mr. Arilotta and Mr. Morgan, and at that point we proceeded to prepare bids and subsequently we obtained some of the bids for the business in the county.

Q. All right, sir. If I may, I would just like to go back to one point. You say you were first introduced to county people by Mr. Arilotta. Is that Frank Arilotta?

A. Yes.

Q. Is he the one that has the Kearny Realty Agency?

A. Yes.

Q. When Mr. Arilotta introduced you to Mr. Fuhro, was Mr. Arilotta physically present when he did that?

A. Yes.

Q. What would be the time period that took place?

A. It was after we wrote county -- Kearny. So sometime, I guess, in June or July. I'm not sure of the dates.

Q. With regard to the introductory period by Mr. Arilotta, what was discussed, if anything?

A. The county was having a very difficult time obtaining insurance for their package policy and at that time Mr. Arilotta seemed to think that we might be able to help since we'd placed Kearny, and it was on that basis we were presented that maybe we could help them place the package.

Q. So your relationship with Mr. Arilotta arose through your covering the Town of Kearny; is that so?  
A. Yes, yes.

Q. Now, this conversation with regard to perhaps your agency handling the Hudson County insurance, were these conversations directed to, or at least involved Mr. Fuhro?  
A. Yes.

Q. Well, what role did Frank Arilotta play in these conversations?  
A. Merely the introduction at this point. Mr. Morgan is the one who was working on this for T.C. Moffatt at that time.

Q. All right. Staying again with this time frame, was there any indication at all that Mr. Arilotta would be involved in the insurance contract should your company be awarded it?  
A. No. At a later date it was agreed he would service claims.

Q. When was that?  
A. After we had obtained the account, as I remember it.

Q. All right. Would that have been December of -- somewhere in that area, December of '77?  
A. It could well have been, because we were an Essex County agency and the judgment there was it would be better to have a Hudson County agency closer by servicing the claims.

Q. With respect to the bid you alluded to, you made a bid to the county. Was that by way of some sort of written proposal?  
A. Yes.

Q. Did that proposal reflect what commissions, if any, you would be charging?  
A. No, it was not separate. It was the way a bid normally is. It's not broken out, the commissions.

Q. All right. If I were, let's say, an interested party looking at that proposal, would I have any way of knowing just by looking at it what your commissions would be?

A. No, unless you were knowledgeable of the insurance business you would realize that the normal is anywhere from 15 percent would be a norm for a package of that type.

Q. Well, were there any conversations between yourself or any people in your agency, to your knowledge, with Mr. Fuhro with respect to what commissions T.C. Moffatt would assess?

A. No.

Q. How about with the freeholders?

A. Oh, no, none at all. The only time we got into remuneration at all was on one of our bids we did want to go a service fee, and that was because the -- it was assigned-risk, I believe, and the commission was not adequate to service the account. But other than that, money was never discussed.

Q. Now, with respect to the actual contract, there came a time when you involved the Kearny Realty Agency; is that so?

A. We wrote their account, yes.

Q. Well, they were involved in the coverage of Hudson County through T.C. Moffatt, were they not? Didn't they play some role in the servicing of the policy you mentioned?

A. Yes.

Q. What exactly did they do?

A. Their primary purpose, as I remember it, was to handle the claims.

Q. Now, with that regard, were they given any payment out of the commissions?

A. Yes, they were.

Q. What were they given?

A. Originally it was 50/50, and then I think it went 60/40.

Q. All right. When you say "originally," you were awarded a contract in August of 1977. Was it then a 50/50 split of the commission?

A. Yes, that's right.

Q. What are we talking about dollarwise; do you know? You can approximate for us.

A. I would say the commissions on that would have to have been somewhere around 30,000 on that particular contract.

Q. So that's the 50 percent of the total commission?

A. Right.

Q. Is that so?

A. Yes.

Q. I don't mean to sound facetious, but that \$30,000 then, would have made it a profitable venture for you; is that correct?

A. Yes.

Q. Now, with regard to Kearny Realty's 30,000, which is the 50 percent of the commission, what is it they're doing to earn this?

A. Well, it was obviously a poor judgment on the part of T.C. Moffatt & Company and the people that made the decision, including myself, but it was a tentative agreement to arrive at what actual work would have to be done, and obviously, had we continued to be the brokers we never would have continued paying that large amount of money for the amount of work performed.

Q. Now, you say if you continued to be the brokers. Well, did there come a time when you were no longer the brokers in Hudson County?

A. We are no longer the broker on that particular package policy that we wrote. They self-funded. Mr. Krieger, I think, decided to go self-funding. And the only thing, again, I've been away from it for six months, or almost six months, but I think the automobile renewal is, was the key to this policy, or the key policy. I think that expires pretty soon now, if I'm not mistaken.

Q. All right. With respect to the Town of Kearny, just to get into that for moment, you had the Town of Kearny insurance for a while. Is that so?

A. Yes, for not too long a period prior to the Hudson County, though.

Q. How long?

A. I would guess six months.

Q. Were you the brokers of record for the Town of Kearny?

A. Yes, we were.

Q. What was Frank Arilotta, if anything, for the Town of Kearny?

A. Well, Frank Arilotta was the -- I'm trying to use the right word. He was allegedly, I never saw that particular contract, but I think he was appointed by the Township Committee to handle the insurance, so he was, in effect, chairman of an insurance committee, if I'm using the right --

Q. Well, if I were to tell you insurance director, does that refresh your recollection?

A. Yes, that would be right. That's the term.

Q. Well, if I may, just to stick with that thought, with the Town of Kearny, who actually was the one who had the insurance? In other words, who did the town really give it to? Was it Kearny Realty who then ultimately brought you into it to place?

A. Yes, definitely.

Q. Okay. Now, with regard to that, you employed a man by the name of James Morgan, did you not?

A. Yes.

Q. Did he introduce you to Frank Arilotta?

A. Yes, he did, and to clarify that, Mr. Rhoads, he was brought in with no inclination whatsoever of any specific risk. He was brought in to be an underwriter in the casualty department, and it was when he came in that this was something he thought he could bring about.

Q. Prior to T.C. Moffatt getting the Town of Kearny through Kearny Realty, do you know what agency had it?

A. Yes, I subsequently found Sweeney and Bell.

Q. Was Mr. Morgan ever employed by them?

A. As far as I know, he was.

Q. How long a period of time was Mr. Morgan employed in your office?

A. I'm guessing. A year and a half, two years, something like that.

Q. Do you know when he left?

A. It was August of, I think it's '77.

Q. It was around the time you were awarded the Hudson County contract; isn't that so?

A. Yes, in fact, it was about a month or two after we were awarded it.

Q. Now, with regard to the commission share with Kearny Realty on the County of Hudson, it was 50/50 at one point and you then mentioned that it later went to 40/60. Who enjoyed the lion's share in that?

A. Mr. Arilotta did.

Q. Why was that? If you had said that you regretted the decision for the work you were getting from him on the 50/50, why did you increase his share to 60?

A. I regretted it after we increased it and looking backwards, not at the point of time that I did it.

Q. In retrospect now?

A. In retrospect; in retrospect. The difference was made because we had gotten requests to purchase tickets to political events, and at this point we said we would have nothing to do with entertaining, whether it were golf, whether it were luncheons or dinners or anything, and that's why that change was made.

Q. Wasn't part of the original 50 percent share, the motivation for that with Kearny Realty, wasn't part of that, at least, that Kearny Realty was going to be taking care of the political aspects? By that I mean buying tickets, et cetera.

A. That was the original thought. But when it came to, Mr. Arilotta didn't agree with it. That's why the other 10 percent was given.

Q. In other words, that was your thought, but not Mr. Arilotta's?

A. That's right.

Q. He wanted more to cover that?

A. That's right.

Q. How much more moneywise was given to Mr. Arilotta to cover that?

A. He got the extra 10 percent. I don't know what the dollars. My guess would be, if we were talking -- we must be talking \$6,000 or something like that would be my estimate.

Q. That \$6,000 it's fair to say was really specifically earmarked for the political functions, tickets?

A. Whatever come up. The idea was he would pick them up. And we have several instances after that where we billed him, and I think you have records of those.

Q. Have you ever been contacted as president of T.C. Moffatt and told that part of your award of this contract is going to be contingent upon making political donations, et cetera?

A. No, I was not.

Q. To your knowledge, was it ever conveyed to Frank Arilotta?

A. No, not to my knowledge. Well, in this respect: Did we receive in the mail from Mr. Arilotta tickets to some large political affair in either Jersey City or Hudson County. I really -- it escapes me. It was one of these \$100-a-dinner. And I took them and placed them back in an envelope and said, "This is your responsibility, not mine," and I don't remember exactly who they were from. But other than that, I had never been approached, nor did I have any knowledge that he was.

Q. That's what I am getting. What I am saying is, why did you feel you had to give away \$6,000 of your commissions to satisfy political donations?

A. It wasn't just the political. It was any entertaining that was involved, also.

Q. Riding with the political, the ticket buying, et cetera, why did you feel that that was a necessary expenditure?

A. I don't know. I really have no justification for it. I think it was a very bad decision.



Denies Payment by Fuhro

Counsel Rhoads turned next to Mr. Fuhro's personal car insurance -- and to the question of who paid the bill:

Q. All right. Now, with regard to Mr. Fuhro, did you ever have any conversations with respect to his personal automobile liability insurance?

A. I had several where he was having difficulty in with one of his children, I forget what it was, or past accident record, and he had asked me to have one of the girls in the Personal Lines Department call him. But other than that, I had nothing to do with it.

Q. Well, I assume it took place certainly subsequent to the time Frank Arilotta introduced you to Warren Fuhro. Isn't that correct?

A. After we had met him.

Q. Frank Arilotta has introduced you to Warren Fuhro --

A. Right.

Q. -- for the purpose of you getting together to bid on this insurance; isn't that so.

A. Right.

Q. You were awarded the contract August 11, '77, and the fact is that's when you do place the insurance for Mr. Fuhro. Isn't that so? Do you recall that?

A. I believe Mr. Morgan did it, to my knowledge. I don't recall when it was done. I think it was about that time.

Q. I show you what's been marked Commission Exhibit 61. If you will, will you look at this and particularly the last page, and it reads on the top, "T.C. Moffatt & Company, Applicant: Warren J. Fuhro," and over to the right it has a signature purporting to be G. Fred Hockenjos, and that at least purports to be your signature, does it not?

A. Yes, it certainly is my name, but not my signature.

Q. Did you ever see this document before?

A. Only when you discussed it to me in the closed hearing.

Q. With this document and the attachments to it -- by that I am referring now to the temporary insurance ID card, a check drawn from the Moffatt Company, a notice of assignment -- would that tell you what date this insurance was made effective? Any one of those or all of them.

A. Yes, it looks like 8/11.

Q. And that's the date that T.C. Moffatt was awarded the contract for the insurance, isn't it, for the County of Hudson?

A. Might well have been. I'm really not sure. I think so.

Q. All right. Now, I'm going to show you what's been marked previously identified, and for the record it's Commission Exhibit 65, it's been identified as the visitor's register for the County of Hudson, and I am going to show you an entry July 12, 1979, and it says, "G. Fred Hockenjos" there, "T.C. Moffatt & Company."

A. Right.

Q. Is that your signature?

A. No, it's not my signature. Mr. Morgan signed both of us in at that time.

Q. But you recall being there then?

A. July 12? I must have been.

Q. Okay. So this document speaks for itself?

A. Right.

Q. And, of course, that's well before August 11, '77?

A. Right.

Q. I will just be very pointed with you. Did you ever call Warren G. Fuhro, prior to September 21st, 1977, and tell him you are going to be there in his office September 21st and that you would like him to have the payment for it?

A. No. I didn't have anything to do with the Personal Lines Department.

Q. Did, in fact, Warren G. Fuhro pay you \$843.12 for his personal liability auto insurance premiums?

A. No.

Q. Did you ever give him a receipt for that payment?

A. A receipt might have been given to him through our Personal Lines Department, but, no, I didn't give it to him. I didn't give him a receipt.

Q. Why would one have been given to him for the payment of that premium?

A. Because it was paid.

Q. By whom?

A. Out of Mr. Arilotta's account.

Q. Kearny Realty paid it?

A. Kearny Realty paid it.

Q. Not Warren Fuhro?

A. Not Warren Fuhro.

Q. Sir, I want to be very clear on this point. Did Warren G. Fuhro -- and at this point I really don't care whether it's September 21st or not -- did he at any time ever give you \$843.12 in cash for payment for his August, 1977, through August, 1978, automobile insurance?

A. No, I have never received any cash from Mr. Fuhro for any policy at any time under any circumstance.

#### Kearny Realty Paid for Car Insurance

In an effort to clarify the question of who paid for the county purchasing agent's car insurance, Counsel asked Mr. Hockenjos for details on that transaction:

Q. All right. Now, sir, you had indicated that those premiums, and again for the record, it's the '77-'78 premium of Warren G. Fuhro, were, in fact, paid by Kearny Realty. Is that correct?

A. Yes.

Q. How would that payment have been made by Kearny Realty? By that I mean, what method did they pay it?

A. We issued to all of our brokers that we did broker with us an accounts receivable statement on a monthly basis, and, of course, on that bulk statement there are debits and there are credits, and this, in fact, was reduced from that particular item, and that's how it was paid. And a copy of that went to Mr. Arilotta, as it does to all of our brokers..

Q. All right. Sir, I am going to show you what's been previously marked Commission Exhibit 62. It purports to be a broker's statement and it reads as of 1/28/77, and that's the front page. Just for identification purposes, is that the statement we are talking about.

A. Yes.

Q. Now, I'm turning to the page that indicates broker's statement as of 11/20/77, and does that reflect that Kearny Realty was billed Warren G. Fuhro's insurance premiums?

A. Yes.

Q. And does that broker's statement indicate that they, in fact, paid the insurance premiums?

A. Yes.

Q. And is that the \$843.12 premium we have been talking about?

A. Yes, that's it.

Q. So you certainly didn't get paid twice for that premium, did you?

A. No, we sure didn't.

Q. Thank you.

Mr. Hockenjos, I will show you what's been previously marked Commission Exhibit 44, and, if you will, will you look at that? Tell me, can you recognize that?

A. Yes.

Q. What do you recognize that to be?

A. It's a copy of an invoice for \$843.12.

Q. And that's sent to whom?

A. To Mr. Fuhro.

Q. Did you, or to your knowledge, anyone in your agency ever get any phone call from Mr. Fuhro or any kind of response to the effect of "Why are you billing me for that money?"

A. No, not to my knowledge. But there again, that wouldn't be unusual because it would either be an accounting function or a personal lines function.

Q. I assume since he didn't pay you that you did not get any phone call from Warren Fuhro asking you for a receipt for the payment, did you?

A. No, I believe a receipt was issued.

Q. Why was the receipt issued?

A. Because it was paid, and I think Mr. Fuhro requested a receipt.

Q. He requested a receipt just to show that that premium was paid?

A. To show the premium was paid, yes.

Q. And when he requested the receipt, did he say anything to the effect that "You promised me a receipt"?

A. No, not that I remember. I don't remember that.

Q. What did he say?

A. I think it was just a question he wanted a receipt for his automobile policy -- his automobile insurance, and I just checked with Mr. Montgomery and found it had been paid and told the Personal Lines Department -- I'm not sure who it was at the time -- to send him a receipt.

Q. I will show you what's been previously marked Commission Exhibit 60. Would you look at that. Tell me, can you recognize that?

A. Yes. This is a receipt.

Q. Is that the receipt you are alluding to?

A. It must be the one, because, as I understand it, he was given this receipt.

Q. I am asking you to go back a little bit before that when you were present at T.C. Moffatt. When you asked someone to send a receipt to Warren Fuhro did you ever see that receipt go out?

A. No, I never saw that before.

Q. If you will, it's addressed to Warren G. Fuhro, 58 Raymond Street, Hasbrouck Heights, and to the bottom left, it says, "Customer No." and there is "BRO 952" there. What does that mean?

A. It should be the IBM code number of the customer.

Q. Do you know what "BRO" stands for?

A. Brokerage.

Q. Warren G. Fuhro is not a brokerage, is it?

A. No. I would assume that this is the Kearny account, but, again, I couldn't verify that. Mr. Montgomery could.

Q. What I am asking is that: This would really be a receipt showing that the broker paid?

A. Yes, definitely.

Q. Not that Warren Fuhro paid?

A. Absolutely.

Q. Now, for what period of time was Kearny Realty being billed for Warren G. Fuhro's insurance?

A. It was billed up until the renewal in January of '79, as far as I -- from memory.

Q. In any event, there came a time when Kearny Realty ceased paying for the insurance, didn't they?

A. Yes.

Q. In fact, didn't they at one point ask you to remit moneys to them?

A. Yes, we received a letter saying this was not their account and we should remit the money.

Q. And that wasn't until 1979?

A. '79.

Q. And when they were first billed in November of '77, did they make any similar complaint to your company?

A. No, they didn't.

Q. The fact was, the agreement was they were going to pay it, wasn't it?

A. Absolutely.

Q. Do you have any idea what changed their mind and made them decide that Warren G. Fuhro better start paying it?

A. Well, I have an idea, but it's speculation.

Q. What's the idea?

A. The idea is that that March 17th your office had been in their investigating.

#### Accountant Recalls the Car Insurance Bill

Additional details on Mr. Fuhro's car insurance bill came from William J. Montgomery, for 12 years the chief bookkeeper for T.C. Moffatt Co. Mr. Montgomery, the next witness, was asked to confirm company records showing Mr. Fuhro's car insurance was billed by T.C. Moffatt to Kearny Realty. Counsel:

Q. Okay. I'm going to show you various documents which have been previously marked as Commission Exhibit 62A, B and C, and, if you will, look at these documents and tell me, do you recognize them? If so, what are they?

A. These would be monthly statements sent to Kearny Realty, Inc., by T.C. Moffatt & Company for business transacted by them during each particular month.

Q. Do you know Frank Arilotta?

A. Not personally, no.

Q. Do you know of him?

A. I believe he owns Kearny Realty.

Q. All right. Now, with respect to what's been marked 62A, I am going to direct your attention to the November date, and reading along this page, there is three entries, and they all list Fuhro, Warren, has a policy number to the right, a date and it has amounts. What's the significance of those entries, if any?

A. The significance of these would be that the Warren Fuhro automobile policy would have been

billed to Kearny Realty and, therefore, shows on this monthly statement.

Q. Why was it billed to Kearny Realty? Do you know?

A. That I really couldn't say. I imagine whoever processed the policy was told to bill it that way.

Q. Now, that broker's statement, does that reflect that the moneys were actually paid by Kearny Realty?

A. They were paid by Kearny Realty.

Q. If I were an employee of Kearny Realty and I looked at that broker's statement, would that broker's statement tell me that I'm being charged for Warren Fuhro's insurance?

A. Yes.

Q. All right. What is it that tells me that?

A. The fact that his name and this policy number and so forth appear on here.

Q. Okay. Now, that date is for November of 1977, is it not?

A. That's the date of the statement.

Q. And does his name, Warren Fuhro's, appear on any other monthly broker's statements sent to Kearny Realty?

A. I believe there was one other one. Did you want me to find which one it was?

Q. Yes, please.

A. The May, 1978, statement shows a charge of \$59 for Warren Fuhro, which would have been an endorsement on his policy.

Q. So that was paid by Kearny Realty?

A. Yes, sir.

Q. They had an add-on car, isn't that so, and that was the add-on price that was assessed on his insurance?

A. Well, it would have been an endorsement. I really, you know, without having the policy couldn't tell you what exactly that endorsement was covering, but he obviously ordered a change of some nature.



Q. So this was some sort of surcharge on his policy?

A. Right.

Q. And again paid by Kearny?

A. I know he was adding his children as they became of age.

And on the February, '79, statement there is another charge for Warren Fuhro, which would have been the renewal of his assigned-risk policy.

THE CHAIRMAN: Who is that charged to?

THE WITNESS: That was charged to Kearny Realty.

A. And then on the April, '79, statement that charge was reversed off of Kearny Realty's statement and it no longer appears on there.

Q. Okay. You say in February of '79 Kearny Realty is being charged a certain amount of money for Warren Fuhro's premium; is that so?

A. Correct.

Q. Then in April of '79 they are no longer charged for that?

A. Correct.

Q. What is the process by which they're no longer charged?

A. Well, the invoice was offset with an invoice for the exact same amount as a credit.

Q. And if you will, going through those brokers statements, is there anything of that nature with regard to the November, 1977, statement? By that I mean, were they ever given back the \$843.12?

A. No, sir, they were not given that money back.

Q. Why were they given back the April, '79, payment, if you know?

A. Again, someone must have been told to do that.

Q. Why is it, or what led you to reimburse this money to Kearny Realty in April of '79?

A. Well, again, whoever did the work in our office was apparently told to back that charge out.

Q. Sir, I am going to show you what's been previously marked Commission Exhibit 561. It purports to be an invoice addressed to Kearny Realty with a broker number on it. Do you recognize that?

A. It's a T.C. Moffatt invoice.

Q. And looking under this block which contains "Customer No.," what's that number?

A. That would be the number assigned by the computer service to Kearny Realty.

Q. What is the number, the actual number? Can you read it?

A. BRO 952.

Q. Okay. Now, this is Commission Exhibit 60. I will represent to you that it's been identified as purporting to be a receipt to one Warren J. Fuhro for the payment of \$843.12, and I am going to address your attention to "Customer No." and what number is there in?

A. "BRO 952."

Q. Again, whose number is that?

A. That would be Kearny Realty number.

Q. Is that number reflected anywhere in the broker's statement? The broker's statements, sir, these. Is it reflected in there anywhere?

A. That is the number for Kearny Realty, BRO 952.

Q. Well, it says "Customer No." under here and has a broker number. Isn't that Kearny Realty?

A. That's Kearny Realty's number and it would indicate the item was paid.

Q. It's not Warren Fuhro's number, is it?

A. No.

X X X

Q. Again am I correct in saying that the insured's name is not really the customer?

THE CHAIRMAN: Not the person paying for it, is that what you are saying?

MR. RHOADS: Yes, sir.

A. That's correct.

A Revealing Memo

The next witness, George Sloan, the vice president of T.C. Moffatt, described the meaning of a memo or note he wrote and put into his company's files relating to Mr. Fuhro's car insurance bill:

Q. With reference to the county insurance, do you know a man by the name of Warren Fuhro?

A. Yes, I do.

Q. He is the general purchasing agent, is he not, for the County of Hudson?

A. Correct.

Q. And as such, are you aware that he played a role in the award of the T.C. Moffatt contract? By that I mean, did you know that he recommended your agency to the freeholders?

A. Yes, I was aware of that, yes.

Q. Sir, I am going to show you what's been previously marked Commission Exhibit 63. Would you please look at that. First tell me, can you identify it?

A. It's my handwriting, my initials.

Q. So it's fair to say you wrote that note, did you not?

A. Correct.

Q. Would you read it, please?

A. "Warren Fuhro's personal auto to be billed to Kearny Realty, taken out of money paid to Frank Arilotta. Paid bill to be sent to Warren Fuhro."

Q. Who is Frank Arilotta?

A. He is the president or owner of Kearny Realty.

Q. And, of course, that note directs that Kearny Realty be billed and pay the premiums for Warren J. Fuhro's insurance, does it not?

A. Yes, as the note states, yes.

Q. And along those lines, it further directs that a receipt be sent to Warren Fuhro to show that Kearny Realty paid his premiums; isn't that so?

A. Correct.

Q. Was there a receipt sent to Warren Fuhro?

A. There is a receipt, yes, for Mr. Fuhro's auto policy, yes.

### The Peripatetic Mr. Morgan

James G. Morgan, a Jersey City insurance broker, confirmed that the Hudson County and Kearny insurance contracts were switched from time to time to whichever insurance agency he became associated with. But he vehemently denied having anything to do with the arrangements for billing and paying of Mr. Fuhro's personal car insurance. Counsel Rhoads first questioned Mr. Morgan about his various agency connections:

Q. Mr. Morgan, was there a time when you were employed by the T.C. Moffatt Agency?

A. Yes, Counselor.

Q. In what capacity were you employed by them?

A. Originally as what they call in the insurance business a commercial underwriter.

Q. For how long were you employed by the T.C. Moffatt Agency?

A. Approximately a year.

Q. And prior to that time were you ever employed by a company known as Sweeney and Bell?

A. Yes, Counselor.

Q. And they were also an insurance agency?

A. Yes, Counselor.

Q. Are you presently employed by United Agencies, Inc.?

A. Yes, Counselor.

Q. And they also, of course, are an insurance company?

A. Yes, Counselor.

Q. For a moment, with Sweeney and Bell, was there a time when they insured the County of Hudson?

A. Yes, Counselor.

Q. Did they insure the Town of Kearny?

A. Yes, Counselor.

Q. You were with them when those contracts were in force; is that so?

A. Right.

Q. Then you went to the firm of T.C. Moffatt?

A. Yes, I did.

Q. Did there come a time when they got the County of Hudson?

A. Yes, Counselor.

Q. And did they get the Town of Kearny?

A. Yes, Counselor.

Q. Did there come a time when you went with United Agencies, Inc., that they got the Town of Kearny?

A. Yes, Counselor.

Q. Do you know Frank Arilotta?

A. Yes, Counselor.

Q. He's the insurance director for the Town of Kearny, is he not?

A. Yes, he is.

Q. Is he involved in the award of the contract in any fashion for the Town of Kearny?

A. Yes, he is.

Q. Well, then, whatever agency it appears that you were with, at least the Township of Kearny, that contract was given to that agency; isn't that so?

A. It would seem that way, yes.

Q. Well, it is that way, isn't it?

A. Yes, Counselor.

Q. Do you enjoy somewhat of a favorable relationship with Mr. Arilotta?

A. Yes, I do.

The interrogation of Mr. Morgan now turned to Mr. Fuhro and his car insurance:

Q. Now, with regard to Warren Fuhro, did T.C. Moffatt handle his personal automobile liability insurance?

A. Did T.C. Moffatt? Yes, they did.

Q. Were you instrumental in some fashion with Mr. Fuhro filling out his application? Did you have something to do with that?

A. Yes, I did.

Q. What did you do?

A. Evidently, Mr. Hockenjos has spoken to Mr. Fuhro and I was given instructions to take what we call an assigned-risk application down to Mr. Fuhro's office and I brought the assigned-risk application down for Mr. Fuhro to assist me in completing it and then take it back to T.C. Moffatt where it would then be sent into the assigned-risk pool to have a company designated.

Q. Did you have any conversations with Mr. Fuhro with respect to handling his assigned-risk automobile policy prior to bringing the application to him?

A. No, no, I was directed by Mr. Hockenjos to take it down to him.

Q. Mr. Morgan, there came a time when you went to an employee in T.C. Moffatt's office, one Stephanie DeMercer, and told her to bill Kearny Realty for his insurance, didn't you?

A. No, sir, no way.

Q. You deny ever telling her that?

A. I never told anybody to bill, to bill Frank Arilotta for Mr. Warren Fuhro's automobile. When I -- I took Warren Fuhro's automobile applications up in August, and I was shortly terminated thereafter. I didn't even know what completion, what company or whatever transpired. I left Moffatt right after, about the middle of August.

Q. I just want to make sure we are clear on this point. Did you ever tell, forgetting the name Frank Arilotta, did you ever tell Stephanie DeMercer to bill Kearny Realty for the premiums for Warren Fuhro's personal automobile insurance?

A. Absolutely not, no, sir.

Mr. Morgan is Contradicted

A version of how the Fuhro car insurance was billed that differed from Mr. Morgan's was related by Mrs. Stephanie DeMercer, who was a personal lines representative handling assigned risks policies for T.C. Moffatt at the time. She was the next witness questioned by S.C.I. counsel:

Q. And along those lines, do you know a man by the name of Warren Fuhro?

A. Yes, we wrote an insurance policy for him.

Q. Was that an assigned-risk policy?

A. Yes, it was.

Q. Who did you bill on that?

A. I believe we billed Warren Fuhro when the policy initially came into the office.

Q. And then there came a time when you billed someone else, wasn't there?

A. There was. I remember there was a time when we were told it was going to be billed through Mr. Arilotta, I believe, who had an agency, so I believe it was a brokered account.

Q. Just to repeat for a moment, you say there came a time when you were told to bill to Frank Arilotta's agency, isn't that so?

A. Yes.

Q. That was Kearny Realty; do you recall?

A. I believe so, yes.

Q. Perhaps if this refreshes your recollection tell me. We had a phone conversation last week during which time you told me that it was James Morgan who had told you to bill Kearny Realty.

A. Yes, I believe it was.

Q. Do you recall that?

A. Yes.

Q. Isn't that who in fact told you to do that?

A. Again, I believe it was a conversation. I'm not sure whether he directly told me, but he was involved in telling me. I think there was a conversation with Mr. Kane, Mr. Morgan and myself.

Q. Did you question either one or both of those two men as to why it is you are billing Kearny Realty?

A. No.

Q. Did you, in fact, bill Kearny Realty?

A. Yes.

Q. I will show you what's been previously marked Commission Exhibit 44. It purports to be a bill to a Warren Fuhro. Is that the first bill that you alluded to?

A. I believe it is, yes.

Q. What's the date of that bill?

A. September 26, 1977.

Q. What's the amount of that bill?

A. \$843.12.

Q. And subsequent to September, is that when you had this conversation with the two gentlemen about rerouting the bill, let's call it, in other words, billing someone else?

A. I'm not positive. The conversation could have been before this. The policy was in effect prior to this date. It was an August policy and there may have been a discussion concerning the billing before September. But it was billed when the actual policy came in. It may have -- there may have been a discussion prior to this about what was going to happen to the policy.

Q. You said there did come a time now when you were told to bill Kearny Realty; isn't that so?

A. Yes.

Q. I show you Commission Exhibit 56. Is that the bill to Kearny Realty that we are discussing now?

A. Yes, it is.

Q. And it's for the exact same amount that was previously billed Mr. Fuhro, isn't it?

A. Yes.

Q. And this bill reflects a customer number here?

A. It's a broker number.



Q. Whose broker number is that?

A. I imagine it was Kearny Realty's broker number. We had several accounts that we did broker through --

Q. It's a broker's number, is it not?

A. Yes.

Q. If you look here, it says "Insured's name if different from customer file" and it has under there "Warren Fuhro."

A. That's correct.

Q. Am I correct in stating that the customer is whoever has that broker number, Kearny Realty, assuming it has that number, but the insured is Warren Fuhro?

A. That's right.

Q. So the person responsible for payment of Mr. Fuhro's insurance policy is Kearny Realty?

A. As far as payment to our office, yes.

#### Kearny's "Insurance Director"

Frank Arilotta as broker of record for Kearny automatically assumed the title of "insurance director" for that town, although he himself subsequently could not directly place municipal insurance through his own company, Kearny Realty, because of its lack of access to adequate carriers. Nonetheless, he personally swung Kearny's insurance business to various other agencies at a considerable profit to himself in the form of shared commissions, for which he did little work beyond routine processing of claims. He was questioned about his commissions, about the services he performed in return for such compensation -- and about being billed for Hudson County Purchasing Agent Fuhro's \$843 car insurance premium. Counsel Rhoads first asked Arilotta about his role as town insurance director:

Q. How long have you been the insurance director?

A. Since the year of February of 1975.

Q. If you will, will you explain to the Commission, what are the duties and functions of an insurance director?

A. If possible, I get the insurance placed with the companies; service the policies; handle all claims; sell -- consult -- I'm sorry -- and direct the Mayor and Council, Mr. Rhoads.

Q. Now, sir, you say "direct the Mayor and Council." With respect to what?

A. In what type of insurance that they need; what they should have; in going out and getting quotes from different companies, and in that manner.

Q. Now, the agency Kearny Realty, are you the principal in that agency?

A. Yes, I am, Mr. Rhoads.

Q. All right. Now, did Kearny Realty at any time have the insurance for the Town of Kearny?

A. Yes. Yes, we do, Mr. Rhoads.

Q. When did the Kearny Realty have the insurance for the Township of Kearny?

A. When I became insurance director, in the year of February, 1975.

Q. So as insurance director, you also had the insurance for the town; is that so?

A. Yes. What the insurance director, Mr. Rhoads, not to confuse the issue, would mean broker of record.

Q. So that whoever is the broker of record automatically becomes the insurance director?

A. Is insurance director.

COMMISSIONER PATTERSON: Does the title itself -- does pay go along with the title?

THE WITNESS: No, it doesn't, sir. No pay, no hospitalization, no benefits whatsoever. No Blue Cross, no Blue Shield, nothing. That doesn't come with the position.

COMMISSIONER PATTERSON: It's merely a title?

THE WITNESS: It's just paid on commissions.

X X X

Q. So I understand, what you did, then, as insurance broker, you went around to other brokers; solicited packages from them and went back to the town. Is that so?

A. No. What I did is this, Counselor: First of all, I called up interested companies, and I tried to get it myself through the companies, like, you know, like Fireman's or Motor Club of America, and different companies.

Q. Excuse me a minute. Your problem is that you, in fact, don't represent any carriers, do you?

A. Oh, yes, I do.

Q. Who do you represent?

A. I represent Motor Club of America, and the other company -- no, I don't represent anybody else. But I have personal lines which I do put through other carriers, and, you know, we share commissions, like, if I had it today. For instance, if you came and said, "Frank, I want a homeowner's policy, "Motor Club of America wouldn't take it. No companies will take it. So --

Q. Mr. Arilotta, let me, if I may, just ask you a couple of questions here. Just to clarify the point, Kearny Realty, in fact, is the agency of only one carrier, Motor Club of America?

A. That's true.

Q. So the needs for insurance coverage of the Town of Kearny you couldn't possibly place yourself as the agent, could you? Isn't that true?

A. That's true, because I don't have any companies.

Q. Right. So you had, by definition, to go to other agencies for them to place the insurance for the town?

A. Exactly, Mr. Rhoads, exactly.

Q. Yet you become the broker of record and the insurance director; isn't that true?

A. That's true.

X X X

Q. Do you have any idea why they retained you as the broker of record and not simply go to someone who was able to handle all their needs for them?

A. Well, you know, I -- like I say, I went after it. I did a good job. I tried and, you know, then they know what type of fellow I am and I always try to do my utmost in anything that I had, and I didn't think there was anything wrong. If I thought there was anything wrong, I wouldn't do it. I wouldn't do it.

Q. Mr. Arilotta, if I may. The Town of Kearny did not pay you to be the insurance director, did they?

A. No, they didn't, sir.

Q. Well, you certainly didn't do all that work for nothing. Who paid you?

A. On my commissions.

Q. From whom?

A. Well, at that time I placed it with Sweeney and Bell.

Q. So Sweeney and Bell is giving back of their commissions to you, aren't they?

A. Yeah.

Q. Did the town know that; the Town Council, the Mayor?

A. Sure, they knew it. They knew it was with Sweeney and Bell.

Q. They knew Sweeney and Bell was placing their insurance for them. My question is if the Town Council knew at the time that you were unable to place the insurance.

A. I believe they did know, Mr. Rhoads.

Q. You believe they did?

A. I believe they did know. We're going back to 1975. I can't remember.

Q. Let me ask you directly. Did you tell them that you were unable to place insurance for them?

A. I would say --

Q. That you had to go to someone else?

A. I would say I did.

Q. Your answer is yes, you told them?

A. Yes, I would say I did.

Q. So they did know?

A. But actually, Counselor, going back to 1975, I can't remember, really. And I don't want to lie. I just can't remember.

Q. All right. Well, in 1975 Sweeney and Bell is then the agency that actually places the insurance for the Town of Kearny; isn't that correct?

A. Right.

Q. But you, of course, are the broker of record and the insurance director?

A. Right.

Q. And they share their commission with you; isn't that so?

A. That's true.

Q. What percentage?

A. They were taking 60, I was getting 40. That's an agreement between both agencies and I understand that, you know, it's an agreement between, you know, like Mr. Burns at that time and myself, whatever agreement that we both agreed to.

Q. Well, your agreement with Sweeney and Bell was that you got 40 percent?

A. Yes.

Q. How much was that in dollars?

A. Oh, I don't have the figures on me, Counselor.

THE CHAIRMAN: Is it \$10,000 your 40 percent? Was it \$20,000 or \$5,000?

THE WITNESS: I would say that it's -- you know, I really don't know, but I would say that it would be over 10,000. But I don't want to. I don't think you would want me to lie either, Commissioner.

THE CHAIRMAN: It was over \$10,000?

THE WITNESS: I would say, yes. I would say.

THE CHAIRMAN: Was it over 15?

THE WITNESS: I don't know. I would say, yes, probably.

THE CHAIRMAN: Was it over 20?

THE WITNESS: I don't think so, sir.

Q. All right. Well, Mr. Arilotta, just staying with the year '75 and Sweeney and Bell for a moment. Did Sweeney and Bell go directly to the Mayor and Council with their proposal, or did you do it?

A. No. What happened is, Counselor, we had -- the Mayor and Council at that time was entertaining all quotes, and at that time I had went with -- I remember it was Joe Burns was there, and it was another gentleman. I forget what his name was. We went and we sat myself -- we sat with the Mayor and Council, I think, on probably three different occasions because they were looking for certain types of what to have in the insurance, and I believe on three different occasions we sat with the Mayor and Council until we came up to, you know, their expectations.

Q. All right. Well, Mr. Arilotta, what I am saying is this: Mr. Burns is employed by Sweeney and Bell, is he not?

A. At --

Q. At the time.

A. He was the boss. He's the head man.

Q. He's the head of Sweeney and Bell at the time?

A. Right.

Q. The two of you are sitting there with the Town Council. My question is this: Did you let it be known to the Town Council that, in fact, Sweeney and Bell is the one that's handling the entire insurance for them and is going to place it or did you let them think perhaps you were aiding Sweeney and Bell or Sweeney and Bell was someone of your employees?

A. No, they knew I was placing the insurance through Sweeney and Bell.

Q. You made them aware of it?

A. Sure. Sweeney and Bell was there.

Q. Do you have any idea why, then, the Town Council wouldn't simply make Sweeney and Bell the brokers of record and eliminate you?

A. Well, I think -- I'm not -- it's not that I know, but I don't -- number one, I don't know why, but if you are asking me personally, we have the office a block away from the Town Hall; we can do a better job in handling claims; people that come into the office, and maybe that's their reason. I don't know. I really don't.

Q. Well, Mr. Arilotta, did you tell the Sweeney and Bell Agency, their representatives, that if they didn't deal with you, that if they didn't share the commissions with you, that they wouldn't have any chance at all in getting the Township of Kearny's insurance? Did you tell them that?

A. Absolutely not, absolutely not.

Q. What is it you did for that 40 percent?

A. Well, what we do is that, you know, we get the quotes for the insurance; we place -- we service the policies; we handle the claims; and this is what we do.

Q. All right. Now, when you say you handle the claims and you service the policy, is there a difference there?

A. Well, there would be because there is a -- in handling claims, people come in; we write them up; service the claim; send them to the companies, and that would be the difference.

Q. Well, that's a little bit above the whole, then, isn't it? In other words, what you are doing, then, is handling the claims, period? Right?

A. Right, we would service the policies.

Q. If someone were to come with a claim, let's assume someone in the town is in an automobile accident, what have you, does that individual come right to Kearny Realty's office and report it?

A. Yes, they do.

Q. Who takes down this form?

A. My secretary.

Q. So that no one in the township government in the Town of Kearny is responsible for the reporting of claims; it's strictly Kearny Realty that does it?

A. Right.

Q. Now, there came a time when T.C. Moffatt & Company picked up the township's insurance, did they not?

A. Yes, they did, sir.

Q. When was that?

A. They picked it up, I believe, in the beginning of -- they picked it up in 1977.

Q. And you remain the insurance director, don't you.

A. Well, I would be insurance director for the years of 1975, 1976, 1977, and then I was re-appointed in 1978, sir.

THE CHAIRMAN: I have some information here that -- and to see if it helps your recollection -- indicating the commissions were, in '77, \$20,365. Would that be approximately right?

THE WITNESS: Commissioner Lane, you know, I'd be lying, honest. I don't -- I don't.

THE CHAIRMAN: Maybe this would help. I have the same information for '78 that your commissions were \$29,860, almost \$30,000.

THE WITNESS: Probably right.

BY MR. RHOADS:

Q. That's with T.C. Moffatt, is it not? That's when they have the insurance?

A. Right.

Q. They have the Town of Kearny and in '77 they gave you \$20,365, and from the County of Hudson, which they also had, they gave you \$29,573?

A. I don't --

Q. T.C. Moffatt, in 1977.

A. No, no. We're going now from Kearny, we're into the county.

Q. Yes. You are involved in the county's insurance, weren't you, with T.C. Moffatt?

A. Right, right.

Q. And they gave you money?

A. Yes.



Q. And that's the amount they gave you, isn't it?

A. I don't know.

Q. In 1977 a total is roughly \$50,000, isn't that so, of these commissions that are being shared, in other words, your end of it?

A. From both of them?

Q. Sure.

A. Very possible. I don't know.

Q. And for that you are servicing these claims? By that I mean, somebody gets an injury, they come to you. Right?

A. Well, they come to, they come to me and -- yes.

Q. All right. Now, with T.C. Moffatt, who did you deal with in that agency, if any particular individual?

A. I had dealt with Fred Hockenjos.

Q. Do you know James Morgan?

A. Yes, I do.

Q. Did you deal with him?

A. Yes, I did deal with him.

Q. So James Morgan is with Sweeney and Bell. He leaves, goes with T.C. Moffatt and you switch from Sweeney and Bell to T.C. Moffatt for the Township of Kearny, don't you?

A. Yes.

Q. Then there came a time when James Morgan left T.C. Moffatt and he went with United Agencies, Inc.?

A. Yes.

Q. And they're also sharing their commissions with you, are they not?

A. Yes.

Q. Did you go to any representative of United Agencies, Inc., and tell them that "If you don't share commissions with me, you are not going to get the Township of Kearny's insurance"?

A. I did not; I did not.

Q. Again, is the Mayor and Council aware of the fact you are actually having all these other agencies place insurance for them, that your company is not doing it?

A. Yes, yes.

Q. They are aware of that?

A. I assume they are.

Q. With regard to United Agencies, Inc., they just recently took that over, did they not?

A. Yes, they did. Counsel, yes, they did.

X X X

Q. All right. Did you tell the Town Council, "This is not my proposal, it's United Agencies' proposal"?

A. Sure. I gave copies to each one. Mayor and Council had a copy, Counselor. Each one had a copy. The Mayor and Council all had a copy.

Q. Along those lines, did you make them aware of the fact that, if U.A.I. gets that insurance contract, you, meaning Kearny Realty, is going to benefit because you are going to share in the commissions?

A. I had it right out there. I had the commission, everything right out there.

Q. I would like to invite your attention to Commission Exhibit 64. Is this the bid that was submitted? It obviously is not the bid. It's a reproduction of the bid, blow-up, submitted by United Agencies, Inc., for the Town of Kearny. Is this it?

A. Yes, it does look like it, sir. Yes, I said that's it.

Q. All right. Mr. Arilotta, we are, then, agreed that this is the blow-up reproduction of the bid submitted to the Town Council through you on behalf of U.A.I. Is that correct?

A. Yes, sir.

Q. Assume for the moment that I am the Town Council. Where on this does it tell me that Kearny Realty or Frank Arilotta is sharing in the commissions?

A. It just don't say that, sir.

Q. Well, then, maybe I misunderstood you. What was it that made the Town Council aware that, if they gave that insurance to U.A.I., that Kearny Realty is going to share in the commissions?

A. Because I would be the insurance broker for the Town of Kearny. I, I -- that's -- you know, what more can I say? It was me to go out and get it. I get the insurance, I place it. I work -- I try to get the best price for them, and it took a couple of months of work, and like anyone else, we're all entitled to get paid.

Q. Well, let me ask you this: If, suppose U.A.I. had gone directly to the Mayor and Council with their bid and said, "We would like to handle the insurance for the Town of Kearny." Would you have been consulted and would they have been told to go through you?

A. I would say this, if I could say this: That I assume as long as I would be the broker of record, then they probably would have to come to me because I'm the broker of record. I assume that -- I don't know this to be a fact, but maybe if I was not the broker of record, if they went directly, they could probably get it directly, sure.

Q. All right. Now, with respect to the County of Hudson, there came a time in 1977 that T.C. Moffatt was awarded the contract for the County of Hudson, did there not?

A. Yes, there was, sir.

Q. And after they were awarded the contract to service the County of Hudson you were contracted to do some part of the work on that insurance policy, were you not?

A. True.

Q. What was it that you were doing?

A. Well, what we did on the Hudson County, we filed all claims for the county; we sent the original to the company, a copy to the agent; and this, our office, would receive and transmit settlement checks to the county for payment of claims from the company.

Q. Now, you were instrumental in T.C. Moffatt being awarded the insurance contract, were you not?

A. Yes, I would -- I read it in the Jersey Journal and I called up on it and, --

Q. Who did you call?

A. I called Mr. Grimes.

Q. Grimes. And who is he?

A. I called Mr. Grimes. He's the assistant purchasing agent. I called him up and I asked Mr. Grimes that I was interested and what would I have to do. And at that time Mr. Grimes tells, told me that it would have to go out on bid. Now, I don't remember. He took my -- he knew my name, address. But I don't know whether or not he sent it to my office and I brought it to T.C. Moffatt & Company or I had them send it to T.C. Moffatt & Company and then I called Mr. Hockenjos. That part I don't remember.

Q. Did you meet a Warren J. -- Warren Fuhro in the County of Hudson, purchasing agent?

A. Do you mean do I know him or did I meet him?

Q. Well, do you know him?

A. I had seen him on a few prior political occasions that I have gone to, sir.

Q. So your answer is, yes, you know him?

A. And I was introduced to him by Mr. Grimes and spoke to him a few times.

Q. Did you introduce Fred Hockenjos to Warren Fuhro?

A. Yes, I did.

Q. Anyone else from T.C. Moffatt?

A. Yes. I believe it was Jim Morgan, George Sloan, and there was another fellow, Chris something. He's not there no more. Chris. I forget what his last name is.

Q. When was the decision made that, if T.C. Moffatt is awarded the contract, that you would share their commissions and perform some services for them?

A. Well, excuse me, Counsel. Being that we had a prior relationship with Mr. Hockenjos on the Town of Kearny, and I had called Mr. Hockenjos, this was a, you know, a known thing; that we would share in the commissions, and, you know, we worked together.

Q. The fact is that, when he did get the contract, you did share the commissions, didn't you?

A. Yes, sir.

Q. What was the percentage?

A. 50/50.

Q. I believe we did go over the amounts. Did there come a time when that percentage was increased? By that I mean you benefited by getting a higher percentage.

A. Well, in the latter part of the year, sir, the latter part of the year, at the time I had met with Mr. Hockenjos and at that time I met with Mr. Hockenjos because the county insurance policies would be, like, I believe every month. They were not like the Town of Kearny, once a year. And we used to meet and we used to have lunches, and I would always pay for the lunches, and then I had -- which, believe me, --

You know, not wrong, but I would have tickets and testimonials to go to and different things, and I had asked Fred, because Fred was out of the country a lot and out of the state a lot. I said, "You know, Fred, if there is any way you want to work this, either you submit this with me half and half," because we never knew really what commission was entailed because we lost policies, too. I lost policies, too. I mean, we don't have all Hudson County's insurance.

So I said to him, I said, "You know, Fred, if you want to pay half and half of the expenses or maybe you could throw me 10 percent, whatever it is. He decided, look, I don't want to know headaches, Frank. I'll be happy to give you the 10 percent.

X X X

Q. Hear me out. You would then get 60 percent and he would retain 40 percent. That was the actual agreement?

A. That's right.

Q. The uprise in this percentage on your behalf is due to the fact that you are now encumbered with buying political tickets, making donations, taking people to dinner that work for the county or the town, what have you. Isn't that correct?

A. That's true.

Q. Did you feel, in order to retain the insurance contract for the County of Hudson, that you would have to attend these political functions and buy tickets to them, et cetera?

A. I don't know. I only -- like -- no, because I'll tell you why. I've been a Democrat all my life. I'm a county committeeman, and I was glad to do it.

Q. All right. So your answer is no?

A. I was glad to do it. My answer would be, no, I was happy to do it.

Q. If your answer is no, that you didn't think it was contingent, then why, if you know, why on earth would Hockenjos give you 20 percent more of the commission than he's getting to make all these political payments if they're not necessary to keep the contract?

A. Twenty? I don't understand 20.

Q. You are both at 50/50 and then he drops to 40 and you go up to 60. Right?

A. Well, I -- yes.

Q. Okay.

A. I told him, because we were approached, I was approached and to me -- you know, I thought it was the right thing to do, I mean. Nobody got a gun and said you had to do it. No one says that you won't get the insurance. But I just thought that it was the right thing to do. I don't condemn anyone for doing it.

#### The Insurance Director's Mentor

Mr. Arilotta indicated he was willing to make political contributions when they were requested by Ed Grimes, the assistant Hudson County purchasing agent. Mr. Grimes, as a member of the Kearny Town Council, was Mr. Arilotta's sponsor for the insurance director's job. Counsel questioned the witness about his political relationship with Mr. Grimes:

Q. Who approached you?

A. Well, we had, you know -- well, in the county, Mr. Grimes.

Q. Mr. Grimes approached you?

A. In the county.

Q. What is it that he wanted you to do?

A. Nothing. He said, "Would you take a couple of tickets?" Then which I was very happy to because I think he's a fine man.

X X X

Q. Well, Mr. Grimes was the assistant purchasing agent in the County of Hudson at the time T.C. Moffatt got the insurance contract, wasn't he?

A. Yes, he was.

Q. And he played some influential role in who would get the insurance contract, didn't he?

A. No, because we had to go on bid. We went on bid, sir, and there was no such thing, there was no such thing as, "Here, you have the insurance." When we -- we went on bid and the first one that we got was in July and we had the auto, the fleet, and we went on bid. So Mr. Grimes couldn't do anything for me.

Q. Were you aware that the purchasing agent's office, meaning Fuhro and Grimes, et al, would recommend to the Board of Freeholders what insurance agency to award the contract to?

A. I was not. But I understand that, when the bids are opened, it's opened before the freeholders. Now I understand that's the way it is, and they're read off. This is as far as I know. But I never was in a freeholders' meeting. I never went --

Q. No, I know that. All I'm asking you is, did you have any idea whether the purchasing agent, Mr. Fuhro and his assistant, Ed Grimes, who you just said solicited you for political contributions which you gave, had anything at all to do with the decision of the freeholders in who would get the contract?

A. No, I didn't. No, I didn't.

Q. Why didn't you just tell Ed Grimes, "Look, I don't want to buy those tickets from you"?

A. Well, maybe I felt embarrassed because I, you know, I know the man.

Q. You what?

A. I mean, I know the man. I felt embarrassed. I figured that maybe he had -- you know, I didn't buy them, you know, like -- I wanted to go. I really wanted to go to the affair. It's not that I had to buy them. But I wanted to go. I was happy to go. I bought them to the Governor and the Governor don't give me insurance. I was happy to go to the Governor's Ball and I bought those. I was happy to go.

Q. Ed Grimes, in addition to being the assistant purchasing agent, is also on the Town Council of the Town of Kearny?

A. Yes, he is.

Q. And, of course, the Town Council votes on who's going to get the Kearny insurance, as well, doesn't it?

A. Not who's going to get the insurance.

Q. You probably do that, but they vote on whose going to be director?

A. Yes, right.

Q. You got insurance director by resolution, didn't you?

A. Mayor and Council.

Q. Ed Grimes sponsored that resolution, didn't he?

A. True, but it could have been knocked down.

Q. Did you feel that, if you hadn't bought those tickets or whatever it was from Ed Grimes, that perhaps: A, T.C. Moffatt might lose the county insurance; and, B, you may no longer be insurance director for the Town of Kearny for which you made in 1975 a grand total of \$79,412? Did that ever cross your mind?

A. Maybe it did. Maybe, you know.

Q. It may have?

A. It may have, but, like I say, again -- I'm a staunch Democrat and I'm happy to do it. I've done it before I had the insurance. I've always done it. I've always been a good Democrat. I've gone to many political affairs throughout the state and I was happy to do it. This should not make the difference there, Counselor.



The Car Insurance Bill, Again

Counsel Rhoads next asked Mr. Arilotta about Hudson County Purchasing Agent Fuhro's personal car insurance bill. Mr. Hockenjos previously testified that neither Mr. Fuhro nor his own T.C. Moffatt Co., which obtained the insurance, had paid that bill. Rather, Mr. Hockenjos had confirmed that T.C. Moffatt, as indicated by brokerage records marked as public hearings exhibits, had billed Mr. Arilotta's Kearny Realty agency for Mr. Fuhro's \$843.12 premium in 1977 and that it had been deducted from Mr. Arilotta's shared commissions' account with T.C. Moffatt. Mr. Arilotta was questioned about this procedure:

Q. Did you indicate to Warren Fuhro that you would pay his automobile insurance premiums and that you would have T.C. Moffatt place it for him?

A. No, I didn't, sir.

Q. Mr. Arilotta, in your dealings with T.C. Moffatt, do you have assigned by T.C. Moffatt a broker number or do you just as an agency have broker numbers?

A. We have broker numbers, sir.

Q. What's your broker number?

A. I believe it's 852. Is that 852? Or 952.

Q. Well, if I were to tell you it's 952, does that refresh your recollection?

A. I would say that's it.

Q. Mr. Arilotta, I am going to show you what's been previously marked Commission Exhibit 55. Will you look at that? It's been previously identified as an invoice from T.C. Moffatt. Do you recognize that? Have you ever seen that before?

A. No, sir.

Q. I am going to show you Commission Exhibit 56. Would you look at that and tell me, do you recognize that?

A. No, sir.

Q. Did you ever see that before?

A. Not that I could recollect, sir.

X X X

Q. All right. If you will, that invoice is addressed to you, is it not? By "you," I mean your agency.

A. Yes, addressed to us all right.

Q. All right. If you will, it's addressed to Kearny Realty, 350 Kearny Avenue, Kearny, New Jersey. That's the address of your business, isn't it?

A. Right.

Q. And it's from T.C. Moffatt & Company, is it not?

A. Yeah, but I never seen this.

Q. Well, I'm not asking you that, Mr. Arilotta.

THE CHAIRMAN: Just answer the question, please. They're simple questions.

Q. It's a document. I am only asking you about this document.

A. Yes, sir.

Q. And it's from T.C. Moffatt, is it not?

A. Yes, it is, Counselor.

Q. And it appears to be a bill charging \$843.12 --

A. Right.

Q. -- to Kearny Realty, doesn't it?

A. Yes.

Q. Looking over to this portion that I am pointing my finger, and it reads, "Customer No." and within a small rectangel it has "BRO 952." That's your broker's number, isn't it?

A. That's right.

Q. In a larger rectangular box immediately to the right above that it says, "Insured's name if different from customer," and within the box, it says, "Fuhro, Warren," doesn't it?

A. I never seen it. Yes, it does.

X X X

Q. Does this bill purport, does it hold out to bill Kearny Realty for Warren Fuhro's insurance?

A. I would say, yes, the way it is.

Q. Kearny Realty paid that bill, didn't they?

A. No, they didn't, sir.

Q. I am going to show you what's been previously marked Commission Exhibit 62A. It's been identified as a broker's statement from T.C. Moffatt to Kearny Realty, and I am turning to the statement which indicates broker's statement as of November 30, 1977, and it has "Customer BRO 952." That's you, isn't it?

A. Uh-huh.

Q. Would you look at that and tell me again, do you want to change your answer as to whether Kearny Realty paid Mr. Fuhro's insurance?

A. I never paid this, Counsel.

Q. Well, what's the significance of that document before you?

A. I can't account for what T.C. Moffatt & Company put on my statement. I can't account for it. I could only tell you that, when this came in on my statement, I called Mr. Hockenjos and I told him about it, and Mr. Hockenjos apologized to me and said that it would be removed, and this is the gospel truth.

X X X

Q. All right. Let me ask you this: T.C. Moffatt was the broker of record for the County of Hudson, were they not?

A. Yes, they were, sir.

Q. And they used you to handle claims or what have you, and, also, they paid you to handle these political contributions, et cetera. They got the premiums from the County of Hudson from which they took their commission and then out of their commission they gave you your share, didn't they?

A. True, but we never knew what our share was, because --

Q. Well, they're the broker of record?

A. -- the reason why is that when I would call Mr. Hockenjos, and I said, Fred, I thought we were supposed to get this amount of money," Fred would say, "Well, now, the company is paying less percent here." Or we never had a statement with our checks, like I stated before, Counselor.

Q. I know. You don't have to repeat that. I appreciate that.

All I am asking you is this: That they owe Kearny Realty certain moneys. Now there is a bill, Warren Fuhro's automobile insurance, and it happens to have been for \$843.12, and they owe Kearny Realty X number of dollars, a sum of money. They deduct from that sum of money \$843.12.

A. I didn't know that because we never had no statements, sir. He wouldn't send us a statement.

Q. You had the broker's statement?

A. No. He would never send us -- with our commission he would never send us a statement what he would take out. That's why we didn't know.

Q. Mr. Arilotta, what about this piece of paper which has been previously identified as the broker's statement; tells you that they are charging you for Warren Fuhro? Why did you even call Mr. Hockenjos then?

A. I don't know whether they're charging me. Like I tell you, Counselor, Counselor, that I -- when I receive a commission bill, he doesn't send me a breakdown. I don't know what I'm paying for, and that was our arrangement with T.C. Moffatt & Company, like I said before. Out of 12 commission bills, I only got five statements.

Q. Mr. Arilotta, please. Here's the name Warren Fuhro, here's the policy number, here's the date August 11, 1977, here's the amounts, and it totals up to \$843.12, I believe it is. Doesn't that indicate to you that they're charging you that amount or doesn't it? Just answer yes or no.

A. It would indicate that they are, but --

Q. All right. Okay. That's fine.

#### Mr. Fuhro's 1978-79 Car Insurance

Counsel pressed the witness for an explanation of T.C. Moffatt records showing that Mr. Arilotta's Kearny Realty account also was charged for Mr. Fuhro's car insurance subsequent to 1977. In fact, it wasn't until 1979 -- after S.C.I. agents were investigating Mr. Fuhro's car insurance -- that Mr. Arilotta wrote a letter complaining about T.C. Moffatt's billing process. Mr. Arilotta was asked about his broker's account with T.C. Moffatt in 1978:

Q. What I am asking you is, it shows up on your broker's statement. It's your business, Mr. Arilotta. You are the principal. They're charging you in May of '78 for Warren Fuhro's insurance. You paid it. Your company paid it out of money they owned you. What did you do?

A. If -- I recall that Elaine got the bill and sent it to Mr. Fuhro. I also recall that I spoke to Mr. Hockenjos and I told Fred again this appeared on his statement. I said, "I don't want it there. I have nothing to do with it." And I was very, very stern with him, and, get it out of there.

Q. Mr. Arilotta, isn't it true that when you got those statements you didn't do anything?

A. It's not true.

Q. Because the fact is you were paying his insurance and you wanted to?

A. It's not true, sir. It is not true. And the thing is that -- no, I did not pay, Counselor.

Q. Mr. Arilotta, I am going to show you what's been marked 62C, Commission Exhibit. It's been previously identified again as broker statement. T.C. Moffatt to Kearny Realty, and once again, February of 1979, T.C. Moffatt, despite all your protests, is still charging Kearny Realty for Warren Fuhro's insurance. Now what's happening?

A. All right. You have to understand one thing, Counselor. Insurance is not a thing that does every day, every month. It comes once a year.

Now, when I seen this, then I took immediate action and sent certified letters through the mail and even with that I was unsuccessful. Even with that I was unsuccessful.

Q. Mr. Arilotta, you finally take pen and ink and write a letter to T.C. Moffatt for the very first time?

A. I wrote.

Q. For the very first time in 1979, isn't that a fact?

A. Yes.

Q. Didn't you decide to write that letter after agents from the State Commission of Investigation had come up and interviewed you?

A. If this was the case, Mr. Rhoads, if this was the case -- then I could have made a copy, phoney copy, and stuck it into my file after they came in on the first statement if I wanted to lie, if I wanted to cheat, if I wanted to do anything. But I'm being honest with you. I told you I called him. I could have just had a copy made up, put it into my files and said, maybe T.C. Moffatt & Company threw it out. I'm being honest with you, I didn't do that.

Q. I suppose the rebuttal would be you wouldn't have the receipt to say they ever got it. But, in any event, the first letter you ever write in regard to the policy, the horrible mistake the T.C. Moffatt made, was March 17, 1979, isn't it?

A. I guess so.

Q. In fact, even though the fact is you forgot to ask for the \$843.12 that they had charged you way back in 1977?

A. I know one of our letters asked for it.

Q. You wrote a subsequent letter in April, didn't you, when you found out that you had paid his 1977-78 policy? Then in April, '79, you decided to ask for that money back?

A. I didn't even know they took it out because I have no statements of the money he took out of my commissions. That's what I'm trying to tell you.

#### What Kearny's Mayor Knew About Town Insurance

Mayor David C. Rowlands of Kearny, who followed Mr. Arilotta as a witness, was questioned about Mr. Arilotta's activities as town insurance director and about the various insurance contracts the town signed at Mr. Arilotta's direction. His testimony would confirm the S.C.I.'s investigatory findings that many governmental entities know, or professed to know, very little about public insurance, rarely sought professional counseling on the coverage they purchased and seldom questioned whether commissions generated by insurance programs were excessive or what services, if any, were performed by those who received or shared in such commissions. At the outset, counsel asked the Mayor to describe Mr. Arilotta's job:

Q. Well, would you consider it political?

A. Yes and no. I would say that it's certainly a professional position, but at the same time there are some politics involved in the obtaining the job.

Q. When did Mr. Arilotta become the insurance director for the Town of Kearny?

A. In February of 1975.

Q. And concurrently with that, does that mean he is the broker of record for the town?

A. Yes.

Q. Now, at the time he became the broker of record were you aware that Mr. Arilotta was not able on his own to place the town's insurance? By that I mean he was not the agent of any carrier other than Motor Club of America.

A. I thought that he was as qualified as any other candidate, so the answer to your question would be, no.

Q. You did not know that. Did there come a time when you ever knew that without going to some other agency, Mr. Arilotta would be unable to --

A. Yes.

Q. -- service the Town of Kearny?

A. Yes.

Q. When did you find that out?

A. Approximately two years later.

Q. So that would be somewhere in the neighborhood of --

A. '77.

Q. How did you get that information?

A. Okay. He had placed the insurance with Sweeney and Bell. They were -- I get a little confused with who is an agent and who's -- and the insurance company was Royal Globe, and two years later he decided to change the carrier, I guess, or agent I guess it would be, to Moffatt. That was questioned by one of the members of the Council. Our town attorney rendered an opinion and the opinion was that he could because he was not, in fact, insurance director, he was broker of record, place the insurance, and at that time I got a little more involved just how insurance works in the Town of Kearny and that's when I realized that he would have to place it in another agent.

THE CHAIRMAN: Excuse me. What was the reason, the stated reason for changing those agencies?

THE WITNESS: Okay. Mr. Arilotta's reason was, was that he did not have good line of communication with Sweeney and Bell. A certain individual had left and he wasn't getting good responses from them.

Q. Would that individual, by any chance, have been James Morgan? If you know.

A. I don't know.

Q. All right. The fact is he then switches to T.C. Moffatt, does he not?

A. Correct.

Q. Is it along that period of time when at least you yourself as mayor learn that Frank Arilotta, meaning Kearny Realty, could not actually place the insurance for the town; that they had to use another broker?

A. Right. In 1977, when we got involved with this controversy, I then myself realized that he would have to have another agent in order to place the town's insurance.

Q. All right. Then why is it not that you as mayor would then go to the Council and alert them to that fact and perhaps pick T.C. Moffatt as your insurance director? Why do you keep with Arilotta?

A. Okay. He serves as a buffer between the Town Council and various insurance problems. For example, a lady falls in front of the Town Hall and she writes a letter to me. I will refer that letter to Mr. Arilotta.

It was also explained to us that no matter what the commissions are, the commission would stay the same whether we had Mr. Arilotta and Moffatt, for example, or if we had Moffatt alone. So, therefore, in that value judgment, if it's not costing the town any more money to have Mr. Arilotta, we kept him.

Q. Did Mr. Arilotta explain that to you?

A. No. It was explained to me by various people. Councilman Grimes, one of our councilmen, questioned Moffatt Company -- I'm not sure who -- and received that response; that the commission would be the same whether they had Mr. Arilotta as a go-between or not.



Q. All right. When you vote on the award of the insurance, does Mr. Arilotta make recommendations in his role as insurance director?

A. Yes.

### The Switch to United Agencies

Mayor Rowlands recalled that in February, 1978, Kearny was warned of rising insurance costs because "insurance companies didn't want to insure municipalities" and that the town was going to have to "vote on a much higher rate of premium." An inquiry into the possibility of Kearny becoming its own insurer ended in early 1979 when Mr. Arilotta "brought in" two bids for the town's coverage -- one by the Moffatt company and a "much lower quote" by United Agencies of Walldwick. The mayor said Mr. Arilotta recommended acceptance of the United Agencies bid. Counsel:

Q. Did he also tell you during the time of this recommendation that he was going to share the commissions with United Agencies?

A. Probably didn't tell us, but certainly we assumed it.

Q. You assumed that he would?

A. I'm certain that he would be making money somewhere, sure.

Q. Who was the broker of record? Is it U.A.I. or is it Frank Arilotta now?

A. The way it's been explained to me by our town attorney through a resolution is that Mr. Arilotta is a broker of record.

Q. All right.

A. And United Agency is an agent.

Q. Who do the premium checks go to? Do you know?

A. They asked me before. I should have checked. I would guess the premium checks go to Mr. Arilotta. It's only a guess.

THE CHAIRMAN: Do you have any idea of the commissions, the shared commissions?

THE WITNESS: All right. We heard that the -- not heard. There is a service fee this year instead of a commission, because the company they placed the insurance with does not charge commissions. It's a service fee, and it's somewhere in the neighborhood of \$80,000.

Q. All right. Mr. Rowlands, sticking with that for a moment, I will direct your attention to Commission Exhibit 64, and do you recognize what's depicted on here as being the proposed bid from U.A.I.?

A. Yes.

Q. And the administrative fee that you are referring to, is that reflected by the 80,000 here where it says --

A. Yes.

Q. -- "Consultation placement service fee"?

A. Yes.

Q. And was that conveyed to you as the mayor that that would be the only commission or fee, say, charged by U.A.I. for placing your insurance?

A. In my opinion, yes. By that I mean, I could have missed it, but in my opinion, I think that's the only service fee that we have to pay.

Q. Other than the \$80,000 did you think there was going to be anything more charged by U.A.I.?

A. No.

Q. All right. So when you voted, you thought that's what it's going to cost you with respect to U.A.I.?

A. Yes, correct.

X X X

Q. Okay. As far as you know, the \$80,000 was a fee charged by U.A.I. and presumably paid to U.A.I. Is that correct?

A. Correct.

Q. But you assume Frank Arilotta must have gotten part of it?

A. I assume so, sure.

"If I Want to Bid It, That's What I Have to Do"

In order for United Agencies of Waldwick to bid for Kearny's insurance, according to Ralph A. Scafuro, a partner,

the firm had to split an \$80,000 "service fee" 50-50 with Kearny Insurance Director Arilotta's Kearny Realty agency. But what none of the Kearny officials who subscribed to the United Agencies contract knew was that the contract contained additional commissions for that firm which were hidden in the premiums for various types of municipal coverage that were to be provided. Mr. Scafuro was the last witness to testify in the Kearny-Hudson County phase of the S.C.I. investigation. He confirmed that the total \$387,870 insurance program it sold to Kearny included commissions both to the firm and to Mr. Arilotta. Counsel Rhoads focused his initial questioning of Mr. Scafuro on the events which led to the signing of the contract in February, 1979:

Q. Do you know Frank Arilotta?

A. Yes.

Q. Did you know that he was the insurance director for the Town of Kearny?

A. Yes.

Q. Did you give your bid to him?

A. He knew of the bid before submitting it, yes.

Q. Who actually submitted it, though? Did Frank Arilotta or did you?

A. We submitted it.

Q. You submitted it --

A. Yes.

Q. -- to the Mayor and Council?

A. Yes.

Q. All right. I will direct your attention to what's been marked Commission Exhibit 64, and it's a blow-up. Would you look at that and tell me, is this a fair reproduction of the bid you submitted to the Town of Kearny?

A. Yes.

Q. And the fact is, you were eventually awarded the contract?

A. Yes.

Q. I direct your attention to item number 9. It reads, "Consultation, placement and service fee," and reading across it says, "\$80,000." What does that mean?

A. It means that we were sharing a consultation and placement service fee of \$80,000.

Q. Now, if you will, it has item number 1, automobile liability 500,000 combined single limit, premium \$61,877. Did you charge any commission on that to the town?

A. We were paid a commission of approximately 7 percent of that policy.

Q. Seven percent on item number 1. So you got 7 percent of the 61,877, did you not?

A. That's right.

Q. And item 2, automobile physical damage, 14,000. What percent, if any, did you get of that?

A. The same.

Q. Seven percent?

A. Right.

X X X

THE CHAIRMAN: Before we go any further, is this in addition to the 80,000 or is this going to add up to the 80,000.

THE WITNESS: In addition to.

THE CHAIRMAN: In addition?

THE WITNESS: Yes.

Q. Item number 4, by letter and machinery, \$50,000 premium amount thirteen fifty-two. What percentage of that did you get?

A. Fifteen percent.

Q. Fifteen. Item number 5, the premium's 45,000 without reading the entire thing. What percent did you get of that?

A. I believe, seven and a half. I could be wrong by a point or two, but seven and a half.

Q. Item Number 6, the premium's \$54,000. What percentage did you get of that in commissions?

A. That policy there, we were just quoting what the existing policy premium was. We did not quote any service charge nor receive any commission for that policy.

Q. So you got no commission on the 54,000?

A. That's right.

Q. How about the 20,000?

A. Yes, there was about a 10 percent commission there. Ten to 15 percent.

Q. And on the \$21,641?

A. Seven and a half percent.

Q. Mr. Scafuro, as I understand it, you've got percentage commissions on everything here absent the multiperil and this item number 6, the excess workers' comp; is that correct?

A. That's correct.

Q. Yet there is no indication of that on your bid proposal, is there?

A. No, there isn't.

Q. Well, why, if you got commissions on these various items, why did you charge an \$80,000 consultation and placement fee? Isn't that what the commission is supposed to be for?

A. When -- let me just explain. We were asked to bid on the insurance as a result of the present carrier canceling or nonrenewing the coverage. First of all, when it was offered to us, it was offered to us on a basis that it was a co-brokered item, and that there had to be a brokerage fee paid for, to the Kearny Realty for the services they provide as far as servicing the claims.

Q. Now, let me interrupt you. You say it was offered to you on the basis that there would be a co-broker and he must be paid out of your commissions?

A. Right.

Q. Is that what you just said?

A. Yes.

Q. Who offered it to you on that basis?

A. Mr. Arilotta.

Q. He was the insurance director, was he not?

A. Yes.

Q. The fact is he told you in so many words, if you want to have the Township of Kearny, you are going to have to share your commissions with me?

A. If I want to bid it, that's what I have to do.

Q. When you submitted your proposal, Mr. Scafuro, did you tell the Mayor and Council that there are commission rates on those various amounts, or did you simply leave it the way it is and let the document speak for itself, in other words, the \$80,000 appearing to be the total charge for everything?

A. Just as you see is how it was submitted. There was no breakdown to advise the Mayor and Council that there was in addition a commission.

Q. Now, the amount of money that you received in commission and service fee of the 80,000, what percentage of that was given to Mr. Arilotta?

A. Fifty percent.

Q. Now, if I were to tell you that your total commissions were \$94,935, does that sound about right to you?

A. Yes, it does.

Q. And of that, you gave Mr. Arilotta half?

A. That's right.

Q. Roughly, let's say -- I don't know -- \$46,000?

A. That's true.

Q. What did Mr. Arilotta do to earn that money other than guarantee you the contract?

A. He has acted between us and the bureau as far as getting any additional information requested.

He has, on behalf of the bureau requested endorsements, policy changes, et cetera. He has filled out all of the claims on behalf of the bureau; all of the work that was done, I guess, beforehand in putting information together for the bid. But, basically, that's it. The claims take a lot of time. Most of the time during the year is spent in the handling of the claims.

THE CHAIRMAN: Would you think it took one-fifth of his working days, or one-third, or one-eighteenth or what would your estimate be for all this filing of claims, so forth?

THE WITNESS: On an average, on an average, I said maybe two to three hours a day, possibly.

COMMISSIONER FRANCIS: By a couple of well-trained secretaries?

THE WITNESS: Yes.

THE CHAIRMAN: Maybe one?

THE WITNESS: Possibly.

Q. I only have a couple of more questions. Of the roughly \$46,000 that you paid Mr. Arilotta, is it fair to say that the greater percentage of that money was paid to Mr. Arilotta because he was the insurance director and got you the contract for the Town of Kearny, or was a greater percentage paid to him for this amount of work he was doing to help you? It was the former, wasn't it?

A. Do I have to answer that?

Q. If you refuse to answer, that's no problem.

A. Yes.

EXAMINATION BY COMMISSIONER FRANCIS:

Q. Mr. Scafuro, was the \$46,000 that your company retained sufficient to cover your overhead and give you a profit?

A. Yes.

THE TESTIMONY -- Second Day

Transitional Statement

The S.C.I. prefaced its second day of hearings on Wednesday, June 20, 1979, with a brief statement of transition from the previous day's work. Chairman Lane reviewed Tuesday's testimony on the mishandling of public insurance in Union Township in Union County, in Kearny in Hudson County, and in Hudson County where witnesses exposed an "inappropriate use of taxpayers' dollars involving free car insurance for a county purchasing agent influential enough to divert contracts to his benefactors." Chairman Lane concluded:

*Today's testimony will further emphasize the potential for misconduct in the public insurance field, particularly the unwarranted intrusion of political pressures and the susceptibility of the process to widespread conflicts of interest and the callous waste of taxpayers' dollars. Today's work also will extend to another governmental level.*

*In addition to spotlighting commission-sharing machinations in two more counties, Burlington and Gloucester, this session's testimony will demonstrate how the public interest and public welfare take a back seat to political influences in the awarding of insurance business by the Atlantic City Expressway Authority.*

*John Dillion of our legal staff will question the first witness on today's schedule.*

The \$66,000 Fee in Burlington

Forthcoming testimony would focus on the award in Burlington County of public insurance contracts to influential brokers favored by the political party that happened to be in control of county government at the time. Prior to 1977, when Democrats dominated the Burlington Board of Freeholders, a prominent lawyer was able with political help to swing to his wife's brother-in-law a contract which brought a \$66,000 fee to the wife. In 1977, when Republicans regained control of the freeholder board, an insurance contract switch was authorized that resulted in a \$15,000 payment to a politically favored "back-up broker" who did



little or no work in return for the payment. In addition, more than \$20,000 in political contributions were made by the new broker-of-record.

Details of the incidents prior to 1977 were entered into the public hearing record first. The proceedings began with Counsel Dillon's questioning of Mrs. Catherine A. Costa of Willingboro, a majority Democrat on the Burlington freeholder board prior to 1977 and a lone minority member afterward:

*Q. In 1974, while you were a freeholder in Burlington County, were you involved in the award of the county insurance contract to the Burlco Agency?*

*A. Yes.*

*Q. And how did you cast your vote on that award?*

*A. For the Burlco Agency.*

*Q. And who is the president of the Burlco Agency?*

*A. Joseph McBride.*

*Q. Who placed the name of the Burlco Agency, or Joseph McBride, in nomination?*

*A. I have to go by memory, and it may not be exact, so please take that into consideration. I believe it was Mr. Szychosky. Freeholder Szychosky. S-z-y-c-h-o-s-k-y.*

*Q. Thank you. What was the vote count on this award? How was it broken down?*

*A. I believe it was 3-2, according to the party lines. Three Democrats and two Republicans at that time.*

*Q. Had there been a change in the political structure of Burlington County just prior to the award of this contract?*

*A. Yes, the Democrats had just taken over the majority of the Board.*

*Q. Did the Republicans submit their own nomination, their own broker?*

*A. Yes.*

Q. Prior to the award of the contract was it discussed whether the Burlco Agency should or would receive this contract?

A. Among, among us, yes.

Q. When you say "among us," you mean the members of the Board of Freeholders?

A. Right, among the Democratic members of the Board of Freeholders, yes.

Q. I see. Was there anyone else present at these meetings?

A. I believe there was -- let's see. I'm trying to think. The Chairman of the party was there.

Q. And who was that?

A. George Lee.

Q. When were these meetings held?

A. Oh, prior to reorganization, we have a number of meetings.

Q. Now, prior to reorganization, that's in January?

A. That's January, that's right.

Q. How long prior to the organization?

A. I guess right after election we meet and discuss various decisions and various functions that we would be holding on the Board of Freeholders.

Q. Why was Mr. Lee present at the meetings?

A. He was the chairman of the party.

Q. Well, what was the purpose of this meeting? To discuss appointments generally?

A. Well, after the election and in our meetings we'd been discussing, well, first of all, who would be the Director of the Board, and that was the first time we were in the majority, and there is quite a discussion on that, and different offices, you know.

Q. Mr. Lee wasn't a freeholder, was he?

A. No, he was not.

Q. Why was he present at the meetings?

A. Because he was the chairman of the party. I guess, perhaps to help us make our decisions.

Q. All right. Where were they generally held?  
I mean, in a number of different places or --

A. It could have been at the party headquarters,  
or it could have been -- there was one that was  
at Dr. Erlich's house.

Q. On how many occasions was the award of the  
contract to the Burlco Agency discussed?

A. I don't recall it being discussed at great  
length.

Q. Do you recall what was said about the  
contract?

A. The only thing I know is that Burlco Agency  
was the one that we -- the name that was given  
to us by George Lee as the insurance agent, and  
I don't think I knew who Burlco Agency was.

Q. Well, had Mr. Lee submitted the names of  
any other agencies?

A. No.

Q. Had any of the other Democratic members in  
the majority at that point submitted the names  
of any other agencies?

A. No. Mr. Szychosky, I believe, had been  
involved in insurance and I felt that his ex-  
pertise was something that I should rely on,  
too.

Q. At these meetings who was the first person  
to suggest Burlco?

A. The only person I heard was George Lee.

Q. Okay. Well, how did Mr. Lee go about  
proposing to you or the other members of  
the Board of Freeholders Burlco?

A. It's a while back and I -- the only thing  
I can remember is that that was the name given  
to us as the insurance agent.

Q. Did you have any questions concerning his  
recommendation?

A. The only one I spoke of was knowing who  
the insurance company was. I.N.A. was the one  
that would be the insurance agent. I mean the  
insurance company.

Q. At this point in time, that's 1974, how influential was George Lee in your decisions as a freeholder?

A. I'm hesitating because I'm a rather independent person, and George Lee had a lot of influence in the party as chairman, but I might state at this point I have never been given the key to the executive washroom in either party.

Q. I see. But it's fair to say that, in the discussions of an appointment, his recommendation would weigh very heavily in your ultimate vote; is that true?

A. It would as long as I didn't have somebody in mind. If there was any question in my mind, I would always question. That's why -- I would not accept anything from anyone just on -- because somebody told me to do so. The fact that I accept that, because I didn't have any question about it. I didn't have anybody else that I could put up.

Q. Were there any discussions, prior to the award of the contract, concerning Burlco's qualifications as an insurance agency for the contract?

A. No. When I later learned that Joe McBride was Burlco, I was pleased because he used to be my son's teacher and I know him to be a very honest man, and if I were given that choice of Burlco or any other agency, I would have selected Joe McBride based on Joe McBride.

Q. Well, when you say you later learned, was that prior to the award of the contract or after the award?

A. After the award. I don't believe that I knew that Joe McBride was Burlco at that time.

Q. Were you aware of the names of any of the other officers in the Burlco Agency at the time of the award?

A. No.

Q. Prior to the award of the contract, did Mr. McBride or any of the other officers of Burlco submit to you any quotes or proposals on the terms of this contract?

A. No, other than, as you see, the cost to the county was less than it was the previous year.

X X X

Q. Well, then, other than the premium charge, which you seem to suggest you had knowledge of prior to the award of the contract?

A. No.

Q. Well, then, I assume that you really had no knowledge of the terms of this contract at that point?

A. That's right, you are right.

Q. Were you aware of the commission to be awarded to the agency under this contract?

A. No. I assumed that Burlco Agency would be receiving a commission.

Q. You didn't know the amount, though?

A. No, I did not.

Q. Burlco was George Lee's selection and the Democratic membership of the freeholders voted for it; isn't that correct?

A. That's correct.

#### The Burlco Agency

Testimony by Joseph W. McBride of Moorestown, president of Burlco Agency, Inc., since 1963, followed Mrs. Costa's presentation. S.C.I. counsel Peter M. Schirmer questioned Mr. McBride:

Q. For the years 1974 through 1976, my understanding is that you had the insurance for Burlington County.\*

A. That's correct.

Q. How did it come about that you acquired that insurance business?

A. I acquired the business through a solicitor, Barbara Hartman, who brought the account to us.

Q. Could you tell me any conversations that you had with various people prior to the actual award of that contract in January of 1974?

A. Prior to January of '74? Yeah, I had a conversation with my brother-in-law, Frank Hartman, and --

\*See Chart, P. 168.

Q. How is Frank Hartman related to you?

A. His wife and my wife are sisters.

Q. What happened?

A. And he indicated, and -- I'm sorry. I didn't answer your question. He indicated that there was a possibility that I might be able to write the insurance business for the County of Burlington.

Q. When did this conversation take place?

A. I would say it was after, after the election in -- what? -- '73.

Q. Sometime in December; would that be correct?

A. Sometime probably in the month of December, thereabout, yes.

THE CHAIRMAN: May I interrupt. This election had been a turnover of power; Republicans had lost, the Democrats had won. Is that correct?

THE WITNESS: That's right, Mr. Chairman. For years the Republican Party had been in control in our county, and it's my understanding that they controlled the insurance for a number of years and then with the change in political parties there was a possibility of the change of the control in insurance, that's right.

EXAMINATION BY MR. SCHIRMER:

Q. What did you say when Mr. Hartman asked you whether you would be interested in the contract?

A. I said I would be interested in writing the insurance business for the county, yes.

Q. -- what happened next?

A. I guess the next thing that transpired was that I had to meet with George Lee and Frank Hartman, and in the meeting basically what transpired was a concern on the part of Mr. Lee as to my qualifications; whether or not I could handle the account, because, as he indicated, it was a large account. And I tried to reassure him that my insurance agency had the capacity and the capability of handling an account the size of Burlington County.

As I recall, the best -- this goes back a number of years now. As I recall, I think one of his concerns was the company that I might use, or companies, and at that time I indicated to him that I felt that probably of all the

companies I had in my office the company that would be best capable of handling an account this size would be I.N.A., Insurance Company of North America.

Q. Why did you meet with Mr. Lee? Because he was not a freeholder; is that correct?

A. He was the Democratic Party Chairman of the county, that's correct. Why did I meet with him?

Q. Mr. Lee would not award the contract; correct?

A. Not as far as I knew. I'll tell you, I was a neophyte. I didn't know about the political workings of things, and I didn't know whether he had total control or whatever. I subsequently found out that the Board of Freeholders had to vote on it, and if there were a majority in favor of one given agent, then that was the agent who would be named as the broker, county broker.

Q. You may have been naive, but were aware at that point that was a patronage job?

A. I would have to say, yes, you know, that would be a fair statement.

Q. What happened next? You have spoken to Mr. Lee and Mr. Hartman together. What happened next?

A. I guess the next thing of any significance that happened was I got a phone call from Frank Hartman sometime prior to the swearing in, which would have been around January 1st or thereabout of '74, indicating that it looked like there would be a strong possibility that I might get the nomination and be prepared to go to the courthouse, which is where they held the swearing in, and a vote would be taken at that time, and if we succeeded in getting the majority of the votes, then I would be the appointee or the broker.

Q. Prior to the award of the contract in January of 1974 --

A. Yes.

Q. -- did you meet with the freeholders?

A. No, I don't believe I did. I think the only thing that I was called upon, and I could check the record, I think I was asked to write a letter. To whom escapes me. It was either to George Lee or to the Board of Freeholders, and I'm not certain. But I remember writing a letter wherein I had to spell out my qualifications and give them some background information; college and subsequent training, military service, et cetera, companies I represent.

Q. Was this the same type of information that Mr. Lee was concerned about when he met with you with Mr. Hartman?

A. I guess to a degree, yes, uh-huh.

Q. Then I understand your testimony to be that you didn't submit proposals or bids or --

A. No, I did not, not at that time. I had to get the appointment first, okay, and once I was appointed I had an almost herculean task of placing, you know, millions of dollars worth of insurance in a relatively short period of time.

As I recall, the best of my recollection, the majority of the policies expired January 27, and I wasn't appointed until somewhere in the very early part of the month, first, second, thereabout, so, as a result, I had to move quickly to obtain the necessary coverage in a very short period of time.

Q. Did you ever meet with the freeholders?

A. When?

Q. After the contract was awarded.

A. Yes, I did.

Q. How were you notified of the fact that you would be the broker of record?

A. Well, we, in attendance at that meeting, the swearing in, it was obvious that Burlco Agency had been made the broker of record. So it was, you know, a public knowledge at that point.

Q. Were you invited to that meeting by someone?

A. Yes.



Q. Who was that?

A. Frank Hartman told me that there was a good possibility that I would be appointed, so it would be best that I be there.

Q. So it seemed clear to you at that time prior to the award of the contract that Mr. Hartman certainly had an influence in the award of the contract to Burlco Agency; is that correct?

A. Yes, I would say so.

Q. Now, was there a solicitor on the account?

A. Yes, Barbara Hartman.

Q. What did Barbara do? Barbara Hartman do?

A. What did she do? She was the solicitor that was responsible, directly indirectly, in having the business placed with the Burlco Agency. Had she been a solicitor, I presume, with some other agency, that agency would have gotten the business.

Q. Let's first define terms if I may. I'm not sure everybody understands what a solicitor is. If you could, briefly describe what a solicitor is?

A. First off, it's a legal designation. A person who works for an insurance agency can be licensed in the capacity of an agent or a solicitor, and in this case Barbara Hartman, for almost, I guess, over 10 years at that point had been a licensed solicitor for the Burlco Agency.

Q. What does a solicitor do to earn his or her fee?

A. Solicit insurance.

Q. What does that mean?

A. It means to exercise those talents that one has in obtaining insurance business. It might be -- you know, it's a multiplicity of things. Could result --

Q. Could we boil it down to bring two parties together; bring an insurance agency, for instance, the Burlco Agency, together with the County of Burlington and you get the insurance through her aegis; is that correct?

A. That's a possibility.

Q. Is there some other definition that we could work with? Is there something else that she could do which would allow her to earn that commission?

A. Not, not as a solicitor. I mean she has to solicit the business and bring the business to the agency, and if she's successful in doing that, and the agency ends up writing that business, then she's entitled to her compensation; commission.

Q. What is the procedure for a solicitor to determine what fee that they're going to earn on a contract? Is there --

A. It will vary upon the circumstances. You know, there is no set rule that -- it depends on the circumstances; the size of the account, the complexity of the account.

Q. Let's specifically talk about the Burlington County account.

A. Yes.

Q. What was the rate of commission for Barbara Hartman on that account?

A. Approximately half the commission.

Q. Fifty percent of your commission?

A. Yes.

Q. Now, your testimony so far is that Mr. Hartman met you; asked you whether you were interested in the account; later on you met with Mr. Lee and Mr. Hartman; you were then called by Mr. Hartman, said that it looks good for you; you ultimately were notified that you would have the account. Is that correct?

A. I would say that's fair.

Q. What did Barbara Hartman do?

A. Well, she was instrumental in getting the account. Now, what she did, how she did it, I have no idea because, first off, I don't trail around after my solicitors to find out how they curry favor with people and what time and effort they spend in bringing in an account. So I really can't answer that, Mr. Schirmer, because I don't know.

All I know is this: That she was successful in being instrumental in bringing that business to the Burlco Agency as a licensed solicitor.

Q. What did she do? I'm not sure. How do you know that she was the one that --

A. I said I can't tell you what she did because I don't know. You don't want me to tell you a fabrication, do you?

THE CHAIRMAN: You know what Mr. Hartman did. Yoy told us a few things that he did. Do you know of any overt act performed by Mrs. Hartman in connection with this business?

THE WITNESS: Well, Judge, Mr. Chairman, I would say that, to my knowledge, Barbara Hartman has been involved in politics for many years and it's just like any other account; if one of my solicitors had an in with, let's say, RCA and they were able to, through family connections or whatever kind of connections, be instrumental in bringing an RCA account into my office, I wouldn't sit down and say, who did you know? How long did you know them? What was your technique? Generally speaking, I wouldn't approach it that way. I would be satisfied with the business coming in and my paying that person a commission for their efforts, and that's the situation with Mrs. Hartman.

THE CHAIRMAN: And you can't really point to one act or one person she communicated with in connection with obtaining this business?

THE WITNESS: That's right, Mr. Chairman. That's impossible. One over the years ingratiates themselves with people through work effort, whatever, and they're the person that ends up being in a position to control that business.

BY MR. SCHIRMER:

Q. Isn't it true that Mr. Hartman brought that account to your agency?

A. I would think, Mr. Schirmer, it's fair to say that he was instrumental to a degree. But that doesn't dismiss the effort that Barbara Hartman apparently --

Q. But you do not know what effort she expended? You certainly know the effort Mr. Hartman expended; is that correct?

A. No more than I do of Mrs. Hartman. I know Mrs. Hartman was politically active and I know Mr. Hartman is politically active.

Q. Let's just review your meetings. You met with --

A. Yes.

Q. -- Mr. Hartman?

A. Yes.

Q. You met with Mr. Hartman and Mr. Lee; you were called by Mr. Hartman, and you were invited to the meeting by Mr. Hartman?

A. Yes.

Q. You did not mention once in that dialogue what Barbara Hartman did. Do you know if Barbara Hartman ever talked to the freeholders?

A. I don't know whether she did or she didn't.

Q. Did Mr. Hartman make you aware, or were you aware of the fact, that if you did not designate Barbara Hartman as a solicitor on the account, that she could go to another agency and deliver the contract to that agency?

A. He never came right out and said that, but I'm not a little boy. I'm sure if I were not going to pay Barbara Hartman a solicitor's business I would not have gotten the business.

Q. And isn't it a fact Mr. Hartman went to your agency because he knew that his wife had been able to receive a commission and you were aware of that fact?

A. I think that's a fair assumption, yes.

X X X

Q. The initial contact between you and ultimately receiving this contract was through Mr. Hartman. You then met with Mr. Hartman and Mr. Lee. You then were called by Mr. Hartman and ultimately awarded the contract at a meeting that you were invited to by Francis Hartman.

A. No, no, I was not only awarded the contract at that meeting, Mr. Schirmer. I did not say that. I told you that there was a vote taken on the part of freeholders.

*Q. You are misinterpreting me.*

*A. I was -- I did not know until they actually voted in that courthouse on the day of the re-organization, which was January 1st or 2nd, whether or not I would be officially the appointee of the county brokerage, and when they voted, it was 3-2, as I recall. There were three Democrats and two Republicans. The three Democrats voted in Burlco's favor. The two Republican's voted in Burlco's disfavor. At that moment I knew I was the broker of record and I set to the task of obtaining the best program of insurance that I could for the county.*

*Q. How was it decided that Barbara Hartman would be the solicitor on the account?*

*A. Because she is a licensed solicitor for Burlco, and she, working in conjunction with her husband, were instrumental in bringing that account to Burlco. As I said before, if she were licensed with the Schirmer Agency, the Schirmer Agency would have gotten it assuming that they qualified to do the job.*

*Q. And assuming that Barbara Hartman did some work?*

*A. Sure. Her work was the work that she had -- the work and effort that she had expended over the years by being politically active. It was through that, I presume, that she was able to be in a position to be able to write that business.*

#### Mrs. Hartman's Fees

Counsel Schirmer next reviewed with Mr. McBride his company's files on Mrs. Hartman's earnings as Burlco Agency solicitor. These documents, which were entered as exhibits into the public hearing record, showed that Mrs. Hartman's solicitor fees were minimal before and after the windfall resulting from the 1974 appointment of Burlco as broker of record. Counsel:

*Q. Now, without going into the exact amount, the first file that I showed you for the years 1973 and prior, would it be fair to characterize the amount of money that Barbara Hartman received as a solicitor was minimal; less than a thousand dollars?*

*A. Assuming that this record reflects an accurate picture, then I would say that's accurate.*

Q. After the contract expired in 1977 did Barbara Hartman bring a large solicitation into your office? Was there a large amount of money that she earned as a solicitor after the Burlington County contract had expired?

A. To the best of my recollection, Mr. Schirmer, I don't remember any large account in '77.

#### Lawyer Hartman's Role

The next witness, Francis J. Hartman of Moorestown, a prominent lawyer who was influential in the Democratic Party in Burlington County, testified about his efforts to assure the appointment of Burlco as the new insurance broker for the county. After the Democrats won control of the Freeholder board in November, 1973, he said he "became aware of the fact" that the county's public insurance contract "would be awarded to somebody by the Democratic freeholders who probably was a supporter or a friend of the Democratic Party." He said he asked his wife "if she would be interested in being the agent to solicit the contract" and then spoke to Mr. McBride for whose agency Mrs. Hartman was a solicitor. He next spoke to George Lee, the Democratic county chairman, and to the freeholders. Counsel Schirmer questioned Mr. Hartman:

Q. What did you say when you spoke to the freeholders?

A. I told them that I thought the Burlco Agency was an agency that could service the contract for the County of Burlington; that at least the solicitor for the agency had been active politically; that I felt that the county, if they awarded it to a Democratic agency, ought to consider that agency.

Q. Did you make the freeholder, Freeholder Costa, aware of the fact that Joseph McBride was your brother-in-law?

A. I, I don't know that I specifically ever said to her that Joseph McBride is by brother-in-law. I would have assumed that she knew that. If she did not know that and we talked about Mr. McBride, I feel reasonably certain that I would have told her that he was my brother-in-law. I certainly didn't attempt to conceal that fact from her, that's for sure.

X X X

*Q. And why did you go and see Mr. Lee?*

A. Because, in my experience, the county chairman is a person of influence with the elected officials, and because he was a personal friend of mine, I felt that he might be inclined to use what influence he had with the Board to try to secure the award to someone I was interested in as opposed to somebody else.

*Q. And what was your influence on Mr. Lee, apart from your personal relationship with him?*

A. It was a personal relationship and a political relationship, and to the extent that at any time I could have done him some good, I did, and to the extent that he could have, I think he did. I considered him a personal friend and a political friend.

*Q. Had you been a strong contributor to the Party, not necessarily financial but in terms of services?*

A. Yes. I contributed my service as an attorney to the Party on legal matters. I gave my advice and counsel to the Party on political matters. I worked ringing doorbells as a county committeeman. I guess I served in whatever way at whatever time the Party asked me to the best of my ability at that time.

*Q. Have you been influential in Mr. Lee's career?*

A. I think I have had some influence upon his career, and, as I indicated to you in my executive testimony, both plus and minus with respect to his career.

*Q. But you had acted as the campaign chairman when he ran for the County Democratic Chairman in 1970. Correct?*

A. True. When George Lee first ran, I was his campaign manager. When he last ran, I guess I was his campaign manager. Once he won and once he lost.

Q. So you were aware of the fact when he recommended the name of the Burlco Agency to Mr. Lee that, based on your social contacts and political contacts, that he certainly would consider that?

A. I certainly would hope him to. I think he did indicate that he would consider it. I also asked him to consider my appointment. I didn't get it. So I suppose it's like everything. He considered it and weighed it along with a lot of other factors.

#### Sought a Job for Himself

The "appointment" Mr. Hartman sought from Mr. Lee was as member and/or solicitor of the Burlington County Bridge Commission. However, Counsel asked whether, if he got such a job, "it would be less likely that your wife or the Burlco Agency would be awarded the insurance contract." The witness testified that he believed in "political considerations, either to an area or to a person or to a law firm..." But such considerations involved "balancing," Mr. Hartman said, since it would be unlikely that two important appointments would go to the same family or the same town. Therefore, he added, "I think that one appointment might decrease the possibility of the other appointment." Counsel Schirmer's questioning returned to the subject of the county insurance contract:

Q. You first spoke to Mr. McBride prior to the award of the contract; asked him whether he would be interested in that contract; he indicated that he would be interested; you then said that you would speak to Mr. Lee; you then spoke to Mr. Lee and then later on you called Mr. McBride back and said that it looks good to him. He was not aware of any meetings you had with the Board of Freeholders, but your testimony is that you met with at least one, if not all, the Board of Freeholders and asked them to vote for the Burlco Agency. Is that correct?

A. That is correct.

X X X

Q. Now, you had an interest in the Burlco Agency because --

A. No, I had no interest in the Burlco Agency. I have never had any interest in the Burlco Agency.



Q. That wasn't my question.

A. I'm sorry.

Q. I didn't finish. My question was you had an interest in the Burlco Agency getting the contract because that was your brother-in-law?

A. True.

Q. Were there other more important reasons that you would like to see the Burlco Agency get that contract?

A. I think I would like to have seen my wife be responsible for producing the business more than I would like to see my brother-in-law get the business.

Q. Because this would mean that you would benefit, indirectly or directly, through the commissions that she earned; is that correct?

A. It was a factor.

Q. Do you recall making this fact clear to Mr. McBride whether you first spoke to him, or at some point prior to the award of the contract, that your wife would be designated the solicitor on the account?

A. Well, again, my wife had been, up to that point, a solicitor of insurance for the Burlco Agency, and when she was responsible for the production of business, she earned a commission. I don't know whether the subject was specifically raised, but it certainly would have been my understanding and assumption that, if she were responsible for the award of this work to the Burlco Agency, that she would receive a commission.

Q. Now, how was your wife responsible?

A. By being the only person in the Burlco Agency who at that time was active politically and, therefore, the only one to whom the party would have any sense of loyalty or allegiance in awarding the contract.

Q. Well, how about Frank Hartman?

A. I had no connection with the Burlco Agency except by reason of the fact that I was married to a woman who worked there as solicitor and I was related by marriage to the owner of the agency, who was my brother-in-law.

Q. Well, they recommend -- from the testimony that we have so far, the Burlco Agency is recommended because you recommend the Burlco Agency, not because Barbara Hartman has anything to do with it. And isn't it because of the fact you had an interest in the Burlco Agency getting that contract because your wife would financially benefit that you made that recommendation?

A. No, sir.

Q. That had no --

A. It had something to do with it, the only reason I say "No, sir" is because I recommended other people for other positions and, if my recommendation carried some weight and they got those positions, I profited not at all economically.

Q. But the fact in this situation is that you did recommend the Burlco Agency --

A. Yes.

Q. That recommendation was followed through by the Party Chairman?

A. Yes.

Q. And your wife benefited by earning 50 percent of the commission on that contract. Is that correct?

A. That's correct.

Q. And I have not heard yet in any testimony that your wife met with anyone other than yourself. Did she meet with the freeholders?

A. I really don't know whether she met with them or not.

Q. Did she meet with the Party Chairman? Specifically to discuss this subject.

A. Again, I don't know that she ever met with him specifically to discuss this subject. My wife had her own independent political activity before I married her. While I was married to her, we were often at political meetings together. She may very well have spoken to either the freeholders or the county chairman in the course of one of those meetings, not necessarily in my presence.

Q. Would you disagree that the person responsible for bringing the contract or recommending Burlco and having that recommendation ultimately followed through on was yourself and that you were responsible for the contract in a sense you were the solicitor on that contract?

A. I can only say to you that I wish that I had what I think you are implying I had, namely the ability to determine the award. I've told you what I did, and if you want to say in a sense that I was the solicitor on the contract, you may characterize it that way if you wish. As far as I'm concerned, as I told you, I made recommendations for myself; I made recommendations for other people; I made recommendations for the agency with which my wife was concerned. Some of them worked out and some didn't. If you want to say that I was responsible for helping, certainly, I would agree to that. If you say I was the sole cause, I would not agree to that. Somewhere in between the two positions, I guess, is where the objective truth lays.

X X X

Q. Did you meet with Mr. McBride after the contract was awarded and discuss with him, with your wife, how much the solicitor fee would be?

A. I have no recollection at all of a specific meeting to discuss what the commission rate was. I believe that the commission rate that my wife received was the same commission rate that she had received on the sales of other businesses, that is other business, not businessess, other business for the agency. I believe that she was entitled to the same 50 percent commission if she sold a bond or if she sold a fire insurance policy or whatever she sold.

Q. And you had no part in those discussions?

A. I discussed with my wife at one point, and I may have discussed with Mr. McBride, the matter of whether the commission should be paid all in one lump sum or whether they should be spread over the period of the contract. But I believe that's the only area in which I could have discussed commissions with Mr. McBride.

Q. When you spoke to Mr. Lee the first time, did you make him aware of the fact that your wife was to receive a portion of the commission earned on this contract?

A. I don't know whether I specifically did that. Again, knowing Mr. Lee as well as I do, I think that he knew my wife was in the insurance business. I think he understood that she was in it to make money out of being it, not just because it was an avocation or a hobby. I assumed that he felt that if the contract were awarded to the agency, that she would receive a commission. But I have no specific recollection of saying one day, "George, you know that Barbara will receive a commission if this contract is awarded."

Q. Is he aware of the fact that you would indirectly through your wife receive a commission on this contract?

A. I never indirectly through my wife received any commission, so I don't know how he could be aware of something which was not true. He may have thought that it would be helpful to my family unit in his own mind, and I won't speak for what was in his mind. But the reality of it is, whatever was in his mind, I did not receive the money directly or indirectly. My wife received the money.

Q. Well, when your wife financially benefits or you financially benefits certainly the other party in the marriage benefits?

A. Is that a statement or --

Q. I am asking, is that a true fact, in your situation?

A. In a general sense, to the extent my wife has money to spend for something that she wants, that may save me spending money. If that's a benefit to me, fine.

Q. After 1968, after you married your wife in 1968, how much income was she earning from her solicitations of the insurance contracts?

A. Without looking at either my income tax returns or her records, which I believe you had already subpoenaed, I would not know.

Q. Would you agree with me that it was very little?

A. Well, again, I don't know what "very little" means to you. I think she earned a couple of thousand dollars in certain of those years, but I really don't know the figures. A couple of thousand dollars is not little to me, so that's why I answer that question that way.

Q. After you married her in 1968 and prior to 1974?

A. Yes, I believe she made a couple of thousand dollars in some of those years. More in the beginning because she was more active. As we were married she became less active as her family responsibilities increased.

Q. Isn't it true that the Burlco Agency, without your recommendations, would not have gotten the contract?

A. I have no way in the world of knowing that. It had my recommendation. It got it. If it would have gotten it without it, who knows.

Q. But the fact is they got the contract?

A. True.

Q. And you recommended it?

A. Absolutely.

### The Political Connection

George W. Lee, whose testimony followed Mr. Hartman's, became Assistant Secretary of State in 1977. Prior to that, between 1970 and 1977, he served as Burlington County Democratic chairman. He also was a member of the Burlington County Bridge Commission. He recalled that he recommended that the Burlco Agency be awarded the Burlington County insurance contract in 1974 and that he had been asked to do so by Lawyer Hartman. Counsel Schirmer:

Q. Were you aware of the fact that Barbara Hartman was a solicitor for that agency?

A. I can't recall that. I don't remember that. I know that she had something to do with the business before she was married and evidently carried over even afterwards.

Q. Did he make you aware of that, Mr. Hartman make you aware of that fact?

A. I can't recall it.

Q. Did you ever meet with Barbara Hartman concerning the award of the insurance contract in the year 1974, prior to the actual award?

A. I can't remember that. But I may have spoken to her, but I can't remember.

Q. You have no specific recollection?

A. No, I don't.

Q. Your only recollection is that you met with Mr. Hartman first. Your initial meeting concerning that contract was with Mr. Hartman. Is that correct?

A. I wouldn't say it was a meeting, but he discussed it with me, then I met McBride, oh, a week or two later.

Q. Did the freeholders accept your recommendation?

A. Yes, they did.

Q. And then your recommendation, which originally came from Mr. Hartman, was ultimately carried out through the freeholder award of the contract to the Burlco Agency; is that correct?

A. Yes.

Q. As the county chairman, do you often make recommendation to the Board of Freeholders?

A. To the elected members of the Democratic Party, yes.

Q. In fact, you discuss all appointments, all patronage appointments?

A. Yes.

Q. Generally, do the freeholders agree or follow your recommendations?

A. Yes, for the most part.

Q. Are you a personal friend of Frank Hartman?

A. Yes. When you say "personal friend," I know Frank a long time. I graduated from high school with Frank Hartman.

Q. And certainly as the past Democratic Chairman, you are aware that Mr. Hartman has made considerable contributions to the Party, both in terms of financial and services offered?

A. Yes.

Q. And, in fact, Mr. Hartman ran your campaign when you became the county chairman in 1970; is that correct?

A. That is correct.

Q. Were you aware of the fact at the time the contract was awarded to the Burlco Agency that Barbara Hartman would earn a substantial commission for the award of this contract?

A. No, I did not.

Q. When did you first find out this fact?

A. I guess when you told me.

Q. And when was that?

A. I don't have the date. When you told me when I testified at the Executive hearing.

#### Burlco Agency's Solicitor

Barbara McGann Hartman, wife of lawyer Francis Hartman, had been insurance solicitor for the Burlco Agency since August, 1963. She testified about the circumstances of her designation as solicitor for the 1974-77 insurance contract awarded to Burlco. She confirmed a series of checks from the Burlco Agency showing that she gained more than \$66,000 on the 1974 insurance contract but that she had earned less than \$800 in commissions during the five years preceding 1974. Counsel Schirmer questioned her:

Q. Could you explain to the Commission what you did to be appointed the solicitor on that contract?

A. Well, I did what I usually do if I have a contact to sell insurance and I use that contact to acquire the business for the agency.

Q. Who is your contact?

A. For that particular account, I believe I spoke with Mr. Lee; George Lee.

Q. Was your contact your husband, Francis Hartman?

A. Not really.

Q. What did Mr. Lee say?

A. I do not recall at this moment.

Q. Do you recall whether you asked your husband to speak to Mr. Lee?

A. I'm sure I discussed the matter with my husband.

Q. Was that prior to the award of the contract?

A. Yes.

Q. Why would Mr. Lee take your recommendation?

A. Well, Mr. Lee was county chairman. He knew the insurance was up for -- and he -- I assume that he knew that I was interested.

Q. When you spoke to Mr. Lee, was your husband present?

A. I don't recall.

Q. Mr. Lee's testimony indicates that his recommendations originated from your husband speaking to him about the Burlco Agency. Would you tend to disagree with that testimony?

A. My husband may have spoke to Mr. Lee, but I also had talked with Mr. Lee.

Q. But you don't know what you spoke about specifically?

A. I told him I was very interested in getting that insurance contract.

Q. Well, did he recommend that you talk to the freeholders?

A. No, he did not.

Q. It was enough that you speak to him?

A. Well, I, I knew the freeholders knew me. I didn't think there would be a problem about getting the contract.

Q. Well, as a solicitor, what do you do as a solicitor to get a contract?

A. I make contacts with people and try to sell; tell them that I'm interested in having the insurance.



Q. Do you speak to the people who can ultimately give you the contract?

A. Many times I do.

Q. So if we were to follow that procedure in this case, you would have spoken to the free-holders, but you did not?

A. I don't recall speaking to anyone other than Mr. Lee, Mr. McBride.

Q. Did you speak to Mr. Lee and give him approximately how much the insurance would cost?

A. No, I did not.

Q. Did you explain to Mr. Lee why the Burlco Agency would be able to handle the account?

A. Well, I told him we were agents for the Insurance Company of North America. I believe Insurance Company of North America presently had the insurance. There was not a problem with that.

Q. Did you know, at the point you spoke to Mr. Lee, whether the Burlco Agency could get the insurance coverage from a carrier?

A. Yes, I believe they could.

Q. How did you know that fact?

A. Because we represented the same insurance company that already had the insurance program.

Q. So to earn the solicitor fee that you earned on this account, your testimony is that you spoke to Mr. Lee and that's all you can specifically remember; is that correct?

A. No. I spoke with Mr. McBride. I also spoke with my husband.

Q. Well, certainly you can't sell a contract to Mr. McBride. Correct?

A. No, but I discussed with him whether he was interested in obtaining the business and, of course, he was, and that's -- you know, we discussed other things.

Q. Could Mr. McBride have gone to the free-holders himself?

A. He may have.

Q. He could have done that. Correct?

A. You mean obtaining the business?

Q. Gone directly to the freeholders and obtained the business in that manner. There was no reason to have a solicitor? Or was there a reason?

A. Well, I don't know. I'm sure Mr. McBride could solicit business. I was the one who knew that the contract was up and that the freeholders were not in control and that it was possible to get the insurance at that time.

Q. I would like to show you several checks, which represent commissions that you earned in those years. The first check, which has been marked C-72 is dated 7/30/1974. It's made from the Burlco Agency to Barbara McGann Hartman in the amount of \$11,180.34.

Do you recognize that check?

A. Yes, I do.

Q. And that's part payment for your solicitation fee?

A. I believe it was commission.

Q. On the county contract?

A. It may have been for other commissions, also.

Q. Did you earn a lot of other commissions other than the Burlington County contract in this year, 1974?

A. I would have to check my records.

Q. I'm going to show you a second check, marked for identification 73, dated 10/17, 1974, in the amount of \$3,097.97 to Barbara Hartman from the Burlco Agency. Do you recognize that?

A. Yes, I do.

Q. And again, would that be attributed to, or largely attributed to, the Burlington County business?

A. Yes, I believe it is.

Q. I'm going to show you a third check, marked for identification 74, from the Burlco Agency, to Barbara Hartman, dated April 10th, 1975, in the amount of \$14,292.69. Would that be another check which is largely attributed to the Burlington County business?

A. I believe it is.

Q. I'm going to show you a fourth check, marked for identification, from the Burlco Agency to Barbara Hartman, dated November 25th, 1975, in the amount of \$2,158.11. Would that be another check that is largely attributed to the Burlington County business?

A. Yes, sir.

Q. Another check, 76 for identification, from the Burlco Agency to Barbara Hartman, dated 4/15/1976 in the amount of \$16,323.60. Would that be another check that is attributed or largely attributed to the Burlington County account?

A. I believe so.

Q. I am going to show you another check, 77 for identification, from the Burlco Agency to Barbara Hartman, dated 7/6/1976, in the amount of \$11,571.44. Would this be another check that you earned as a solicitor on that account, the Burlington County account?

A. Yes, sir.

Q. I am going to show you another check marked 78 for identification, from the Burlco Agency to Barbara Hartman, dated 7/13/1977, in the amount of \$3,567.25. Would that be another check that you earned as a solicitor?

A. Yes, sir.

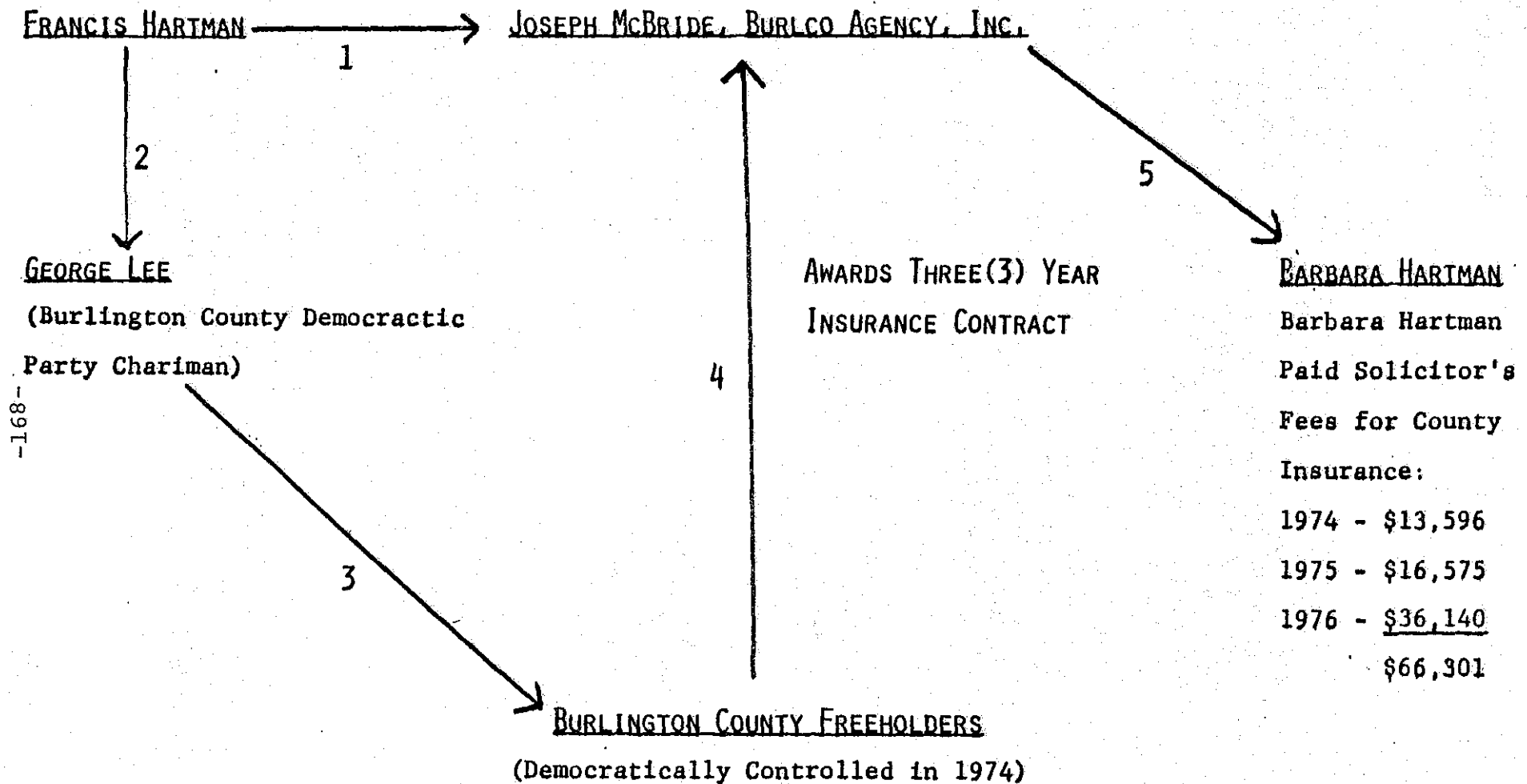
Q. Based on records that the State Commission of Investigation acquired from Mr. McBride from the Burlco Agency, we have composed a chart,\* which is 79 for identification, and it shows the extent in Burlington County. Francis Hartman spoke to Joseph McBride. We had no prior testimony that you had spoken to Mr. Lee. In any event, Mr. Hartman spoke to Mr. Lee. Mr. Lee made a recommendation to the Board of Freeholders. Ultimately the contract was given to the Burlco Agency, and over the course of three years you earned a sum total, based on Mr. McBride's records, of \$66,301, and the two people that you spoke to were Mr. Lee, possibly, and your husband, Francis -- and Mr. McBride; is that correct?

A. Correct.

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\*See Chart, P. 168.

BURLINGTON COUNTY INSURANCE FINDER'S FEES - 1974-1976



Q. I am next going to show you a file, which is the 1973 and prior years ledgers of Mr. McBride showing the commissions that you earned in those years. So we are talking about a time period 1969 to the end of 1973, prior to your becoming involved in the Burlington County contract.

I will ask you, if you would like, to inspect them and then I would like to tell you what they represent.

The records indicate the following: In 1968 you earned \$190.97 as a solicitor; in 1969, you earned \$129.28 as a solicitor; 1970 you earned \$121.99 as a solicitor; in 1971 you earned \$160.50 as a solicitor; 1972 you earned \$76.08; 1973, the year prior to the award of that contract for Burlington County, you earned \$110.10, for a sum total over the course of five years of \$780.84. You weren't very active prior to the award of that contract; is that correct?

A. No, I was not.

#### Public Insurance Under Burlington's GOP

In January, 1977, the Burlington County Freeholders were under Republican control. The GOP had assumed control the previous January as a result of election victories in November, 1975. However, the three-year contract the former Democratic majority had signed with its politically favored broker, Burlco, did not expire until 1977. At that point, Frank M. Monaghan, general manager of Chesley & Cline of Mount Holly, became the broker of record at the behest of the Republican leadership. Thereafter, although political control of the county had changed, the public insurance machinations continued. As the testimony was to demonstrate, there were different players in the field -- Republican instead of Democratic officials, politicians and brokers -- but they abided by the same ground rules.

Mr. Monaghan, the only witness in this public hearing segment, played a key role in the continuing, politically influenced mishandling of public insurance funds. He assured the McCay Corp. a piece of the action as a "back-up broker." The McCay Corp. had been bypassed, reluctantly, as the primary broker because of an indictment, later dismissed, against one of its principals. He also contributed more than \$20,000 from his commissions to the GOP during his tenure as the broker of record. Mr. Monaghan was asked to explain how he became the county's broker. Counsel John Dillon questioned this witness:

Q. How did you obtain the Burlington County account?

A. Okay. I initially had a conversation of some sort with one of the freeholders-elect at the time, a Mr. Shinn, and at that time he was inquiring as to the abilities of two agencies in Burlington County. He asked me my professional opinion of these two agencies, and I asked him why, and he said they were being considered as the county insurance brokers.

X X X

Q. At the time the proposed change was to take place, and that is a new broker, how many brokers were under consideration for this contract?

A. When my initial conversation that I had asking about the professional abilities, fellows, I assume the two, the two agencies he mentioned to me were the two being considered.

Q. Who were they?

A. The Stockwell-Knight Agency and the McCay Agency.

Q. And you had this discussion with Mr. Shinn?

A. Yes, and he asked me what I thought of their abilities and I told him.

Q. And what was the substance of that conversation?

A. Well, about the professional ability of these two agencies, which I gave him my opinion, if I was purchasing insurance, which of the two I would have used.

Q. What was your opinion?

A. The McCay Agency, because I thought it was better-staffed and more capable of handling an agency of -- an account of that size that I imagine the county was.

Q. Were there any problems with the McCay Agency, that you were aware of?

A. Not that I, you know, that rang my bells with me, no.

Q. Well, did you have a later or subsequent conversation with Mr. Shinn?

A. Yes, I did. He called me at a later date and, or I talked to him -- I don't know how the conversation took place or where it took place. But I know there was one and he told me that they possibly were having some difficulty in coming up and deciding which agency they were going to appoint and asked me if I would be interested in handling the account and my answer

to that was, I really didn't know, I'd have to look at the records; could they be made available to me so that I could see whether I could do it, because I didn't want to get into something that I couldn't possibly handle.

*Q. What were the problems that Mr. Shinn discussed with you concerning that agency?*

A. He indicated that -- I would have assumed that the McCay Agency was the favored one from the discussion, and that one of the principals of that agency evidently had a legal problem that was unresolved and for that reason they weren't interested in appointing that agency, at least, that appeared to be the situation to me.

*Q. So that unresolved legal problem would have caused problems with the award of the contract to the McCay Corporation?*

A. I guess they thought it would create some problems. I don't know what problems they thought.

*Q. As it turned out, the McCay Corporation didn't get the contract, did it?*

A. No, they didn't.

*Q. Did you ever have conversations with Mr. DeMarco, the County Republican Chairman of Burlington County, concerning this contract?*

A. I had one conversation with him. It was recommended that I talk to the various freeholders and lay out my credentials to them, what our background was as an insurance brokerage firm, and I was also told that they thought I should, if I knew DeMarco, and I said, vaguely, that I had seen him a few times at political dinners and such, and that I also tell him of my credentials.

*Q. Was it clear to you that Mr. DeMarco, the Republican Chairman, would have some impact on the final decision in the award of this contract?*

A. You know, I didn't really know, quite frankly. From reading newspaper articles, I saw that, you know, if somebody was going to be appointed a judge or something, that the Party Chairman of either Party seemed to have something to do with those people going. So I didn't think it was peculiar.

Q. When you spoke to Mr. DeMarco, did you indicate to him that you or your agency had been good contributors to the Republican Party?

A. Yes, I did. I went through my background as an agent, but I did that. I felt that there was no harm in blowing my own horn.

Q. And what was his response to this statement?

A. His response was that he was aware that we had contributed to the Republican -- I think I also told him that we were contributors to the Democratic Party, also.

Q. When were you notified that you had been awarded the contract of insurance?

A. Sometime in the latter part of December.

X X X

Q. How much was the premium for the first year of this contract?

A. In the neighborhood of \$700,000, as I recall.

Q. Now, prior to the award of the contract, did you submit any proposals, suggested prices, contract terms or other data to Mr. Shinn or to the other freeholders?

A. No. We told them that we would reserve the entire thing and give them, you know, the best price that was available at that time.

Q. Had you ever negotiated premiums for a contract of this size before?

A. I don't think anybody in Burlington County has, quite frankly.

Q. Is it a normal procedure for you to -- for an insurance salesman or a broker to receive a contract without submitting these proposals or quotations beforehand?

A. Yes. It's not abnormal, let's put it that way.

Q. Regarding this contract, what was the commission you were paid or you were awarded?

A. It was varying degrees of percentages. In other words, we have a contract, an agency contract, with various companies and it outlines the percentage of commission that you are to get; like on a liability policy the amount of commission that you are to get, on multi-peril policy, on automobile policy and so on down the line. They're standardized commissions.



Q. What was the dollar amount?

A. The dollar amount of commission, as I recall, was in the range of \$80,000.

X X X

Q. I am going to show you a series of four checks. The first check, marked C-83 for identification, dated 4/28/77, made payable to the McCay Corporation in the amount of \$7,500. I will ask you if you recognize that check.

A. Yes, I do.

Q. Is that your check?

A. Yes, it is.

Q. All right. I have a check here marked C-84 for identification, payable to McCay Corporation, dated 6/14/77 in the amount of \$7,500. I will ask you if you recognize that check.

A. Yes, I do.

Q. Are you the signator to that check?

A. Yes, I am.

Q. I have a check here marked C-85 for identification, dated 4/27/78, payable to the McCay Agency in the amount of \$7,500, and I will ask you if you recognize that check.

A. Yes.

Q. Are you the signator to that check?

A. Yes.

Q. I have a check here marked C-86 for identification, dated 6/8/78, payable to the McCay Corporation, in the amount of \$7,500, and I will ask you: Do you recognize that check?

A. Yes, I do.

Q. Are you the signator to that check?

A. Yes, I am.

Q. Those checks are all on the account of Chesley & Cline?

A. Yes, they are.

Q. Can you tell me, Mr. Monaghan, what those checks were for?

A. A very good friend of mine, Raymond Houlihan, was a principal of the McCay Agency. I've known him for over 20 years. And it was obvious to me that he had been trying to get this account, so at that time I felt that I should visit him and, when we were informed that we were getting the account, and indicate to him that I had not gone out to try and undercut him or anybody else; that he just wasn't going to get the account due to some legal problems of his associate, and that we were going to get the account. I made a business decision at that time to ask him to assist me on the account in the placing of any business that I couldn't place. He agreed that he would do this.

I told him that I would arrange some remuneration for him, but at that time I wasn't sure exactly what the remuneration would be because I wasn't that deeply involved in the account. I just figured it was sort of killing two birds with one stone. I was keeping a friendship and I was getting a back-up from an excellent agency that has tremendous background.

Q. Are they the only agency that received any money for you for backup services?

A. Yes, they are.

Q. And you decided that they would get 15,000?

A. I was -- it was my decision solely.

Q. And when did you decide that?

A. I decided -- well, where the conversation took place, I was on a trip, an insurance trip, with Mr. Houlihan. It was a group of insurance men, in the Dominican Republic, and at that time I said I had looked into the account sufficiently and that I thought that I could give him \$15,000 out of my commission for the services that I wanted him to render at any time. I looked upon 15,000 due to the tax bracket that we're in as really \$7,000.

Q. Well, you stated that you might have needed him for backup placement, and this conversation in the Dominican Republic, when did it take place?

A. That took place in February of 1977. But at that time I had already made the arrangement. All I did here was, was indicate how much money that I was willing to pay for his services and availability.

Q. But you had already placed the insurance, hadn't you?

A. Not all of it. We were still working on some degree of it at that time. We still had items --

Q. But you experienced no problems in placing it?

A. Yes, we did experience some problems.

Q. Did he assist you in that?

A. At that time I had maybe a couple of conversations with him, but I was able to work all my problems out. And I had enough ego to want to place it all myself, quite frankly, if I could.

Q. So he actually -- he placed no insurance in this backup status?

A. He actually -- no, if I wanted to create a subterfuge and let him place some, I could have. But I didn't. I saw no reason to. I wasn't really ever hiding anything.

Q. Well, why did you continue to pay him in the second year that's indicated here in '78?

A. Because when I made the original arrangement, I asked him if he would be on a retainer for the entire three years I had my contract. One of the reasons was I wasn't sure where I stood legally. I had undertaken a three-year contract. If somewhere down the line that I couldn't effectively handle the insurance or my companies had deserted me or anything along that line, I needed somebody to back it up, because if I had no place to go I could have possibly been in some legal problems with accepting a three-year contract.

Q. Do you have, or have you had, any other insurance contracts where you required this backup service?

A. I've never had anything of this magnitude before.

A. I've never had anything of this magnitude before.

Q. Then where had you developed the idea of a backup broker?

A. It was an idea that, when I saw the size of the account and saw some of the problems in it, I had some fears of placement because it was a very tight municipal market at that time, and there still is.

Q. Did you, in fact, consider this not only payment for anticipated services, but also benevolence on your part because you felt McCay would have gotten the contract under other circumstances?

A. It was calculated benevolence. I didn't want Mr. Houlihan to be upset with me and to possibly come down into the area that is our service area and start going after accounts down in my area, so to speak.

Q. How did you arrive at the amount of 15,000?

A. That was -- you know, I have no idea. It was sheerly out of my own head that I arrived at that amount. I could have just as easily arrived at 12,000 or 20,000. Fifteen just seemed like a decent amount at the time. I didn't want to seem cheap.

Q. Now, after you communicated to Mr. Houlihan that you would be paying him \$15,000, what did he say?

A. He indicated that it was a very nice gesture on my part, and I think he also indicated that he didn't know whether if he was in the same position that I was he would be quite as, quite as good.

Q. Did you discuss the fact that the McCay Agency was receiving \$15,000 from you with any members of the Board of Freeholders?

A. I don't recall ever really discussing that. I don't think that that matter ever became public with any of them until the time of the first visit from Mr. Hutchinson (S.C.I. Agent Richard S. Hutchinson).

#### Political Contributions Increased

Counsel Dillon turned to the practice prevalent in other public entities of converting insurance commissions into political contributions. S.C.I. files showed a marked increase in Mr. Monaghan's political gifts after he became broker of record. Counsel:

Q. The year prior to your receiving this account, again, that's 1976, what was the total amount of money that you contributed to political parties, approximately?

A. I think around five to \$6,000.

Q. Now, do you know approximately how much you contributed in 1977?

A. Around \$10,000.

Q. And in 1978?

A. Around \$13,000, all of which was legally reported, to the best of my knowledge, by the parties. I didn't -- you know, I never thought I was doing anything --

Q. Why did your political contributions increase significantly, it appears, after you received the account?

A. Because I had a large account, and was interested in showing my appreciation for receiving the account, and I also was hoping possibly at a later -- you know, to perpetuate myself. I was new in the account and figured, you know, if they stay in, maybe they'll appoint me three years down the line.

Q. I gather it's your feeling that political contributions and governmental accounts go hand-in-hand?

A. I would have -- it's my personal feeling that, yes.

Q. Was it expected, once you received this account, that you would make political contributions?

A. That was something that I expected to do. I assumed it was.

Q. If you ceased to make these political contributions, would you fear that you might lose this account or other governmental accounts?

A. Well, I couldn't lose that account because I had a three-year appointment. I just in my own mind, whether it was real or imagined, could see I could suffer a degree of cooperation with the people I needed cooperation with in order to function as an insurance professional.

Q. You have had this contract with Burlington County for two years. You have contributed to the McCay Corporation approximately \$30,000. You have made contributions, political contributions, of approximately \$25,000. Is this insurance contract still profitable?

A. It's touch and go, because I also have another thing in there where I have to have all the buildings in the county appraised during my three-year term and have to pay for the appraisal, and the appraisal, the contract has been let for that for \$18,600.

Q. Would you take the contract after the year 1979 for another three year?

A. If I could set the ground rules, I would consider it. But I would have to set the ground rules this time.

EXAMINATION BY COMMISSIONER PATTERSON:

Q. What kind of ground rules would you set?

A. I would at this juncture, after experience what I have gone through here, I think that I would indicate that any political contributions would have to be reported outright to somebody and published, and that if I was going to use a broker for any arrangement, that I would have to report to the freeholders once a year who and where everything went to, and that way I don't think I would be sitting here today.

Q. Well, it's my understanding that no one made you, one, take on the McCay Agency; you did it out of the kindness of your heart?

A. Right.

Q. And number two, that you didn't -- the contributions that you made were purely voluntary?

A. Right.

Q. So I don't understand what the ground rules would be.

A. Well, I just feel that I'm being criticized for what I did, and I figure that if this information had to be made public, then the criticism would not be available. It would be known when you take the contract that you had to do things such as that.

Q. I get the inference that you felt you had to make the contributions to get the contract.

A. Not to get the contract.

Q. To keep it?

A. To get cooperation and such.

Q. That a contract with an insurance business with the county is tied into political contributions?

A. I think I'm not --

Q. And that maybe that fellow, also, that you have to take -- you have to take the McCay Agency on as a co-broker or whatever you want to call them, advisor, also for the same reason.

A. No, well, I didn't do that. The McCay Agency wasn't had anything to do with the other thing.

Most of the people that do business with counties appear to me to be the obvious contributors because if you go to a political dinner or anything, that's who's there.

Q. And we heard that yesterday.

A. Well, it's -- unfortunately, I guess it's a way of life.

### Gloucester County's Experience

How political rather than professional considerations dominated the public insurance process was particularly illustrated in Gloucester County, where the practice of sharing commissions was utilized to reduce a political debt by \$6,500. The S.C.I. investigation disclosed that a so-called "insurance advisory committee" was created in 1974, but not noted in the minutes of the County Board of Freeholders until 1975. One member of this committee, Samuel P. Martin, subsequently was terminated from the sharing process, not by the Freeholders but as a result of a political dispute. What would have been his share of the commission was applied against the political debt. The advisory committee was not reappointed in 1977 -- but the use of split fees for political purposes continued. Witnesses scheduled to testify about public insurance events in Gloucester would emphasize the influence of Assemblyman Kenneth A. Gewertz, the County Democratic chairman, in commission sharing activities. The first witness from Gloucester was John Maier of Deptford, a Democratic county freeholder. He was questioned by S.C.I. Counsel Robert M. Tosti:

Q. Do you have any training or experience in the field of municipal insurance?

A. No, sir, I do not.

Q. Did you become aware that Mr. William Dalton was broker of record for Gloucester County insurance business?

A. Yes, I did.

Q. When was that?

A. Mr. Dalton was the broker of record before I was on the Board of Freeholders and he has remained broker of record until the present time.

Q. Do you recall freeholder action concerning the broker of record in January, 1975?

A. Yes, sir. Each year at the January organization meeting a broker of record is appointed.

Q. I would like to show you a document, previously marked C-89 for identification, which purports to be page 4 of the January 3rd, 1975, meeting, annual meeting, of the Board of Chosen Freeholders of Gloucester County, and I ask if you recognize that document.

A. Yes, I do, sir.

Q. And Mr. Dalton was reappointed as broker of record at that time?

A. That's correct.

Q. Does that also indicate that an insurance advisory committee was designated?

A. Yes, sir. It indicates that after the nomination was made to appoint a broker of record I suggested to the Board that we also appoint an advisory committee.

Q. Okay.

A. Naming Mr. Dalton, Mr. Martin and Mr. Marks to said committee.

Q. Was that your original idea?

A. Yes, sir.

Q. Personally, that is?

A. Yes, sir.

Q. How did that come about?

A. I had previously served as the mayor in Deptford Township. We had -- it had been the custom to have a broker of record. I changed that practice to awarding insurance, and I thought -- this is my first action in the county -- that it would be more appropriate to have other than one broker of record, more individuals look at the county insurance or the way that's handled.

Q. Were the responsibilities of this insurance advisory committee ever defined by the freeholders?

A. No, they were not. It was a committee appointed with, I think, just the information that is in the minutes and that was to look at the method of how county insurance is handled.



Q. Was this insurance advisory committee continued beyond 1975?

A. Yes, sir, it was again reappointed in '76 with two additional members added, and at that time they were specifically instructed to find out for me for the Board of Freeholders whether it would be better to bid the insurance than simply to award it to Mr. Dalton.

Q. Again, I would like to show you another document, previously marked C-90 for identification, which purports to be page 3 of the January 3, 1976, minutes of the Gloucester County Board of Chosen Freeholders, and ask if you can identify that document.

A. Yes, sir. It indicates here that Freeholder Maier proposed that C.J. Hendrickson of Woodbury and Tony Canuso of Pitman be added to the existing advisory board of William Dalton, Ron Marks.

Q. Were these two designees to the committee, were they Republican?

A. It was my understanding that they were. I was told that they were supposed Republican individuals.

Q. So now the committee was composed of three Democrats and --

A. Three Democrats and two Republican individuals. It would be a bipartisan committee to report back to the Board of Freeholders.

Q. Was this advisory committee continued in the year 1977?

A. No, sir, it was not.

Q. And again, I would like to show you another document marked C-91 for identification, which purports to be page 4 of the January 7, 1977, minutes of the Gloucester County Board of Chosen Freeholders, and ask if you can identify that.

A. Yes, sir. This is a copy of the minutes, Gloucester County Board of Freeholders, January 7, 1977.

Q. And do those minutes indicate that Mr. Dalton was again nominated and appointed broker of record?

A. That is correct.

Q. And does it also contain any reference to the insurance advisory board?

A. No, it does not.

Q. So the freeholders took no action, then, to reappoint or reconstitute an advisory board for '77, 1977?

A. That's correct. These minutes show that it was a bipartisan nomination of Mr. Dalton in this particular year for the insurance broker of record.

Q. I would like to show you another document, previously marked C-92 for identification and a document marked C-93 for identification, which purport to be pages from the annual minutes of the annual meeting of the Board of Chosen Freeholders for the years 1978 and 1979, and ask if you can identify these documents.

A. Yes, sir, this is the copy of the minutes of Gloucester County Board of Freeholders, January 5th, 1978, and on these minutes it does show that William Dalton was again nominated and bipartisanly elected or appointed as insurance broker for the County of Gloucester.

There is a copy of the Gloucester County Board of Freeholders minutes, January 3rd, 1979. Again, there is a nomination of Mr. Dalton as insurance broker of record for the county where Mr. Dalton was unanimously appointed by the Board of Freeholders.

Q. And is it also correct that the freeholders took no action to reappoint an advisory board for the years 1978 or 1979?

A. That is correct.

Q. Going back to the original formation of the advisory committee in 1975, did you understand at the time Mr. Marks and Mr. Martin were appointed to this advisory committee that they were to receive part of the commission earned by Mr. Dalton, the broker of record?

A. No, sir.

Q. Did the freeholders ever direct Mr. Dalton to share his commission with other brokers?

A. No, sir.

Q. Did you ever become aware that Mr. Dalton was sharing his commission with the other brokers?

A. I have heard of such.

Q. Did you hear how it came about that Mr. Dalton began to share his commission with the other brokers?

A. It was, it was -- I was informed or I had heard in discussion between Mr. Marks and/or Mr. Dalton that Mr. Marks and Mr. Martin were, in fact, working for Mr. Dalton.

Q. It was your understanding they were performing services for Mr. Dalton?

A. That was the conclusion, yes, sir.

Q. And your conclusion was reached on the basis that you learned they were receiving money, so you concluded that they were performing services?

A. Yes, sir. I was still serving as mayor of Deptford Township in '75 and as a freeholder. Ron Marks was a councilman in Deptford Township, and through discussions -- and I don't have exact time or date -- I was aware that Mr. Marks was providing services or working for Mr. Dalton in regards to county insurance.

Q. Did Mr. Martin or Mr. Marks ever meet with and confer with the freeholders with respect to the Gloucester County insurance program?

A. Not to my recollection. No, sir.

Q. Did you understand that no such meetings were expected to take place?

A. I wasn't aware of any meetings to take place or if any had taken place.

Q. Were you aware of any work actually performed by Mr. Martin or Mr. Marks?

A. No, sir.

Q. Did you gain any insight into the amount of work being done by Mr. Marks in any other way?

A. In a conversation over a year ago I had occasion to meet with Mr. Marks when we were on vacation in Maryland. Mr. Marks informed me that he had been called or questioned by the State S.C.I., and he said he had been asked about working on county insurance with Mr. Dalton.

And I said, "Well, what were you asked about it? What were they inquiring?" He said, "They wanted to know what I did, and I said I did nothing."

Q. So basically you learned that at least Mr. Marks said he did nothing for the commissions he was receiving?

A. He said he did nothing for Mr. Dalton or for the commissions if he was receiving any, yes, sir.

Q. Now, this insurance advisory committee was originally named to determine if bidding as opposed to the present system might be a better approach to appointing a broker -- than appointing a broker of record. Is that correct?

A. That is correct.

Q. Now, Mr. Dalton was receiving a substantial commission for his work; is that correct?

A. I know Mr. Dalton was being paid for providing insurance coverage for the county.

Q. Okay. And you subsequently learned that Mr. Martin and Mr. Marks were also sharing in this commission; is that correct?

A. Yes, sir.

Q. Mr. Dalton, as well as Mr. Marks and Mr. Martin, were receiving some compensation as a result of the insurance system as presently -- as then constituted in Gloucester County. Is that correct?

A. Mr. Dalton was the agent of record for the county, and apparently it was obvious or I was knowledgeable of the fact that he had a sub-agreement or a subcontract agreement with Mr. Marks and Mr. Martin.

Q. Did you believe it well-advised to then ask these three same individuals to recommend to the Board of Freeholders what form the insurance program should take?

A. I will answer that by saying that I was familiar with Mr. Marks as an insurance agent; I was familiar with Mr. Dalton as an insurance agent. I found them both to be competent individuals. We had added two other names that I was not personally familiar with, two gentlemen who supposedly are from a different political persuasion, to this committee, and I thought that the men who were most familiar with the county's insurance could provide us with the most factual and accurate information as to how we should provide county insurance.

Q. Did you consider it likely that a recommendation to change the present system would be forthcoming?

A. I assumed that there was competition amongst all the gentlemen on that committee. They are all in their own insurance business, and I did not think anyone would favor someone else's position over their own. So I thought we would get back a fair answer.

Q. Did a report eventually issue?

A. Yes, it did. We did receive a report.

Q. What did it recommend?

A. There was a letter read to the Board of Freeholders from Mr. -- from William Dalton, William Dalton, in essence, telling us they investigated the differences between awarding a broker of record, or appointing a broker of record, or bidding insurance and it was the committee's recommendation that the county was better off in providing the best possible coverage at the best possible rates by, in fact, having a broker of record.

Q. And with that report, was the insurance advisory committee then disbanded?

A. It was not disbanded with that report, but it was not reappointed in the subsequent year.

Q. So if two members of the committee, Mr. Marks and Mr. Martin, continued to share commissions in 1977, it would have had to be for something other than being appointed by the Board of Chosen Freeholders to serve on that committee?

A. They never received commission for being appointed to that committee. That was not the intent or the purpose of that committee. And if they did, in fact, receive commission prior to their appointment on the committee or, in fact, after the life of that committee, it was strictly an arrangement that would have been made by William Dalton, the insurance broker.

Q. So your testimony is that any such arrangement was made outside the powers of the Board of Chosen Freeholders?

A. That is correct, sir.

Q. Did you learn at some point that Mr. Martin was severed from this commission-sharing arrangement?

A. Yes, sir.

Q. And when was that?

A. I believe it would be over a year ago.

Q. Do you know why or how he was terminated?

A. There was discussion amongst myself, to Mr. Marks and other individuals, that, in fact -- if they were providing any work or any contract or services or any services to Mr. Dalton, that that was their own arrangement; that the Board was not making the appointments. The Board did not appoint Marks or Dalton to work -- excuse me -- Marks or Martin to work with Mr. Dalton. So the adding to or taking away from the arrangement would be one that would be primarily, I suppose, up to Mr. Dalton.

Q. The freeholders never acted to terminate Mr. Martin; is that correct?

A. The freeholders discussed that Sam Martin would not be in any way working with the county insurance or with the county broker of record, Mr. Dalton. That was discussed amongst individual freeholders; not as a matter before the Board of Freeholders, but amongst individual freeholders.

Q. Was Mr. Martin dropped from this arrangement because he was less politically active than Mr. Marks?

A. I was asked that question before, and I said I wasn't exactly sure in what context that is meant. I said I certainly was not a champion of Mr. Martin. I would not have argued or fought with anyone to appoint Mr. Martin to provide service to the county or to ask Mr. Dalton to use him in any way. I did not know Mr. Martin, I was not familiar with Mr. Martin, and he was subsequently no longer used by Mr. Dalton.

Q. Whether or not you championed Mr. Martin's position, were you aware that others had made a decision that he was not politically active enough to continue in this program?

A. Yes, sir. There was a discussion about Mr. Dalton using other agents to assist him with the county's programs, and it was the fact that, as an individual, I didn't know Mr. Martin, know him well, and I had nothing to say about him not being used by Dalton or about being used by Dalton.

Q. Was there some discussion recently at the Board of Chosen Freeholders with regard to adding Mr. Marks as co-broker of record?

A. Yes, there was.

Q. And how did this come about?

A. Prior to January 1, 1979's reorganization, it was common knowledge to individuals in Gloucester County that the S.C.I. was, in fact, conducting an investigation into insurance. In a discussion with Assemblyman Kenneth Gewertz, there was an inference made or a discussion that, if Mr. Dalton was, in fact, using Mr. Marks in any way at all to provide county insurance then the Board of Freeholders should consider appointing Mr. Marks officially to work with county insurance.

Q. Were co-brokers appointed for the year 1979?

A. No, they were not.

#### The County Chairman's Influence

Mayor William L. Dalton of Glassboro, broker of record for the Gloucester County Board of Freeholders, testified next about the political handling of public insurance matters.\* A former Democratic county chairman, he regarded the appointment of insurance brokers as part of the patronage system. He would testify that an insurance advisory committee was created in 1974 to make that system "more savory in the eyes of the public." He also would describe the influence in such matters of Assemblyman Gewertz, the county Democratic chairman. Counsel Schirmer questioned Mr. Dalton:

Q. What is your occupation?

A. I'm an insurance agent or broker.

Q. And what is the name of the agency you work for?

A. William L. Dalton Agency.

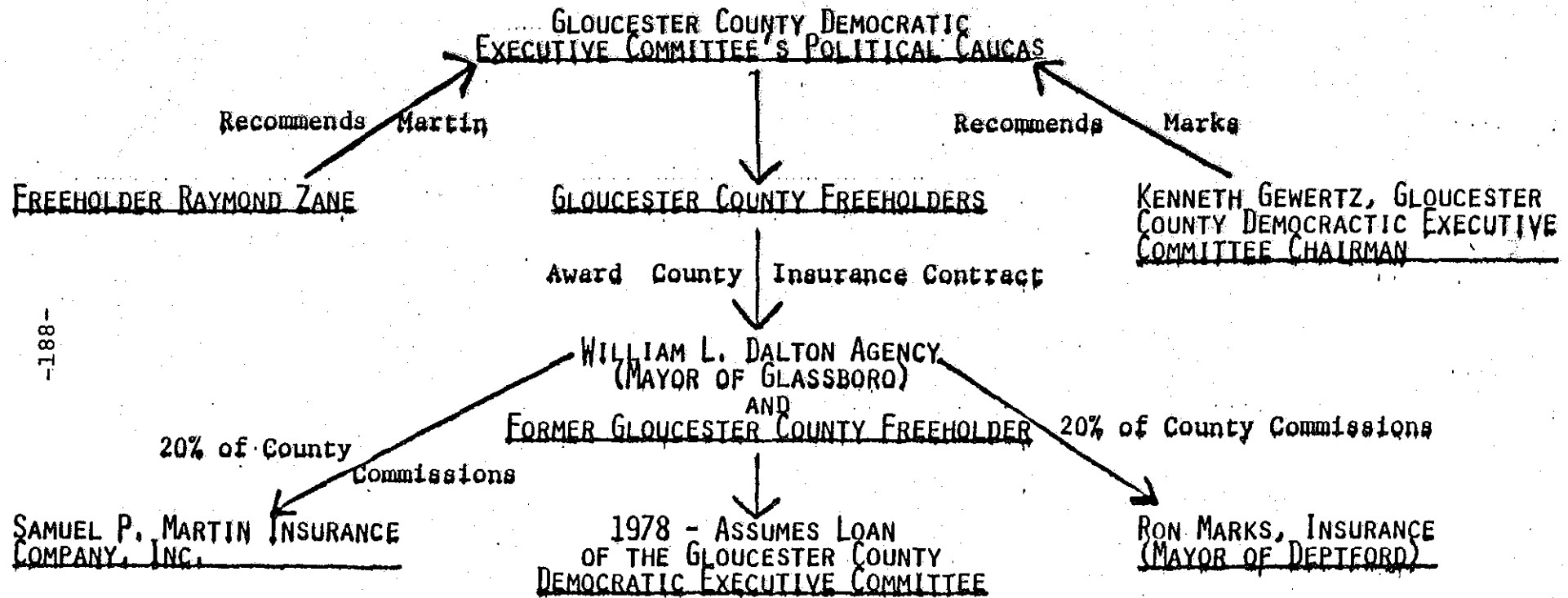
Q. What is your position?

A. I am the owner.

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\*See Chart, P. 188.

# GLOUCESTER COUNTY INSURANCE COMMISSION SPLITTING



1974 - \$ 2,012.03

1975 - \$ 2,586.76

1976 - \$ 3,153.47

1977 - \$ 4,808.77

\$12,561.03

1978 - TERMINATED

\$6,846.24

1974 - \$ 2,012.03

1975 - \$ 2,586.76

1976 - \$ 3,153.47

1977 - \$ 4,808.77

\$12,561.03



Q. Do you hold any political positions at the present time?

A. Yes. I am presently the Mayor of Glassboro.

Q. Have you ever been the County Chairman of Gloucester County?

A. Yes.

Q. Concerning the county account, which, I understand, you acquired in 1974, could you tell the Commission the events that led up to the awarding of that account to your agency?

A. Well, I let it be known that I was interested in being appointed the county broker to the people who are empowered to appoint or recommend.

Q. And who would they be?

A. Well, they would be some members of the Board of Freeholders who were elected at that time and, also, the Chairman of the Democratic Party at that time, Mr. Kenneth Gewertz.

Q. And when did that take place?

A. Well, shortly after we had been successfully -- when I say "we," I'm speaking of the candidates for the Democratic Party -- had been elected at that November.

Q. My understanding is that there was a change from a Republican-dominated Board of Freeholders to a Democratic-dominated Board of Freeholders that year.

A. That is correct.

Q. Why was Mr. Gewertz spoken to?

A. Mr. Gewertz is the County Chairman.

Q. Does he exert considerable influence or some influence as far as who is to acquire positions?

A. As the County Chairman, it's certainly within his province or the province of his office to recommend certain party members to various positions.

Q. Are his recommendations influential on the ultimate decision made by the freeholders?

A. I would think that unless they are pretty much in total disagreement, that certainly his, his recommendations would bear some weight, yes.

Q. When you spoke to the freeholders, what type of information did you give to the freeholders?

A. Well; it was very informal type of thing; that I, you know, that I was interested and that I felt that I was very well-qualified, and that I felt that, as a member of the Democratic Party, an active member for many years, that perhaps they would give me consideration.

Q. The appointment of the position of broker of record in Gloucester, that would be considered a patronage position?

A. Yes.

Q. What was next -- what next transpired after the initial notification to the Party Chairman and the freeholders?

A. Well; they, they did not take my recommendation to handle the insurance individually as a complete suggestion. They came back with a counter suggestion that a committee should be appointed along with myself as broker of record.

Q. I am going to show you minutes from January 3rd, 1975, marked C-89. They're minutes of the Freeholder Board for the annual meeting. I ask whether you could use those minutes to refresh your recollection and tell us whether that was the first time it was established on the record that there would be an advisory committee.

A. That is correct.

Q. Going back to the year 1974, how was it arranged that there was an advisory committee? It was not a formal freeholder action?

A. No.

Q. Where was it decided that these two individuals, Mr. Martin and Mr. Marks, would share in the commissions on that account?

A. As I recall, it was in a restaurant, and I'm trying to remember which restaurant was in. It was either the Grid Iron or the Tall Pines, as I recall.

Q. Who was present at that meeting?

A. I believe that the County Chairman, Mr. Marks, myself, Mr. Martin, and it seems to me that possibly Freeholder Zane was present at that meeting. I'm not sure of that. I think that's correct.

Q. Would it be fair to say that the appointment of the committee in the first year was more of a political designation than a designation by the freeholder board through official action?

A. I think that's a fair assumption.

Q. What was your understanding why the two sharing brokers were appointed?

A. Well, it was, it was created because of -- it would be more savory in the eyes of the public if this were done, due to the fact pretty much that of my past activities as a very partisan Democrat in the county.

Q. Now, you state that it would be more savory to the public?

A. Yes.

Q. I think the indication is for the year 1974 that it was not a part of the public record.

A. That's true. Of course, then there is a patronage system that has to be served. But I don't recall that this was the principal thrust at that time. It was to show that, that there was a participation of -- in the writing of the county insurance.

Q. Did you feel it was necessary that the two brokers be appointed with you or to share commissions with you in order for you to obtain and maintain that account?

A. No.

Q. It was not necessary?

A. Not in my opinion, no.

Q. Did you ever call upon their services to place an account?

A. No. The account has been written before we took it over by Crum & Forster for at least 20 years, and it's still being written by this insurance company, and the markets have been adequate, certainly due to the fact that the County Gloucester has enjoyed a very fine insurance record with this company over the years.

Q. Would it be fair to say, then, that the services of Mr. Marks and Mr. Martin were not needed during those years that they served as an advisory committee and share in the commissions?

A. That would be fair.

Q. Were you ever instructed or talked to by any political persons concerning the sharing of commissions?

A. Yes. Mr. Gewertz had spoken to me upon occasion about the sharing of commissions.

Q. Did Mr. Gewertz speak to you in the year 1974 or thereabouts?

A. I don't recall at this time.

Q. Do you recall testifying before the State Commission of Investigation and asked this question?

"Did you understand that this was part and parcel of you receiving the insurance business?"

A. I remember testifying as the transcript shows here, yes.

Q. And if you would, would you repeat what you said at that Executive Session?

A. What I said at the Executive Session?

Q. I am going to repeat my question.

A. All right. Please.

Q. "Did you understand that this was part and parcel of you receiving the insurance business?" I am speaking about sharing commissions.

A. Yes, I felt that it was.

Q. Was it ever made clear to you by anyone what responsibilities or what was expected of the sharing brokers?

A. No.

Q. Was it ever made clear to you, or indicated to you by the Board of Freeholders, what was expected by the insurance advisory committee?

A. Let me say this: Mr. Gewertz did mention on a couple of occasions that he felt that we should be having some meetings and this sort of thing. I can recall that. I think it was in a telephone conversation or something of this effect.

THE CHAIRMAN: Did anything develop from that suggestion?

THE WITNESS: We had some meetings. The last year we had none. But we did have some meetings, yes.

Q. After you were appointed broker of record and you understood that you were to have an advisory committee to share your commissions, when was the first meeting that you actually did have after your appointment?

A. I think it was later in that year of '74.

Q. Was this the meeting where it was decided what the shares would be?

A. Yes.

Q. What was the initial decision on the shares as far as your share in the commission, and Mr. Martin's share in the commission?

A. That I would receive 60 percent of the total commissions, and that Mr. Marks and Mr. Martin would receive 20 percent each.

Q. My recollection is that the initial agreement was that 50 percent of the commission would be received by yourself, 25 percent for Mr. Martin, and 25 --

A. That's true.

Q. -- percent for Mr. Marks?

A. That's true.

Q. And that was ultimately changed?

A. Yes.

Q. Why was that changed?

A. Because I felt I was doing all the work.

Q. And they were doing nothing?

A. And they were doing nothing, that's right.

Q. So what actions did you take?

A. Well, as I recall, we had a discussion on it and it was mutually agreed that was a fair and equitable suggestion and it was followed.

Q. How did it come about that the sharing brokers found out that they were only going to receive 20 percent as opposed to 25 percent?

A. I think we had a meeting.

Q. Could it have been shortly after you delivered the first check in August of 1974 --

A. Might have been.

Q. -- that they realized that, instead of 25 percent, they only received 20 percent?

A. That's possible.

Q. After that realization, was there a meeting where you got together with Mr. Marks and Mr. Martin and other people and worked out this problem?

A. Yes.

Q. Where did that meeting take place?

A. I think that was at the Tall Pines, as I recall.

Q. Who was present at the Tall Pines meeting?

A. I think the people that I mentioned before; Mr. Gewertz, myself, the two brokers. Perhaps Donald Wagner might have been present at that meeting.

Q. Who is Donald Wagner?

A. He's director of the Board of Freeholders.

Q. Why was Mr. Gewertz there?

A. In his capacity as County Chairman.

Q. You felt that he should be aware that you were changing the initial split?

A. Yes.

Q. Was he agreeable to that change?

A. Yes.

Q. And from that point on you took 60 percent of the commission for yourself and shared the other 40 percent with two other brokers?

A. That's correct.

Q. I am next going to introduce the checks that were shared in the years of the contract.

First I have a check, 95 for identification, from William Dalton to Ronald Marks, dated 8/30/1974, in the amount of \$2,012.03, the same size check on the same date to Mr. Martin, and that is marked 96 for identification; a second series of checks, dated 4/18/1974, first to Ronald Marks, the second to Samuel Martin, in the amount of \$1,407.83, and they're consecutively marked 97 and 98; a third series of checks consecutively marked 99 and 100, these checks are from William Dalton to Mr. Marks, the second check to Mr. Martin, dated 11/13/1975 in the amount of \$1,178.93; a fourth series of

checks from William Dalton to the Marks Agency, the second check to the Martin Agency, dated October 20th, 1976, in the amount of \$3,153.46; a fifth series of checks from William Dalton -- let me just go back to the checks of October 20th, 1976. The two checks are marked consecutively 101 and 102.

A fifth series of checks, marked consecutively 104 and 103. The first check is to Ronald Marks, the second check is to Samuel Martin Agency, dated 12/14/1977 in the amount of \$4,808.77.

Would they be the checks that you shared with those brokers?

A. Yes.

Q. When you mailed those checks out, would you inform Mr. Gewertz that they had been mailed out?

A. Yes.

Q. How would you make that notification?

A. I'd list all coverages by commission, total it, break it down, and Mr. Gewertz would -- and send a covering letter with it, and Mr. Gewertz would get a copy.

Q. Why would Mr. Gewertz be notified?

A. In order to ascertain that the checks were sent; they they were received; that an accounting had been made of them in the event that someone denied that they never got the check.

Q. Did you feel that this was related to the sharing brokers contributing to the party?

A. Yes.

Q. The fact that Mr. Gewertz was notified?

A. Yes.

Q. And you felt that that was a necessary action in this incident, if we can call it that?

A. Yes.

X X X

Q. Do you recall an altercation in the sense of a letter-writing campaign between yourself and Mr. Marks?

A. Yes.

Q. And that was concerning commission-sharing; is that correct?

A. Yes, it was.

Q. Could you tell me who was carbon-copied with those letters?

A. I think Mr. Gewertz was carbon-copied.

Q. Why was Mr. Gewertz carbon-copied with those letters?

A. Because when you are County Chairman, when people have a group, they generally pick up the phone and call you, and then you call the other person involved and say, "Try to iron it out." So in this particular case, in trying to iron this thing out, I copied Mr. Gewertz so he would know what was going on.

Q. Would the underlying reason be that commission sharing, as far as Gloucester County is concerned, was a political -- was involved in politics?

A. Absolutely.

#### The Party Debt

The "termination" of Samuel Martin as a sharing broker and the use of what would have been his fee to relieve the County Democratic Party of a \$6,500 debt was the next topic:

Q. In 1977 Mr. Martin, Mr. Marks received approximately \$5,000, \$400, \$700 some change. After 1977 Mr. Martin was terminated, is that correct, as a sharing broker?

A. That's correct.

Q. How did that come about?

A. Well, Mr. Martin and I were not on the best of terms, and so it was in discussing this particular situation one day with Frank Hauser --

Q. Who is Frank Hauser?

A. -- who is clerk of the Board of Freeholders, that he pointed out to me that there was an outstanding note held by the Democratic Party and that perhaps, inasmuch as I did not wish to share commissions with Mr. Martin, perhaps I could apply those commissions to pay off this indebtedness for the Democratic Party, and suggested I might talk to Mr. Gewertz about it, and I did.

X X X



Q. Would it be fair to characterize Mr. Hauser's suggestion as a substitution of Mr. Martin, who is receiving patronage commission, for payment of the political note?

A. Yes.

Q. What happened next?

A. I suggested that we work out this arrangement to Mr. Gewertz.

Q. What was Mr. Gewertz's reaction?

A. That he would take it -- that it really didn't make that much difference to him and they were having trouble paying that note, and that he would get back to me.

Q. But he would be the proper person to go to if Mr. Martin were to be terminated?

A. Yes. I felt that, in all probability, as Chairman of the Party, he was responsible for that note.

X X X

Q. In any event, did Mr. Gewertz get back to you?

A. Yes.

Q. And what happened in that conversation?

A. He said it was acceptable and that I should make the arrangements.

Q. I am going to show you a ledger sheet for the Gloucester County Democratic Club. It's a ledger sheet from a bank, marked for identification 112, and it indicates the payment by yourself of a loan for the Gloucester County Democratic Club. Would that be the amount of the loan that was paid off in lieu of paying Mr. Martin?

A. \$6500.

Now, I might take you a step further in this. Okay? This is marked paid in full, which means that I assumed the obligation for that note personally. That note is not fully paid off as yet. Simply the Gloucester County Democratic Club has been relieved.

THE CHAIRMAN: You substituted your note for it?

THE WITNESS: That's right. Substituted for its obligation.

THE CHAIRMAN: And you continue to pay on it?

THE WITNESS: That's right.

Q. Are you a fairly large contributor each year to the political parties?

A. I would say that I am fairly large. I don't know whether I'm the largest or not, but --

Q. Approximately how much, if you can characterize it?

A. I'd say a thousand dollars a year.

Q. Did you consider the money that Mr. Marks and Mr. Martin received as a contribution?

A. Yes.

Q. Despite the fact that you were sharing approximately 40 percent of your commission with two other brokers who were doing no or little service for that account, did you find the account still profitable?

A. Yes. It was still profitable, very -- it was being squeezed. The profits are definitely being squeezed because commissions are constantly being reduced.

Q. But, in any event, you could make a decision to reduce your commissions?

A. Yes, you could.

Q. And that would have a direct savings to the township or the county in the sense of a lower premium?

A. That's right.

Q. However, if you felt that a commission was excessive, based on the services being performed by a broker or the fact that he was sharing his commission with several other people doing virtually no work on that account, that commission could be lowered by the amount of money shared to the other brokers with a direct saving on the ultimate premium paid for by the county or whatever governmental entity is being insured.

A. Yes. That would be somewhat like Mike Schmidt, when he was in a slump, turning back some of the salary.

The County Clerk

Franklin S. Hauser, the Gloucester county clerk, was the next witness. He confirmed the gist of Mr. Dalton's testimony about the termination of Mr. Martin and the division of his insurance commission share toward payment of the political debt. Counsel Schirmer:

Q. Directing your attention to the insurance advisory committee and the sharing brokers, did you have a conversation with Mr. Dalton in 1978 concerning a Mr. Martin and the payment of a note for the Gloucester County Executive Committee?

(Witness conferring with counsel.)

A. I wish that you would explain the advisory committee and the sharing brokers and so forth.

Q. If I could have this conversation, all I want is a conversation. I think it's been greatly explained for the record the functioning of the advisory committee and the sharing commissions. My particular interest at this point is the conversation you had with Mr. Dalton in 1978 concerning the termination of Mr. Martin and the assumption by Mr. Dalton of a Democratic county note.

A. Okay. The specific question again, Mr. Schirmer, so I know? Did I have a conversation with him about this?

Q. Yes.

A. Is that your specific -- yes, I did have a conversation with him.

Q. Was it a phone conversation?

A. Yes, sir, it was.

Q. Who initiated that phone conversation?

A. I don't know whether I called him, he called me, or what.

Q. Could you tell me what took place during that phone conversation, as far as conversation?

A. Without respect as to who said exactly what, I could give you the gist of the conversation. You know, who initiated what part of it or -- but it was something to the effect that, "Who is Mr. Martin? Why does he have to share in these commissions?" And so forth. And I said, "I don't know why. He doesn't mean anything to me. He happens to live in my home town. I've never seen him active politically or anything like that and" --

Q. This conversation of who is Mr. Martin was a reference to Mr. Martin was not very active in political circles?

A. I can't speculate on that.

Q. I'm not asking you to speculate. I am asking for you to give me what you thought, or why you said that or why you did not react to that type conversation.

A. Okay. That specific statement was made by Mr. Dalton in the conversation, and your question is?

Q. My question is I don't know what the conversation was and I would like you to inform me what the conversation was.

A. The conversation was, basically, that -- I don't know whether -- I don't recall whether or not the phone call was initiated for that purpose. I would kind of doubt that, because we have numerous conversations. I've dealt with Mr. Dalton for all the insurance -- was that there was -- whatever the problem was, and Mr. Dalton -- maybe not these exact words now -- "Why is Mr. Martin even considered?" And so forth and so on.

Q. What did he mean by who is Mr. Martin?

A. I can't speculate on what Mr. Dalton meant by that other than the fact that he was sharing in commissions with -- on the county's insurance, and why should he share in the commissions on the county insurance.

THE CHAIRMAN: Did anything develop from this discussion?

THE WITNESS: During the conversation -- and I don't recall whether I said it or Mr. Dalton said it -- very possibly was me that said, you know, "Why don't you talk to the County Chairman about this? You know, if you don't like it, I know that there is outstanding debts that the county had and so forth, and why should you, you know share anything, and, you know, maybe instead of sharing there, maybe one of those bills can be paid or something." But I suggested that he discuss this with the County Chairman.

BY MR. SCHIRMER:

Q. So you suggested that, in lieu of Mr. Martin sharing the commissions, that Mr. Gewertz be contacted where a possible arrangement could be worked out that a debt for the Party would be paid off.

THE WITNESS: Excuse me.

(Witness conferring with counsel).

A. Yeah, yeah, that was one, you know, basically.

The Terminated Broker

Samuel P. Martin of West Deptford, who headed the Samuel P. Martin Insurance Agency, testified about his rise and fall as a sharing broker between 1974 and 1977 in Gloucester County's insurance program. Counsel Schirmer asked how he became part of the sharing system:

Q. Who did you ask?

A. I asked the chairman, Mr. Gewertz.

Q. Anyone else?

A. I asked Mr. Zane.

Q. Was Mr. Zane a freeholder at the time?

A. I believe so.

Q. You are a close personal friend of Mr. Zane; is that correct?

A. Yes, I am.

Q. When you approached Mr. Gewertz, why did you approach Mr. Gewertz?

A. He was the County Chairman and I thought him to be the appropriate one to ask to participate in the insurance program.

Q. Other than those two individuals, Party Chairman and the Freeholder Zane, was there anyone else that you spoke to?

A. I don't believe so.

Q. How were you notified that you would be on the insurance advisory committee?

A. I saw it in a newspaper.

Q. You saw it in a newspaper?

A. Yes, and I was at the meeting, I think a freeholder meeting, at the time they nominated the insurance committee.

X X X

Q. The first year that you were on that committee, the first year that you received commissions, do you know whether it was an official action by the freeholders awarding the contract to Mr. Dalton and also appointing a sharing body?

A. No.

Q. Do you recall a meeting at the Tall Pines, late 1974?

A. I do.

Q. What was the cause of that meeting?

A. The meeting was in reference to the commissions and the percentage of.

Q. Be a little more expansive, if you would. What was the original understanding on the commissions?

A. They were to be 50 percent, 25 and 25.

Q. You were to receive 25 percent, Mr. Dalton was to receive 50 percent?

A. That's correct.

Q. Who attended that meeting?

A. It was Bill Dalton, Ken Gewertz, Ron Marks, and myself, and, I believe later on, Ray Zane.

Q. Was it agreed at that meeting that the new sharing arrangements would be approved?

A. Yes.

Q. Did anybody approve that arrangement, the new arrangement?

A. Well, we, we just all agreed.

Q. Why was Mr. Gewertz there?

A. I have no idea.

Q. Did he speak during the conversation?

A. I'm sure he did.

Q. Do you recall what he said?

A. Nothing I could really bite on.

Q. Do you recall whether he said that was a satisfactory arrangement to him?

A. I don't recall him saying that.

Q. Concerning the commissions that you earned on that account, what did you do for the moneys you received?

A. Well, I went, first went to Mr. Dalton's office, and he showed me the present policies. I familiarized myself with the policies; attended several meetings; and I am a professional insurance agent of 19 years, and was ready to, to step in in the event that something were to happen to Mr. Dalton. I -- I was ready to go with no notice whatsoever to serve the county.

Q. Approximately how many phone conversations did you have with Mr. Dalton for the period 1974 to the end of 1977?

A. I believe, maybe eight. Approximately eight conversations.

Q. How many meetings did you have?

A. Maybe three or four.

Q. Included in the three or four meetings that you spoke about would be the meeting at the Tall Pines with Mr. Dalton and Mr. Marks?

A. Yes.

Q. Did you make contributions in the years that you received the sharing commission check?

A. I believe I contributed every year to the Gloucester County Democrats.

Q. Did your commissions increase in those years that you received a commission-sharing check?

A. Yes.

Q. Did your commissions stop, or virtually stop, in the year that you were terminated as a sharing broker?

A. No.

Q. How much contribution did you make in the year 1978?

A. Approximately \$200.

Q. I am going to show you a check, which has been marked for identification C-113, from the Samuel Martin Insurance Company to the Gloucester County Executive Committee, dated 10/19/1976, in the amount of \$500. Is that the check that you contributed that year?

A. Yes.

Q. That's at least twice as much as you gave in 1978. Correct?

A. Yes.

Q. Were there other contributions that you made in 1976?

A. I believe there was a check to Ray Zane's Executive Campaign Fund for a thousand dollars.

Q. That's \$1500 already?

A. Yes.

Q. Do you recall how it came about that you made these contributions? Were you called to make contributions?

A. Well, the Gloucester County Executive Office usually calls for a donation every --

Q. Who is in charge of that office?

A. Mr. Gewertz.

Q. And what would transpire in those phone conversations?

A. Just simply say that election time is coming and if I could please send a check.

Q. I am going to show you the check that you received in 1976 from William Dalton in the amount of \$3,153.43. The date of the check is October 20th, 1976. Is that the check you received?

A. Yes.

Q. The next day you will notice that you gave \$500 to the Gloucester County Executive Committee. Was that a result of a phone call from the Gloucester County Committee office?

A. I don't recall what day they called.

Q. But you do recall phone conversations from them soliciting money?

A. Yes.



Q. Did you ever have a phone conversation with that office, either with someone in the office or the person who ran the office, where you informed them that you had not received your sharing commission check and you weren't about to make a contribution until that time?

A. I don't recall that.

Q. Do you recall a conversation where you refused a contribution until you received your check or that the two were related in your mind?

A. I don't recall that.

Q. Did you feel that the commission-sharing check that you received was related to the amount of contributions that you would make in a particular year?

A. No.

Q. And that's despite the fact that in the year 1976 the sharing check is dated October 20th, 1976, and the amount of money that you gave to Mr. -- the Gloucester County Executive Committee dated the next day is \$500? There is no connection there?

A. There wasn't.

Q. I am going to show you a check, marked C-114 for identification, in the amount of \$1,000 from Samuel P. Martin to Raymond Zane Campaign Fund. Is that the check you gave?

A. Yes, it is.

Q. One day prior to receiving the check from Mr. Dalton. Correct?

A. If that's the way the facts are, that's true.

Q. Had you been notified that you were going to receive a commission-sharing check?

A. No.

Q. Why had you at this time decided to contribute \$1,000 to Senator Zane's or Raymond Zane's campaign?

A. Ray Zane is one of my oldest friends. I think a great deal of Ray, and there isn't anything I wouldn't do to help him along. The State of New Jersey needs good people like Ray, and I am there to help him.

Q. Were you terminated in 1978?

A. I did not receive a check for 1978?

Q. Did you understand how that came about?

A. I do not.

THE CHAIRMAN: You and Mr. Dalton were having a series of disagreements, weren't you?

THE WITNESS: Yes, you could say that.

THE CHAIRMAN: And don't you think that's the reason you were cut off from split commissions?

THE WITNESS: I don't know.

BY MR. SCHIRMER:

Q. Did you have a conversation with Mr. Gewertz at this point where you were terminated?

A. I don't recall that I did.

Q. Were you asked such a question during your Executive Session before the State Commission of Investigation?

A. What is the question, Mr. Schirmer?

Q. After you were terminated in 1977, did you speak to Mr. Gewertz concerning that termination?

(Witness reads from Executive Session testimony)

THE CHAIRMAN: What's your answer now to the question?

A. Yes.

Mr. Martin's Sponsor

The next witness, Senator Raymond J. Zane, a former Gloucester freeholder, told how he promoted Mr. Martin as a broker in the county's insurance program. He also described the impact of politics on broker appointments. Counsel Schirmer:

Q. Concerning the sharing of commissions, based on the insurance contract in Gloucester County for the year 1974, do you have any familiarity with that practice, in the year 1974 when you were a freeholder?

A. Not with sharing commissions as such. If you would like me to elaborate.

Q. Yes.

A. It was my understanding at the time of appointment that various brokers, as had been a practice in the past, various brokers would be appointed and that they would advise, I assumed at that time, write various policies, and participate in the overall management of the county insurance program.

Q. Did you understand that those brokers would be sharing the commission earned by the principal broker?

A. No. I had no understanding of that at all at the time of the appointment.

Q. When did you first learn of the fact that there would be an advisory committee along with Mr. Dalton, who would be the broker of record?

A. I believe, my recollection is that there was an advisory committee in the very first years. I -- it was my understanding that three brokers were appointed in 1974.

Q. Have you had a chance to review the minutes of the freeholders for the year 1974?

A. Yes.

Q. Is there a reflection on those minutes that there was an advisory committee appointed that year?

A. No, there is not.

Q. Did you ever hear discussed in political circles, as opposed to freeholder circles, that there would be an advisory committee?

A. Yes.

Q. Who was involved in these discussions?

A. To the best of my recollection, a meeting took place at Freeholder Director Wagner's home, as I recall. He was convalescing from surgery, and I believe that, again, to the best of my recollection, the then-present freeholders, of which I was one, as well as the County Chairman--

Q. By the name of?

A. Kenneth Gewertz, and to the best of my recollection that's who participated in those meetings.

Q. What was decided at those meetings?

A. Well, there were a number of appointments. Excuse me. The then-existing clerk to the Board of Freeholders provided a list to us of appointments that were coming up to be made. It was the very first time the Democrats were in control in that county, and to focus in on the question that you have, one of them, one of the positions was the appointment of insurance broker of record.

Q. Did you have your own person that you wanted to sponsor for that position?

A. Yes, I did.

Q. Who is that?

A. Samuel Martin.

Q. Were you successful in having him appointed broker of record?

A. To the best of my knowledge, that evening when the names were discussed and submitted, I recommended Samuel Martin. I do not recall any objection to it. I know from a later conversation after that that Samuel Martin did speak with the County Chairman as well as his place of business informing him that he was interested in the position.

Q. Would it be fair to characterize this as a political caucus meeting?

A. Yes, it would. All of the, all of the positions were discussed, not just the insurance.

Q. Would it also be fair to say that Mr. Dalton was appointed because not only was he an experienced broker, but he also had strong political connections?

A. Yes.

Q. Is Mr. Gewertz influential in the appointment of patronage positions, back in 1974?

A. Gee, that's a tough one. I would have to say, yes. I don't know to what degree he was influential. But, yes, influential.

Q. Looking at your position as a freeholder at that time, did you feel influenced or would you certainly consider what Mr. Gewertz would advise?

A. Yes, I would have.

Q. But your testimony is that, as far as you know, sharing was not discussed during these meetings?

A. Absolutely not. My impression was that, as I indicated to you before, that agents would write various policies; that they would consult; that they would advise where there were deficiencies in the insurance program for the County of Gloucester, and that's really what I thought their function would be.

Q. When you heard about the advisory committee, that Mr. Martin was serving on the advisory committee, your understanding was that he was doing part of the work?

A. Yes.

Q. Did you ever find out that he was not doing any work on that account?

A. I know that he outlined, told me at one time that he reviewed policies, and he explained to me that he had personal difficulties with Mr. Dalton.

Q. Did you later come to understand that the sharing -- the brokers on the advisory committee were sharing in commissions?

A. Yes, but I couldn't recall when. Certainly not within that, within that frame period.

Q. Did you attend a meeting at the Tall Pines?

A. I think it would require some clarification, because there may have been several meetings. I recall being invited to a meeting which was, again, my recollection, was political.

Q. Who were you invited by?

A. As I recall, the County Chairman, Kenneth Gewertz.

Q. Approximately when? Shortly after the award of the contract?

A. Anything I say would really be a guess. As I indicated to you previously, I recall other discussions taking place after that and it could have been in '74, '75. I don't recall it having been --

Q. Do you know who attended the meeting?

A. My recollection, the County Chairman; I think, Mr. Marks; Mr. Martin, and Mr. Dalton.

When I arrived at the meeting, the meeting was, for all intents and purposes, over. Mr. Dalton was standing and about ready to leave, and that really was the extent of the meeting. I did not participate in the meeting.

Q. Were you involved in the termination of Mr. Martin as a sharing broker --

A. No.

Q. -- in 1978?

A. No.

Q. Did you ever become aware of that fact?

A. Yes.

Q. How did you become aware of that fact?

A. I believe it was, I believe, I'm not positive, it was through Frank Hauser, the clerk to the Board of Freeholders.

X X X

Q. Senator, in the year 1976, October 20th, 1976, Mr. Martin received a sharing commission check of \$3,153.47 from Mr. Dalton. The check I am showing you is that check, C-102 for identification. I am just giving it to you to set some time periods.

A. Okay.

Q. One day after that check was written a check was made out to your campaign fund in the amount of \$1,000 by Mr. Martin, the date being 10/21/1976. The exhibit number is C-114.

Do you recall receiving that check?

A. Yes, I do.

Q. Did you solicit that check?

A. No, absolutely not. In fact, my reaction was, when I got the check, that it was entirely too much money.

Q. Did you relay those facts onto Mr. Martin?

A. Yeah. In fact, I believe my words were, you know, "You are crazy," or "You are nuts. This is entirely too much."

Q. Based on the dates, do you feel that the two are related?

A. I can't say, because they would -- you know, that would be asking me to give you an opinion as to what was happening, I guess, in the mind of Sam Martin. I had no knowledge of the check from Mr. Dalton.

Q. But as far as your testimony, they are not related in a sense that you solicited the campaign fund?

A. Oh, absolutely not.

Q. I would also show you a check, dated 10/19/1976 from Mr. Martin to the Gloucester County Executive Committee in the amount of \$500, which has been previously marked C-113. As far as what you did, there is no connection between the check that Mr. Martin received from Mr. Dalton and the check to the Gloucester County Executive Committee?

A. Positively.

Q. Did you ever direct Mr. Gewertz to call Mr. Martin?

A. No.

Q. Were you ever informed that the sharing checks were received by the brokers?

A. No, I don't believe so. However, I do feel at one time -- and I really couldn't recall one -- that Sam had indicated, when they were having problems and difficulties between he and Mr. Dalton, that he had received a check, but I don't think it's at this time.

Q. Did you receive correspondence, carbon copies of correspondence, between sharing brokers?

A. No.

Q. Did you ever receive correspondence about a fight that Mr. Dalton had with Mr. Marks in the year 1976?

A. I do not believe so.

Q. Concerning all the commission-sharing practices, you were not privy to that information?

A. No.

Five Meetings in Five Years

Ronald S. Marks, who was mayor of Deptford as well as a sharing insurance broker in Gloucester, testified about the political background of his selection as broker, what little work he did in return for sharing in commissions and how his political contributions increased after he became a recipient of split fees. Counsel Schirmer;

Q. What agency do you work for?

A. Ron Marks Insurance.

Q. Do you hold any elected positions?

A. I'm the Mayor of Deptford Township.

Q. Have you ever served in any other capacity in Deptford? Committeeman?

A. I was councilman and committeeman for seven years prior.

Q. As mayor, who did you succeed?

A. John Maier.

Q. Who now is?

A. Freeholder.

Q. Concerning the award of the contract in Gloucester County to William Dalton as a broker of record, did you take any actions whereby you might be appointed broker of record in that county?

A. '74. Yes, I've contacted John Maier and the other freeholders and told them I had a broker's license and that I would be interested in being a broker of record for the county insurance.

Q. Did you contact anyone else?

A. I contacted any leader of the Democratic Party in Gloucester County at that time.

Q. Would you have contacted the Democratic Chairman?

A. I probably would have spoken to him, yes.

Q. You probably would have or you did?

A. I'm sure I did. I talked to any Democrat that had anything to do with the Gloucester County freeholders.



Q. When you spoke to Mr. Gewertz, if that's correct, did he tell you anything?

A. Told me he would submit my name to the Freeholder Board.

Q. Did he direct you to go and see the freeholders?

A. No, because I had seen the freeholders.

Q. Were you ultimately notified that you would be a sharing broker?

A. Yes.

Q. How were you so notified?

A. I was notified verbally and, also, named at that meeting, the reorganization meeting of the freeholder board.

Q. During the period of time that you were sharing in the commissions what services did you perform?

A. The first year we had gotten together with the other two brokers, reevaluated the insurance program, discussed the coverages, and throughout the year we had had several discussions verbally regarding the insurance and the program itself.

Q. How did these discussions take place? Were they phone conversations?

A. We had luncheon meetings. Most of them were at luncheon meetings or -- yes.

Q. For the time period January, 1974, to January, 1979, how many meetings did you have?

A. The first year we had three or four meetings. After that, I think, we only had one more.

Q. Approximately five?

A. Five, yes.

Q. How many phone conversations have you had with Mr. Dalton in the last several years?

A. I have numerous phone conversations with Mr. Dalton over all those years.

Q. Are the numerous phone conversations concerning the Gloucester County account?

A. Yes, they were.

Q. Would you be surprised that Mr. Dalton testified in Executive Session he has very little contact with you?

A. I spoke to Mr. Dalton at least two or three times every year. I would see him at political events and we would discuss county insurance. That's the only thing that I had in common with Mr. Dalton, and I had discussed it with him every year. I saw him at four or five different Democratic events.

X X X

Q. Do you make contributions every year to the Gloucester County Executive Committee?

A. I have made contributions the last 11 years to the Democratic Party of Gloucester County, plus State, delegate to the National Convention for President Carter, and also donated to his campaign. And Governor Byrne, too.

Q. Have those contributions increased after you were appointed as a sharing broker?

A. I would say so, yes.

Q. Significantly?

A. Well, as I -- as my insurance business grew, I was able to donate more of my commissions to the Party, and I would, if I would, I would give as much as I could to the Democratic Party. I'm a Democrat mayor and again councilman, and I believe in the Democrats in the State of New Jersey and especially Deptford and Gloucester County.

Q. Did you understand that, part and parcel of you receiving a shared commission, that you would be expected to contribute to the Gloucester County political party?

A. There was nothing ever asked of me to contribute any part of any moneys to any Democratic organizations.

Q. Did you ever receive a check, shortly after receiving that check you were called up for a contribution?

A. I received the normal letter that would go out prior to the -- any election in November, asking for a donation, not a phone call, and I would always respond to that letter as I did in the past.

Q. Would you respond immediately after receiving a check or sometime later?

A. My contributions normally were right before election.

Q. I am going to show you a check October 20th, 1976, from William Dalton to yourself, in the amount of \$3,153.46. I would ask whether that's a check you received in 1976.

A. That's right.

Q. I next show you three contributions you made; the first to the Gloucester County Democratic Executive Committee, dated 10/21/1976, the same day as the check, in the amount of \$250, it's from the Ron Marks Insurance, the exhibit number is 115; a second check, Exhibit number 116, in the amount of \$137, dated 10/21/1976, to the Gloucester County Democratic Executive Committee; a third check, 117 for identification, in the amount of \$200 from Ronald S. or Margaret A. Marks to the Gloucester County Executive Committee, dated 10/23/1976.

Were you called to make those contributions after someone was notified that you received a check?

A. No, I was not called, and I will tell you again, check number 517 for \$200 he said was for four tickets to a political fund raiser, which I enjoyed myself with my wife, and the \$137 was for another four tickets for another political party that we've had, and I enjoyed myself very much. The \$250 was my donation to the Party for their campaign.

Q. You don't recall someone calling you up and saying, "Ron, why not make a contribution, you just got your check?"

A. No way. No, sir.

#### County Chairman Testifies

Assemblyman Kenneth A. Gewertz, the county Democratic chairman, was the final witness in the public hearing segment on Gloucester County. Counsel Schirmer:

Q. Concerning the award of the contract for the insurance for Gloucester County in the year 1974, were you aware of that fact?

A. Yes.

Q. Were you ever approached by anyone concerning the appointment of the broker of record for that account?

A. Only to the extent that the appointed broker of record, Mr. Dalton, Mr. William Dalton, had called me, I believe, sometime in 1973 -- I won't swear to it -- to ask me if I had any objection to him being considered by the freeholders for that position, and I said to him that I have no objection, go talk to the freeholders.

Q. Did you speak to the freeholders about the appointment of Mr. Dalton?

A. No, I don't believe so.

Q. Did anyone else speak to you other than Mr. Dalton? For instance, did Mr. Martin talk to you? Did Mr. Marks talk to you? In 1974 or shortly before.

A. They may. They may have. I don't specifically recall a specific conversation because that's going back over five years.

Q. Did you recommend anyone to the Board of Freeholders?

A. No, not to my recollection.

X X X

Q. Did you ever discuss with anyone, in early, the early years of 1974 or the late years of 1973, that they would share their commissions with other brokers?

A. No, sir.

Q. Did you ever discuss sharing commissions with Mr. Dalton with two other brokers?

A. I believe, and again I don't recall the exact set of circumstances other than I went to a meeting at the Tall Pines. It was a luncheon meeting where there was some discussion over some problems that they were having amongst themselves. Animosity is what I would term them to be. And there may or may not have been some discussion over, you know, their -- who was sharing in what. But at no time did I at that meeting or any other meeting tell someone that they should share any commissions, nor do I really care what they do amongst themselves. That's not my, not my business.

Q. The specific question is this: Assuming, or you pick the time for the Tall Pines meeting based on your recollection. Prior to that Tall Pines meeting, did you discuss with anyone specifically that Mr. Dalton would or should share his commission with someone else?

(Witness conferring with counsel.)

A. The only thing that I can recall is that because of the problem that the three, three individuals were having over who was getting their checks when, I recall that there was some problem. Specific dates, I have absolutely, you know, no idea as to who met when. Somebody may have seen me on the street and said, "You know, I'm having a problem in collecting, collecting my, you know, commission." But I did not direct Mr. Dalton to, prior to his appointment, to share anything with anybody.

Q. Why would you be notified that there was a problem in the sharing of commissions between three brokers?

A. I guess you'd have to ask the people that kept sending me copies of letters and calling me on the phone.

Q. Did you ever object?

A. I told them they were all pains in the -- they were all becoming pains in the behind and I don't want to be involved, and I didn't say, "Don't send me copies," Just "Leave me alone. I've got other work to do."

Q. At the Tall Pines meeting, what took place at that meeting?

A. To the best of my recollection, the purpose of the meeting was to try to resolve an internal squabble between the three sharing individuals, two of which were contending that they were not getting their checks when they were supposed to get them. Now, whether or not that was true or not, I have no -- I don't know.

I went to the meeting and very candidly told them, "Resolve the problem amongst yourselves. I have other things to do with my time. I don't want to keep receiving phone calls. I don't want the letters sent to my office, because it's not my affair. You fellows are all grown people. If you have a dispute, settle it amongst yourselves. Go to the freeholders. Do whatever you are going to do, just leave me alone."

Q. Then you suggested that there might be a meeting to resolve this problem?

A. I suggested that he -- that I don't want to be in the middle of the thing.

Q. Do you recall at the Tall Pines meeting whether it was discussed that the commission rate which was originally 50 percent for Mr. Dalton, 25 percent for Mr. Marks and 25 percent for Mr. Martin, would be changed to 60 percent for Mr. Dalton, 20 percent to Mr. Marks and 20 percent to Mr. Martin?

A. I vaguely recall that there was some discussion over whatever their -- but specifically, I don't know what, you know, the amounts or the percentages were. I don't recall that specific conversation, though I think, though I believed that that may have been a subject matter, but not with my participation as directing anybody, but merely listening to what they were discussing amongst themselves.

Q. Did you become involved in the discussions about the new arrangement?

A. No.

Q. Were you asked for your approval?

A. No.

Q. Were you asked whether you would agree?

A. Nope

Q. Were there any other meetings that you attended after the Tall Pines meeting concerning the sharing of commissions in Gloucester County?

A. I believe that there was not a meeting, but I believe I was coming through the bar area of the Tall Pines and I -- again, the date, I wouldn't know whether it was '75, '76, '74 -- that the Director of the Board of Freeholders, Mr. Wagner, and Mr. Marks were in the bar area and, as I was going by, someone said, "We'd like to talk to you for a minute," and I think that that discussion went about to Mr. Marks being placed as a broker of, a co-broker of record, and/or being given specific policies to service, and that was a result, I think, of your initial investigations into the matter and my personal feeling that if you are paid a commission, then you should have a specific, you know, kind of a duty. I think that was the subject matter. It may have been further complaints from Mr. Marks that he wasn't getting his commissions, either.

Q. Do you recall receiving carbon copies of correspondence between Mr. Dalton and Mr. Marks in 1976 about a dispute that they were having concerning insurance commission splitting?

A. I don't remember the exact correspondence specifically, because I get hundreds of letters every single day.

Q. I am going to show you a pack of correspondence, marked C-111 for identification, the first letter dated June 14th, 1976, from William Dalton -- strike that -- from Ronald Marks to William Dalton; a second letter, dated June 16th, 1976, from Samuel Martin to Mr. Dalton --

THE CHAIRMAN: Are they cc'd to the witness?

MR. SCHIRMER: Yes, they are, your Honor.

Q. A third letter dated June 15th, 1976, from the William Dalton Agency to Ronald Marks; a fourth letter, which is entitled re your letter of June 16th, 1976, from Ronald Marks to William Dalton Agency; and a final letter, dated June 28th, 1976, from William Dalton to Ronald Marks. I ask whether you have seen those letters.

A. Your Honor, I see the cc's, but I don't specifically remember ever sitting down and (reading) these letters.

(Witness conferring with counsel.)

THE WITNESS: Or digressing them rather.

Q. Do you recall discussing this altercation or this fight with any of the brokers involved?

A. I may have, your Honor.

Q. Question: You received carbon copies of those letters. Did you do anything?

A. I assume I received carbon copies of the letters. I don't, I don't again remember specifically reading them, digesting them. They may or may not have come to my office. I don't know.

Q. Do you know why you received them?

A. Beats me.

Q. Did you object to anyone that you had received carbon copies and you weren't sure why you were receiving carbon copies?

A. No, but I wished if I could ask people not to write to me on a number of matters, I would gladly do that, assuming that they would listen to me.

Q. Were you notified when the sharing brokers were receiving commissions?

(Witness conferring with counsel.)

A. Your Honor, as I understand the question, I recall at the last Executive Session of this body being shown a letter or some type of communication between the brokers indicating the payment of certain moneys, I believe. But, specifically, if that was cc'd to me at the time that was transmitted, I didn't pay that much attention to it.

Q. Bear with me for one second. I am going to show you a letter, Mr. Gewertz, marked 105 for identification from William Dalton to Samuel P. Martin concerning the payment of a commission-sharing check in the year 1977, dated December 14th, 1977.

A. Yes.

Q. Did you ever see that letter before?

A. It may have come into my office. But I also note on here that it's not cc'd in type as some of the other letters are, but merely written in.

Q. But there is a cc?

A. So I don't know that I ever saw this. In fact, there are a number of them that are not cc'd.

Q. I show you a letter to you from William Dalton Agency, dated October 20, 1976, which delivers a sharing commission of \$3,153.46 as represented in the letter. Have you seen that letter?

A. Again, your Honor, it may have come into my office and it's processed through the normal, you know, mail. I don't recall this specific letter as opposed to thousands of others that I've gotten in the last five years.



Q. Did you ever speak to Mr. Dalton concerning the fact that he was carbon copying you for a check that he was using -- a letter that he was using to transmit a shared commission? Did you ever object to him or say anything to him concerning that practice?

A. I may very well have. I don't recall ever having to do that, but if I, you know, called everybody that sent me a cc of a letter to somebody I would spend a hundred years just making phone calls.

Q. Were you carbon copied with the letters from Mr. Dalton to the sharing brokers for the purpose that you would know that commission-sharing checks had been sent out?

THE CHAIRMAN: Let me try this one: I think the gist of the question may be that, having received, if you recall, having received this letter of transmittal of this sharing broker's check, did you do anything about it, like calling anybody, requesting any contribution, part of this check, or anything like that? That's the question.

THE WITNESS: I would have called no one, your Honor, on the basis of them receiving a commission check for anything.

Q. Were you aware of the fact that Mr. Martin was terminated as a sharing broker in the year 1978?

A. Yes, I think I was aware of that.

Q. How did you become aware of that fact?

A. Just a common knowledge, you know, of a number of people that Mr. Dalton was not going to share his commissions with Mr. Martin. Mr. Dalton, I believe, called me and told me that he couldn't stand Mr. Martin and that he didn't want to share his commissions with him, and I said, "Look, that is between the three of you, not me. If you have a problem with Mr. Martin, resolve it amongst yourselves. Go to the freeholders, do whatever you want to do. I really don't care."

Q. Was any suggestion made what would be done with that money --

A. Not by --

Q. -- during that phone conversation?

A. Not by me.

Q. By Mr. Dalton?

A. I think Mr. Dalton mentioned something about whether or not I had any objection to him picking up some party note that went back long before my time, and I told Mr. Dalton, "I don't really care what you do. If you want to pick up a note and that's what you want to do, then do it."

Q. But you certainly did not agree that Mr. Dalton should do that?

A. I certainly did not. I told him I really didn't care.

X X X

Q. Did you feel that what Mr. Dalton was doing was wrong?

A. Mr. Schirmer, I think I answered that I told Mr. Dalton in America an individual is free to do whatever their conscience dictates they want to do. I told him, "I don't care what you do. If you want to pay off the note, pay it off. If you don't want to pay it off, I don't care. Do whatever you want."

#### Atlantic City Expressway

The public hearing turned next to the New Jersey Expressway Authority's procedures for brokering insurance for the toll road that extends from Camden to Atlantic City. Clyde D. Fear, an Authority commissioner for 17 years before he became its executive director, testified on the background and operation of an "advisory committee" of brokers who shared the insurance commissions and the political manner in which these brokers were selected from the counties through which the Expressway extended. Between 1971 and 1979 more than \$50,000 in commissions were shared with these various "county brokers," who -- as in previous public hearing examples of this practice in other jurisdictions -- performed little or no service in return from such payments. Counsel Charles F. Blumenstein questioned Mr. Fear:

Q. Does the Expressway Authority also have responsibility for obtaining insurance?

A. Yes, they do.

Q. And when did you first obtain that insurance?

A. I would say, in the neighborhood of 1963, when we first began construction.

Q. And what is it that authority actually insures, just very briefly?

A. I have our general bond resolution here which spells out exactly what we have to insure. But, briefly, we have to have a multi-peril policy on the thoroughfare bridge, because of the damage to that would cut our revenue right off completely. We have to carry a million-dollar liability policies, fire insurance, employer bonds, employee bonds rather, auto insurance, bridge use and occupancy, and an equipment floater.

Q. And how did you go about obtaining that insurance?

A. In the beginning we formed an insurance advisory committee, the reasoning being that we felt that each commissioner would get representation from his own county, and this committee picked one insurance agent from each county.

Q. If you could elaborate a little bit more on what this advisory committee consists of, what its normal name is and what its normal duties are.

A. Its duties were to get broker of record and one insurance agent from each county.

THE CHAIRMAN: I suppose the expressway runs through five or six counties?

THE WITNESS: It does, sir.

THE CHAIRMAN: There is a commissioner from each of those counties?

THE WITNESS: Yes, sir.

Q. What was the formal name of this group again?

A. Insurance Advisory Committee.

Q. And when was that first formed?

A. In 1963.

Q. Do you recall who the first appointees were to this committee in 1963?

A. The broker of record was Joseph Richman Company in Atlantic City. We had William Dalton from Gloucester County, and Mr. Gauvry from Cape May, and the other, Camden County, I can't recall at all.

Q. In specific reference to your appointee, you say you were from Gloucester County?

A. Yes, sir.

Q. So you had the responsibility for appointing the broker from that county?

A. Yes, sir.

Q. Who was your appointee?

A. William Dalton.

Q. And could you tell us what the factors were that guided you in your selection of William Dalton?

A. I went to the Senator that originally asked me if I would, had the time and could afford to spend the time and be a commissioner on the expressway, and asked him what his preference was.

Q. Who was that Senator?

A. Senator Thomas Connery.

Q. And why was it that you went to the Senator for a recommendation?

A. Well, I felt that was a logical place to go.

Q. Did you solicit any insurance brokers yourself?

A. No, sir.

Q. Did you advertise to see who was interested and who would want to be a broker for the authority?

A. No, sir, did not.

X X X

Q. Was it strictly on the say-so of Senator Connery that you appointed Dalton then?

A. Yes, sir.

Q. And you had no independent knowledge of the merits or qualifications of Dalton?

A. Oh, I knew how, that he was well-qualified. Oh, yes.

Q. Very well. And how long did Mr. Dalton serve on that committee?

A. Served on there until Governor Cahill was elected.

Q. Which is what year? 1970?

A. Yes, I think that's correct.

Q. And what happened in 1970?

A. 1970 I happened to be a friend of Governor Cahill's and he asked me to appoint a Republican as agent, and this I did.

Q. And who was that appointee?

A. That was the Bud Hendrickson Company from Woodbury.

Q. That was a company. Who was the actual appointee, the person?

A. Irv Keightly.

Q. Why was it specifically that you went to Governor Cahill for his recommendation?

A. I didn't go to him. He came to me through someone else.

Q. Who was that through?

A. I think it was Ralph Cornell.

Q. Was Mr. Dalton doing an adequate job, to the best of your knowledge?

A. Oh, yes.

Q. Do you know why Cahill came to you through his agent for replacement for Mr. Dalton?

A. It was strictly patronage.

Q. The qualifications of both --

A. Were equal.

Q. -- individuals were adequate?

A. Yes.

Q. And how long did Mr. Keightly serve on that committee?

A. Four years.

Q. And that means there was a change in 1974; is that correct?

A. When Governor Byrne came in it went back.

Q. And what happened in 1974?

A. I went to the Democratic Committee and asked them who their preference was.

Q. What prompted you? Why did you feel that you should do that?

A. Well, I've been a registered Democrat all my life.

Q. And --

A. And I felt they were entitled to the patronage also.

Q. In other words, the election of Democrat Governor Byrne was what influenced you that there was time for a change?

A. Yes, sir.

Q. And it was strictly that change in party in the governorship that directed you to take that action?

A. Yes, sir.

Q. And who did you select in 1974 to replace?

A. Ronald Marks.

Q. And could you explain exactly what it was that induced you to choose Ronald Marks, who you went to see, why, et cetera?

A. He was suggested by the Democratic Committee and he was also a neighbor of mine.

Q. Is there any one person that gave you the specific direction that you should appoint Ronald Marks?

A. Not direction, suggested.

Q. Was there any one person that raised that suggestion then?

A. Kenneth Gewertz.

Q. And what position did he hold?

A. He was Chairman of the County Committee.

Q. The Gloucester County --

A. Right.

Q. -- Democratic Committee?

Very well, Mr. Fear, I am going to direct you to a chart,\* which has been marked C-125 for identification. Now, Mr. Fear, I want to direct your attention just to the upper half of this chart and I ask you if that accurately reflects your testimony so far; is that with the election of Governor Cahill in 1970 you went to Republican political party and asked who should be recommended as broker to the advisory committee?

A. I did not say that I went to them. I said they approached me.

Q. And again, in 1974, with the election of Governor Byrne and the sweep of the Democratic Party into power, again, they suggested to you; you followed the recommendation that you elect, that you appoint a Democrat to the advisory committee?

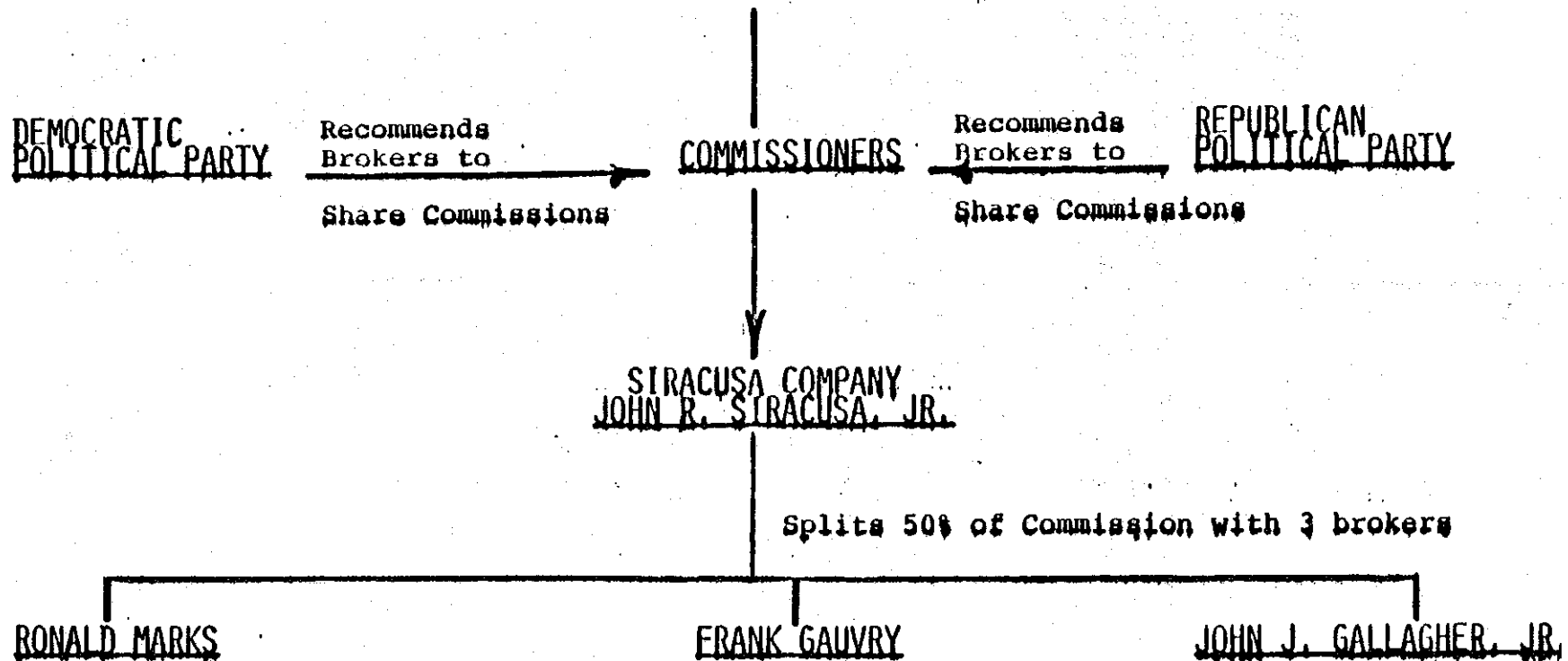
A. That's correct.

X X X

Q. Thank you. And just one final question, Mr. Fear. Have you had occasion to discuss this practice that you label patronage with your fellow commissioners while you were a commissioner, with your fellow commissioners on the Expressway Authority?

\*See Chart, P. 228.

NEW JERSEY EXPRESSWAY AUTHORITY  
INSURANCE COMMISSION SPLITTING  
(ATLANTIC CITY EXPRESSWAY)



Commission shared by 3 brokers in 1978 - \$7,833.00

Approximate Total Shared Commissions since June, 1971 to June 1979 - \$51,531.42



A. Certainly. We were all in agreement with it.

THE CHAIRMAN: I take it you are indicating your fellow commissioners did in their respective counties the same thing that you have described that you have done?

THE WITNESS: That's correct.

Q. And what was the thrust of the discussions that you had?

A. I got the feeling that the commissioners there now, they would be only too happy if these commissions, as far as patronage is concerned, that they weren't handed out and the expressway could save the money.

#### Three Phone Calls a Year

John J. Gallagher of Cherry Hill, an insurance broker and a former Democratic Assemblyman from Camden County, was called as a witness by Counsel Blumenstein. Mr. Gallagher said he was president of Gallagher Associates, Inc., and of Associated Insurance Management, Inc., and a general agent for Minnesota Mutual Life. He described what he did in return for sharing commissions as a member of the Atlantic City Expressway's insurance advisory committee:

Q. Do you participate in the insurance?

A. Yes.

Q. Do you have any affairs with it (Atlantic City Expressway) at all?

A. Associated Insurance Managements, in my capacity as an individual, I serve on the insurance committee of the Atlantic City Expressway.

Q. You refer that as the insurance committee. Does that have another name?

A. The only name I've ever used.

Q. Is it also known as the insurance advisory committee, to your knowledge?

A. Advisory.

Q. Very well. Serving in that capacity, does that mean that you are a member of that committee?

A. I would presume so, yes.

Q. Can you tell us how you came to be a member of that committee?

A. In 1975, at the time I -- the only business interest I had was with Associated Insurance Managements, Inc. I solicited the Atlantic City Expressway directly requesting that we might have an opportunity, I might have an opportunity to discuss the possibility of becoming agent of record for them. I did this, and, as a result of that, I apparently ended up on the advisory committee.

Q. And what was the nature of the solicitation?

A. I sent a letter to --

Q. To whom?

A. I believe, Mr. Ambrose.

Q. Mr. Ambrose being the Executive Director --

A. Yes, sir.

Q. -- of the Authority at that time?

And I assume you were eventually appointed to the committee then?

A. That's correct.

Q. Very well. As a member of the advisory committee, can you tell us what work you do for the committee?

A. As a member of the committee, the only thing I discussed this with Mr. Siracusa before I accepted the appointment because, as I said, my original intention was to be the agent of record for the account itself. I discussed with him and he said that, if there was a necessity for meetings, that the committee would have to be agreeable to meet; that we would, we were to advise and provide markets from our own agencies to his agency for the servicing of the Atlantic City Expressway.

Q. When you say agent of record, you mean you are agent in the participating sense in that John Siracusa was the principal broker?

A. You mean when I solicited them to be agent of record? I wanted to be principal broker. That was my intention. I didn't know anything about Mr. Siracusa at that time at all. In fact, at this time I'm not sure if he was agent at that time or he was the winner of the selection that was going on. I was made aware of the fact that they were considering new appointments, new appointment to the Atlantic City Expressway for a broker, and I, you know, made it known that my services were available.

Q. When was your actual appointment, then?

A. I believe it was around the end of '75, the beginning of '76.

Q. You say that you were made aware or you heard that the insurance advisory committee was looking for a new agent, perhaps?

A. No.

Q. What was the nature of the information that you received again?

A. I just -- I became aware of the fact that the Atlantic City, what I thought the Atlantic City Expressway as seeking a new insurance broker, or considering a new broker, and I solicited the expressway directly --

Q. Well, --

A. -- for an opportunity to serve them.

Q. Excuse me. Who gave you that information that the Atlantic City Expressway was looking --

A. I believe it was the County Chairman at that time, the Democratic Party, Mr. Jim Joyce.

Q. Well, the bottom line was you were eventually appointed, although not as principal broker, as participating broker?

A. Yes.

Q. Once you were appointed, did you ever do any of the services that were outlined by Mr. Siracusa in your original phone call?

A. With the exception of personal business meetings, yes. We've, we've discussed the coverages that were there. We've never had, never had any discussions about the possibility of having to move it. The experience has been good, and it shows in the credits that have been allowed to the policies. But -- so that portion, no, there is never been any need for us to use our companies.

Q. Does that mean that you never actually wrote any policies?

A. Never.

Q. Did you ever offer any advice to Mr. Siracusa as to what the proper coverage should be on the expressway itself?

A. We -- I offered advice. I don't believe there was all that much in the way of acceptance of it. You know, in other words, Mr. Siracusa was still the principal broker.

Q. What was the nature of your advice? Did you give any specific plans that you suggested?

A. I really have, you know, no real recollection of specific things that we discussed. I remember we discussed various, you know, various aspects of the coverage at different times. Never, -- it was never -- this was never a thing of a continuing basis or anything, ever.

Q. What was the nature of your conversations or your recommendations then, negotiations? Did you conduct them by phone, by letter, by personal meetings?

A. By phone.

Q. And how many such phone calls did you make?

A. Once or twice a year, something like that.

Q. Once or twice per year?

A. Yeah. Maybe three times a year would be an average, I guess.

Q. How long would these phone conversations take place? How long would they be?

A. From the longest to the shortest, you know. Some were a matter of minutes, some were, you know, maybe five or ten minutes.

Q. And outside of these phone calls did you ever participate in any other advisory committee activities?

A. No, sir.

Q. Did you ever meet in a normal meeting with the other advisory committee members?

A. No, sir.

Q. Do you even know who the other advisory committee members are?

A. Only by -- I've never discussed with, had any intercommunication with them, only by seeing their name on various communications, et cetera.

Q. Did the correspondence ever take the form of actual recommendations that were submitted by other participating brokers and requesting your approval, perhaps?

A. No, sir.

Q. Was there any other correspondence that you sent to other participating brokers for their approval before you submitted it?

A. No.

Q. Did you make any submissions at all in the way of recommendations by formal letters directly to John Siracusa Company?

A. No, sir.

Q. And, in other words, your sole activity on this committee was three phone calls at most per year that you made?

A. Yes, sir.

Q. Do you receive a commission for being a member of this committee?

A. Yes, sir.

At this point, Counsel referred to a "collection of letters" to Mr. Gallagher from the Siracusa Company. These letters confirmed a series of payments of commissions to the witness dating back to February 9, 1976. Mr. Gallagher said the letters (Exhibit No. 122) were an accurate record of what he was paid since he became a member of the Expressway Authority's insurance committee. Counsel Blumenstein:

Q. And would you agree that those payments reflect a total of approximately \$9,400?

A. Yes, they do.

Q. So those were the payments that you received over the course of approximately three years for the work you did on that committee?

A. That's correct.

Q. And that work consisted of no more than three phone calls per year, is that correct, according to your own testimony?

A. I would say that's -- I would say that's fair.

#### The Expressway's Primary Broker

John R. Siracusa, Jr., president of Siracusa Co. of Atlantic City, was chairman of the Expressway Authority's insurance advisory committee as the toll road's primary insurance broker. He explained how his company's commissions were split among the various members of this committee and what they did in return. He recalled only one "formal" meeting of the committee and about a dozen phone calls since 1974 with other sharing brokers. He was the final witness on the Expressway Authority's insurance procedures. Counsel Blumenstein:

Q. And how long have you personally been in the business?

A. Since 1950, approximately.

Q. Which would be about 29 years. Does the Siracusa Company have an account with the Expressway Authority, the New Jersey Expressway Authority?

A. Yes, sir. Our agency writes the property and casualty coverage for the Authority.

X X X

Q. Are you familiar with anything by the name of the Insurance Advisory Committee?

A. I'm Chairman of the Insurance Advisory Committee for the New Jersey Expressway Authority.

Q. Very well. And you stated that you first got this account in approximately 1970. Could you tell us how you went about getting that insurance, that account rather?

A. Well, I was notified by Mr. Ambrose and Mr. Fear of the Authority that I was to be appointed Chairman of the Insurance Advisory Committee.

Q. Do you know who actually appointed you to the advisory committee?

A. I believe Mr. Fear did. He was Chairman of the Authority.

Q. Your sole contact is through the Insurance Advisory Committee?

A. That's right.

Q. Very well. As principal broker for the advisory committee, could you briefly tell us what your duties are?

A. Well, it's the responsibility of the chairman of the advisory committee to, responsibility to place the coverages; make certain that the coverage is in compliance with the bond indenture of the Expressway Authority, meaning that there are certain minimum limits of liability and certain types of coverage under statute that the expressway is required to carry; and we are responsible for the placement of this coverage with responsible insurance carriers.

X X X

Q. It is fair to say, then, that you are responsible for servicing the entire account with the Expressway Authority?

A. That is correct.

Q. And are there other brokers involved in the handling of the insurance on the expressway?

A. Yes, sir. We share the commissions that we receive from our companies with three other brokers who also submit their advices to our agency regarding the placement and continuance of coverage.

Q. Do you know who the present participating brokers are on that committee?

A. Oh, yes, sir, of course.

Q. Who are they?

A. Well, Mr. Gallagher, Mr. Marks and Mr. -- from Cape May County. What's his name?

Q. Would it be Mr. Gauvry?

A. Frank Gauvry, yes. I'm sorry.

Q. When you first received this account in 1970, what were the responsibilities that you had as opposed to what responsibilities of the other participating brokers?

A. Well, our agency, or as chairman of the advisory committee, as I said before, it was our responsibility to see that the coverage was placed properly and the coverages were to be, of course, reviewed by the other participating brokers.

Q. And did you ever have formal meetings where that coverage was actually reviewed?

A. Yes, we did.

Q. And when? Could you tell me the date of that last meeting, the last formal meeting?

A. I can't tell you the exact date. I believe the last time we formally met was approximately five years ago.

Q. That would be sometime in 1974?

A. Or '75, yes.

Q. Or '75. Very well. Since 1975 you have had no formal meetings then?

A. No formal meetings, no.

Q. Have you ever had any informal meetings?

A. Yes.

X X X

Q. And what was the nature of that contact?

A. Well, that type of questioning and review and that type of conversation.

Q. Would that be on a person-to-person contact basis or --

A. By telephone mostly, yes. If not --



Q. By telephone?

A. If not entirely. As a matter of fact, I believe since we, since we had our actual formal, last formal meeting, I would say that any contact with other members of the Insurance Advisory Committee were by telephone.

Q. And the participating brokers merely rendered advice to you? In other words, do they ever write any policies?

A. They -- one of the brokers was in a position to write one of the coverages a number of years ago, and, as a matter of fact, had it placed with one of his carriers. But, actually, I don't believe any of the brokers over the last eight or nine years have written any policies but our agency. Our agency is the only agency that's placed any coverage.

Q. Have they ever processed any claims, any losses?

A. No, sir.

Q. Have they done any other work at all besides the advising?

A. No, sir. No, they have not.

Q. Very well. Do those participating brokers receive a commission for their efforts?

A. Yes, they do.

Q. When you first started the committee or when you first joined the committee in 1970, what was the commission split?

A. The commission was split four ways evenly; 25 percent to each broker.

Q. And did that eventually change?

A. Yes. I suggested to the other members of the insurance committee that our agency receive 40 percent and they each receive 20 percent rather than a split of 25 percent each, and they agreed to that.

Q. And why did you make that recommendation?

A. Well, because we were doing a lot of work, naturally, handling the account, and I just didn't feel that it was fair that we should receive, continue to receive 25 percent of the entire commissions. It was difficult enough just receiving 40 percent. So that's why I made the request.

Q. And, in other words, you were doing the bulk of the work and receiving only 25 percent, and therefore requested you receive 40 percent?  
A. Yes, sir.

THE CHAIRMAN: When did that change take place? When did the 40/20/20/20 division come in?

THE WITNESS: I'm not sure, sir. I would say a good five years ago, six years ago.

Q. Well, is it fair to say that the reason you made that recommendation is that the participating brokers were not doing entirely the amount of work that you were doing?  
A. Yes.

Q. Do you feel you would have been justified in asking for a larger percentage of the commission?  
A. As much as 50 percent, I imagine we would have been justified in asking for, yes.

Q. Did the participating brokers do anything to justify the receipt of their share of the commission at all?  
A. Well, as I said before, they did offer their services at any time, offered to write any of the coverages if ever need be, and did advise us and discuss the coverages with us from time to time.

Q. And in order that we may reduce these percentages to dollars and cents figures, I am going to show you an exhibit marked C-123, which purports to be copies of two letters you sent in the year 1978 reflecting the commissions sent in the early part of 1978 and the late part of 1978, and ask you if you recognize it as such.  
A. Yes, sir, I do.

Q. And could you tell us what the dollar amounts are that were shared in that year?  
A. Well, the total in that year was approximately 12,000, almost \$13,000, and --

Q. And the sharing, the participating brokers would receive approximately 60 percent of that figure?  
A. Yes.

Q. Referring to the chart C-125, I refer you to the line where it says "Commission shared by three brokers in 1978, \$7,833." Would that be approximately the 60 percent of that figure you mentioned?

A. Yes, uh-huh, approximately.

Q. And again, in order that we may expand the commission shared by the whole year, or by the entire nine years that you served on the committee from 1971 to the present, I show you what's been marked C-124, which purports to be a series of letters sent by you to each of the participating brokers for the time period involved, and if you would review those documents and -- well, can you tell me if they are what I represented them to be?

A. Yes. I don't know that the 51,000 is correct. I presume your addition is accurate.

Q. Assuming that the (S.C.I.'s) math is correct the total commissions received over the nine years and shared by the other brokers would be \$51,531.42?

A. Yes, sir.

Q. And that's reflected accurately on the chart on your right?\*

A. Yes, sir; yes, sir.

X X X

Q. Mr. Siracusa, just by way of summary, your testimony is that, as it presently is established, the participating brokers receive 50 percent of the commission; is that correct?

A. Yes, sir.

Q. And that you receive 40 percent for the work that you do?

A. Yes. sir.

Q. Are you willing to service, continue servicing that account, at the 40 percent commission rate?

A. Yes.

\*See Chart, P. 228.

Q. And isn't it true that you have been servicing it at that rate for at least five or six years, according to your testimony?

A. Yes, sir.

Q. And if commission splitting were to end tomorrow, would it be prudent for you to continue writing that insurance at that percentage?

A. It would be very tight. It would possibly be, yes. If I may comment on that for a moment.

Q. Please do.

A. In recent years, in the last couple or three years, the placement and servicing of an account the size of the New Jersey Expressway Authority is becoming more and more cumbersome to us. I'm not saying that the 40 percent commission, we possibly don't make a little bit on it. It's hard to assess what you make on every single account when you have people, you have personnel, you have staff and so forth.

If I were to compete for that account, there is no way that I would ever discount my commissions 60 percent to write that account. I just would not do it.

Q. Well, going back to your earlier testimony, you said that you would feel justified receiving perhaps 50 percent of the commission rather than 40 percent. Would it be prudent for you, and would you submit a bid based on a 50 percent figure?

A. No, sir, I would not.

Q. Well, is there some percentage that you would acknowledge not receiving for the work you do?

A. Well, that has to be -- that's a judgment situation, and it would have to be indicative of the particular account you would be bidding for, if it were a bidding proposition; according to how badly you wanted the account; how profitable you thought it might be; how good a piece of business you thought it might be for your carriers. These things are all very important in calculating a bid and I --

THE CHAIRMAN: But with nine years' experience, don't you have all that?

THE WITNESS: With this particular account. That's why I say the 40 or 50 percent, writing it for 40 or 50 percent of the commissions is not that bad, because we know the account and are thoroughly conversant with it. But going into a fresh account and bidding for it and knocking our commissions down like that, we just would not do it.

Q. Well, as the account presently stands, would you be willing to write the insurance for 40 or 50 percent of the commissions involved?

A. We are willing to continue to write the expressway account.

Q. Continue. Very well.

A. We would do that.

Q. And is it fair to say, then, that the 60 percent for 50 percent under the plan you would desire that is shared by the other participating brokers could be done away with, yet the insurance written for the Expressway Authority would still be adequate?

A. Well, I would have to say that -- let me preface an answer. I'm not trying to dodge the question. Believe me, I'll answer it. But, you see, this insurance account is written very competitively. We have placed this very carefully with excellent carriers. There are possibly ways to place certain coverages with inferior carriers for less money, possibly save a thousand dollars in premium. We don't feel it is desirous of the Expressway Authority, and certainly not of our agency, to write coverage in that fashion.

What we have done, we have worked for very diligently over the years for maximum underwriting and experience credits with our carrier. The same carrier, namely the St. Paul Insurance Company, has been the main carrier on this account for a number of years, and they offer excellent discounts and we feel that the premium offered to the Authority is a very fair and competitive premium, and I'm willing to, of course, back that up very solidly with the carrier as well as our own records.

Now, in addition to that, we do share commissions, true. We would rather not share commissions. If we bid for it, for an account like that, with the experience that we've had with the account, we would have possibly discount our commission somewhat to continue to write that business, because we're very familiar with it.

Q. And to the degree that you are willing to discount it is the degree to which the participating brokers received a commission under the present system, and it's to that same degree that the participating brokers are really receiving a commission for merely giving advice, occasional advice, and it's that commission that you are willing to do away with and discount at that rate?

A. Well, I wouldn't quite discount at any 60 percent. But I would discount.

Q. At least some percentage?

A. Some percentage.

Q. And that percentage would represent a savings to the Expressway Authority in this case?

A. Yes, sir.

THE TESTIMONY -- Third Day

The Final Hearing Day

In his statement opening the final public session on questionable insurance procedures, S.C.I. Chairman Arthur S. Lane said:

Today's schedule first requires certain additional testimony demonstrating yet another sacrifice of the public trust in this field. We then will put into the hearing record an assessment by recognized authorities of the abuses and problems that have been disclosed and an outline of our recommendations for reforming the process. This outline will, of course, be followed by a more detailed, formal report on the S.C.I.'s proposals to eliminate political and personal profiteering in handling public insurance and to replace these practices by a credible, efficient and open system.

Before we hear from the experts on the subject matter of public insurance, we must turn our attention to a particularly questionable series of incidents in North Bergen.

I again wish to emphasize one procedural requirement: that all witnesses and their attorneys must be sequestered from the hearing room during the time that others are testifying. Commission agents are at the door of this courtroom to carry out this requirement. All witnesses who are present in the room must leave at this time and report to those agents.

The Commission's deputy director, David Rhoads, will question the first witness.

North Bergen Practices

Peter Mocco, former mayor of North Bergen, was the first witness called in the public hearing disclosures on the mis-handling of public insurance in this Hudson County municipality. He conceded that, as the most powerful elected official in his community, he participated during his 1971-78 mayoralty tenure in the designation of insurance agencies whose contracts with North Bergen resulted in the payment of thousands of dollars

in commissions to Township Clerk Joseph Mocco, his brother. He admitted, after prolonged questioning, that the municipality did not have workers' compensation insurance catastrophe coverage for municipal employees and that any unusual compensation claims that would arise would have to be paid out of general tax funds. S.C.I. Counsel Rhoads sought at length to obtain answers to questions about workers' compensation before reviewing the general insurance contracts that benefitted his brother:

*Q. Well, more directly, did you have insurance for workmen's comp in 1971?*

*A. Unless I would be able to specifically review the files and the minutes, I wouldn't be able to answer that specifically, although my general recollection is that at various times our attitude was that the workmen's comp premiums were very, very high and cost effective to the township. So, often we considered either not having workmen's comp insurance or, if we did have it, to drop it.*

*Q. Well, do you have any recollection at all today whether or not you had insurance for workmen's comp at any time when you held the office of mayor?*

*A. If -- and I'm not here to suggest how the question can be worded --*

*Q. Thank you.*

*A. -- but if you ask me am I aware that at any time did the Township of North Bergen not have workmen's compensation insurance, I can very easily say, yes. But whether a particular point in time, a point of time, a month, six months or a year, did at one time insurance be granted for workmen's comp, I wouldn't feel, without looking at the records, without being confident of the facts, I would be unable to answer the question either affirmatively or negatively.*

*But I can tell you that, clearly, it was often brought to my attention that the costs involved in maintaining workmen's compensation for municipal employees, in the sanitation department, in the public works department, et cetera, was much higher than our actual experience was.*



Q. Well, I appreciate that. What I simply asked you was: Was there any time at all from 1971 through 1978 that you had workmen's comp insurance? Can you answer that?

A. Again, if you could provide me with the records that --

Q. Well, is your response a no?

A. I cannot answer the question --

Q. All right.

A. -- because I don't have --

Q. You can't.

A. I cannot answer the question with the information I have before me.

Q. I will put it, perhaps, a way you can answer it.

Was there a time when you did not have workmen's compensation insurance in the town?

A. Yes.

Q. When was that?

A. I would say, again, my feeling without looking at documents, because those documents have not been available to me, I would say that my, my feeling would be that the greater portion of time that I served as mayor, we did not have workmen's compensation insurance.

Q. Now, during that greater portion of time that you did not have it, were there a claim for workmen's comp, where would the money come to pay that claim, assuming it's a legitimate valid claim?

A. Most claims we processed through the workmen's compensation court and they would come in through a judgment, as a judgment.

Q. From what fund would the township pay this?

A. Again, without looking at the financial records, who I don't feel capable of earmarking a particular account, I can give you all sorts of suppositions, and if you want me to volunteer suppositions, I'd be happy to. But to specifically identify an account at this time without referring to the ledger cards or without referring to the financial records, I feel that it would, at best, be a guess.

Q. Mr. Mocco, --

THE CHAIRMAN: I think the question may be, it came from tax money. Did it?

THE WITNESS: That's correct. No question about it.

THE CHAIRMAN: Not from an insurance company's fund?

THE WITNESS: That's correct. No question about that. I thought I made that clear. I just didn't feel competent to earmark a specific line item in the budget at this time without referring to the ledger cards or to the budget documents.

Q. Well, can you just answer this question, and I don't want to get you too defensive where you are nonresponsive. What I am asking you is simply this: Was there a cash reserve in the event that you had a catastrophic loss in the Town of North Bergen? And you had asked me for an example and I'm saying perhaps a two-million-dollar judgment against the town. From where would you draw to pay that judgment?

A. In workmen's compensation, a two-million-dollar judgment, again, Mr. Rhoads, I contend that that illustration is a ridiculous absurdum. It doesn't have a ground in fact or in fiction. I'm not aware of any two-million-dollar judgment that's been brought by a workmen's comp count in the state of New Jersey.

Q. Are you unable to answer the question?

A. I am certainly unable to answer a catastrophic loss of a two-million-dollar claim in workmen's comp that would be addressed to the Township of North Bergen.

Q. Did you have any cash reserve at all?

A. Certainly there was a judgment account. In every budget in New Jersey there's a line item for judgments. Certainly that was a funded account in the Township of North Bergen.

Q. All right. Can you tell me how much was in that account in 1971?

A. Without --

Q. Approximately.

A. I had no idea that you were going to ask me such questions, and, therefore, I am not prepared, nor have I had an opportunity to review the 1971 budget, and I, therefore, cannot answer the question of what was in that account in 1979.

Q. '71.

A. In '79 I cannot answer what was in the judgment account in 1971.

Q. Are you able to answer what was in it in '78?

A. The best of my recollection, maybe somewhere around \$80,000. But, again, that's a best recollection and I would have -- if I had known that these questions were going to be answered, I would have attempted to do the investigation and the study in order to be better prepared.

Q. Now, at the conclusion of the, whether it be fiscal or calendar year, would, as an example, the \$80,000 remain in that account?

A. Again, these are all financial rules and regulations that are absolutely established by the department, the State of New Jersey, Division of Local Finance.

Q. Well, my question is: Did the \$80,000 remain in this judgment fund or was it transferred out?

(Whereupon, the witness confers with counsel).

Q. Do you know that?

A. Again, without reviewing the 1971 financial records, I would have no way of even approximating if that -- if those funds were transferred in November or if they remained in the account until the year and a half or two years and then it was closed out into general revenue or general funds. I have no way of knowing that without looking at the financial data.

Q. So your answer is no to that question; is that correct?

A. I have no way of knowing today.

Q. Now, Mr. Mocco, with respect to 1972, you said the Hermo Agency placed the insurance. What insurance did they place for North Bergen then?

A. I would again, not having the records in front of me, and I have to -- I'm sorry, Mr. Rhoads, but, you know, I'm dealing with a recollection that's travelling back a number of years, and, so, as best as I can recall, general liability and automobile fleet coverage, I guess. I think that again to -- you know, it's tough. Maybe if I had vouchers in front of me, it would bring back a lot, a lot more specifics. But, I would presume, general liability and automobile coverage.

Q. All right. Now, who authorized the Hermo Agency to place the insurance on the general liability and the auto fleet coverage.

A. I, I don't have any recollection who specifically authorized, except I think maybe it would be best if I would respond maybe by saying that the entire board of commissioners authorized the Hermo Agency in the payment of its claim for the premiums due on the policy.

Q. Well, who actually said to the Hermo Agency, "You may place our insurance," or words to that effect?

A. I don't have any specific recollection at this time.

Q. Mr. Mocco, before I even forget my question, I would ask you be responsive to the question. I am asking you who in the governing body authorized the Hermo Agency, or any other agency, to place insurance for the town, whether it be auto fleet or general liability.

A. You say when governing body, you mean the mayor and board of commissioners.

Q. Well, are they the people that authorized it?

A. We authorize by payment of the claim. But as far as the spade work and who does the work in purchasing, purchasing insurance or purchasing cars or purchasing, that would be the administrative staff. It certainly wouldn't be the board of commissioners. We are policymakers. We are part-time elected officials all working in other capacities, and our job is not to run the day-to-day administrative machinery of purchasing. So when you ask me a question, you have to understand that there are full-time paid staff personnel in the Township of North Bergen who are responsible for those day-to-day functions, and certainly I do not believe, and, to the best of my recollection, at no time in the eight years that I was there with the various

different commissioners that I served with, that any of them ever affirmatively went out to become a purchasing agent, or went out to purchase insurance, or purchase cars, or purchase anything.

*Q. Well, Mr. Mocco, I'm not asking you that.*

THE CHAIRMAN: Let me --

*Q. You told me that the Hermo Agency --*

THE CHAIRMAN: Let me intercede for a second. Are you saying for the seven or eight years we are talking about here the commission has never voted as to a selection of an insurance agency to take care of the insurance coverage for the township?

THE WITNESS: That's correct, sir.

THE CHAIRMAN: And do you know who made those selections, whenever they were made?

THE WITNESS: By and large, they would be made by the administrative people in the township, non-elected officials.

#### His Brother's Agency

During the period 1971-78 with regard to North Bergen's insurance transactions, municipal coverage came to be awarded to the Meadowlands Insurors Agency controlled by Peter Mocco's brother, Joseph, the township clerk. However, the township clerk had no official responsibilities for brokering municipal insurance, his only connection with the purchased coverage being that his office came within the jurisdiction of the Department of Public Affairs, which Peter Mocco supervised as mayor. Counsel sought to clarify the arrangements for contracting with the township clerk's insurance agency:

*Q. How long has the Meadowlands Agency had the insurance for the town?*

A. Oh, let's say, three years, maybe four years.

*Q. So while you were mayor your brother, your brother's agency, had the insurance for the town. Is that correct?*

A. That's correct.

Q. Well, he's the broker, is he not?

A. That's correct.

Q. He's not employed by a carrier? By that I mean --

A. He's an independent carrier. He represents a number of insurance companies.

The company that's his company was started in 1930 by my father. It's a -- you know, an old established insurance firm, and he over the years, besides graduating from the New Jersey College of Insurance --

Q. Mr. Mocco, I'm asking you, did he place the insurance directly with a carrier or did he use another broker to do it? That's what I'm asking you.

A. I think he -- again, I am not that familiar with the inner workings of my brother's insurance agency. I --

Q. Well, do you know or don't you?

A. I am -- I would not know --

Q. Fine.

A. -- the internal workings of the agency.

Q. We'll leave it at that.

How much were the premiums the first year you brother took over the insurance?

A. Mr. Rhoads, the State of New Jersey is the only one who's privy to that information. The State of New Jersey and the County of Hudson are the only ones that have the records. I have no way of knowing that, and, therefore, no way would I be able to come here today with that information.

Q. They're the only ones that are privy to it. Well, as mayor and commissioner, are you telling me you had absolutely nothing to do with the payment of premiums in the Township of North Bergen?

A. No, that's not what I'm saying. What I am saying is that you -- and I am speaking for the entire State of New Jersey -- as opposed to the Township of North Bergen have those records. So since you have the records, you are the one who is armed with that information. I am not. I have no way of knowing what the premium dollars were, nor do I have the internal workings of what the commissions were to my brother's agency because I am not part of that agency.

Q. Well, are you telling me that you do not know how much the premiums were when you brother first took over? Is that your answer to my question?

A. At this particular time, because you have all the documents, I do not have that information, that's correct.

Q. Do you know what the premiums were the second year he had the insurance?

A. Again, my response is exactly the same. You were the one who has that information. I don't have it. If you showed me the documents, I would be able to confirm them. But if you don't show me the documents, I'm going to be unable to give you any numbers.

Q. I take that as a no. Am I accurate in that?

A. That's correct.

Q. Mr. Mocco, as the mayor in the Town of North Bergen, did you authorize the payment of those premiums, or, at least, share in the authorization of the payment of those premiums?

A. Yes, I did.

Q. From those premiums, did your brother exact a commission?

A. He earned a commission.

Q. And it came from the premiums which you authorized to pay on behalf of the town?

A. That's correct.

Q. Do you have the faintest idea today, without having seen any books that are not before you right now, that are apparently in the possession of the state, do you have any idea how much the commissions were that your brother earned from the Township of North Bergen in the first year he was appointed?

A. Maybe a rough guess. I could make a rough guess.

Q. Could I share in that guess?

A. Sure.

Q. What is it?

A. I don't think it would be much. Maybe 6 to \$10,000 maximum.

Q. What did he have in '76? What were his commissions then? Do you know?

A. I would presume, about the same.

X X X

Q. Mr. Mocco, your brother is the principal in Meadowlands. Who are the other principals, if any?

A. Well, initially it was my father's agency, which was my brother came in, worked with the agency and took it over. I think my mother plays -- played a small role in the sixties, you know, and a much less of a role in the seventies. So I would say my brother is the principal. Since my father passed away and my mother's playing a very, very nominal role at this time, that he would be the sole principal.

Q. Were you ever hired by the agency to perform any work for them?

A. Absolutely not.

Q. Have you ever gotten a fee from Meadowlands Agency?

A. Absolutely not.

Q. In any capacity?

A. None, never, at no time.

Q. Now, your brother, Joseph Mocco, was the township clerk during your term as mayor; is that not so?

A. That's correct.

Q. And as township clerk, did he play any role in the obtaining of insurance? In other words, what I mean by that is, was he charged as one of his duties as the clerk to either solicit or, at least, farm out the insurance for the town?

A. No.

Q. Now, as township clerk, under your duties as a commissioner, was that within your, let's say, scope of authority, your table or organization?

A. The township clerk's office was under the Department of Public Affairs.

Q. Of which you were the director; is that correct?

A. That's correct.



Q. Well, what, if any -- what did the township clerk have to do with the insurance?

A. He had, as the township clerk, he had nothing to do with the insurance.

Q. So that he was functioning solely in his role as principal in Meadowlands, is that correct, with his brokering of the insurance, et cetera?

A. I think that's correct.

THE CHAIRMAN: I think the witness may be making a distinction between his function as township clerk and some other function for the township.

Is that so?

THE WITNESS: Yes. As the township clerk, he's charged with specific statutory responsibilities and --

THE CHAIRMAN: Does he have insurance responsibilities as an employee of the township in some other capacity other than township clerk?

THE WITNESS: No, he is only -- in his salaried position as township clerk, he has no responsibilities as charged with insurance.

THE CHAIRMAN: Well, in any other capacity for the township is he charged with insurance responsibilities?

THE WITNESS: No, sir.

BY MR. RHOADS:

Q. All right. Mr. Mocco, how was it that your brother's agency, Meadowlands, was able to obtain the, I suppose, contract for the insurance of the Town of North Bergen?

A. He provided a much broader, much comprehensive policy of insurance at a much, at a much less cost to the township, and, as a result, we had a more and complete coverage; we had a less expensive coverage, and that was the reason that Joseph Mocco, through the Meadowlands Agency, received whatever insurance awards that he received.

Q. Well, what I am asking you is not why he got it, but who gave it to him. Who awarded him the privilege of placing insurance so he was able to make the \$6,000 - \$10,000?

A. The mayor, the board of commissioners.

Q. Of which you were a member?

A. That's correct.

Q. Now, when you say they awarded it to him, would you please tell me how that process went about?

A. They, they received, processed and approved the claims for the premiums.

Q. In other words, he would submit a bill for an insurance premium and the commissioners would approve payment of that?

A. That's correct.

Q. If someone were to come up and present the commissioners with a bill and say, "This is the bill for your automobile liability insurance for 1975," and the commissioners vote whether to pay or not pay, and assuming they vote to pay that bill, does that make that person the broker for the town?

A. That's correct.

Q. So, then, am I correct in saying that you, as a commissioner and mayor, hadn't the faintest idea of what the package was, by that I mean what your coverage was and everything else; all you knew was somebody submitted a bill and you paid it?

A. Absolutely incorrect and I absolutely disagree with that statement. I very clearly indicated that the reason that the Meadowlands Agency was receiving the insurance for the town was because they provided a much broader coverage; a much more comprehensive policy at a less cost to the taxpayers.

COMMISSIONER PATTERSON: And every commissioner, then, took a part in deciding that the coverage as proposed by Meadowlands in this case was better coverage than they could reasonably expect from some other source?

THE WITNESS: Or that they had been getting from another source.

THE CHAIRMAN: Well, again we get back to the simple question: Who selected Meadowlands? Can you tell us that? Who selected Meadowlands?

THE WITNESS: I would say it was -- well, yes. The answer is: The administrative people in the Township of North Bergen would make the analysis and the board of commissioners would vote, and the voting of the approval of the claims was tantamount to the selection.

THE CHAIRMAN: That comes after the selection. The voting of the approval of whatever bills came in is after the selection. We want to know who selected Meadowlands. Can you tell us in one word, or five words? Who selected Meadowlands?

THE WITNESS: The selection was made by the mayor and board of commissioners as a result of the, probably, the spade work done by the administrative staff.

Q. Now, with respect to that selection, did you play any role at all in the ultimate selection? By that I mean, was the board of commissioners ever approached with a selection and said, "This is my selection, pass on it"?

A. No, not to my knowledge.

Q. I'll give it to you again. I am asking you simply this: Absent your voting whether or not to pay a claim, did you play any role in the assigning of the insurance contract to the broker, in this case Meadowlands?

A. I don't know what you mean by "assigning the contract."

Q. Giving the contract to Meadowlands.

A. Again, there was no -- I may have played a role in some processing procedure, but --

Q. What role?

A. I said, "I may have." I don't have --

Q. Well, did you?

A. I have no recollection.

Q. All right. Then your answer is, you don't remember?

A. That's correct.

Q. Did you go to the responsible person and say, "Meadowlands Agency is run by my brother, I'd like to see him get it, I'm your mayor"?

A. Absolutely not; absolutely not.

Q. Now, when the claims came up from Meadowlands to pay these premiums from which your brother would take his commission, did you vote on those?

A. I certainly did. Excuse me. To the best of my recollection, I did. I did not have, you know, whether I was absent at a particular meeting or not absent, whether I voted on that particular claim or not, unless I look at the specific minute books.

THE CHAIRMAN: You were certainly present for voting on some of those claims?

THE WITNESS: I would presume I was, sir. I have no question in saying, yes, but again with the caveat that I have not seen the minute books, so I can't be absolutely positive. But I would have no problems in saying, if I was at the meeting and those claims came up, I certainly would have voted for them.

Q. And you have no problem with the fact that your brother was the broker and he was going to get a commission as part of this premium check; no problem with that at all?

A. No problem at all.

Q. In his role as township clerk, did he, as the township clerk, offer any input in the selection of an insurance broker?

A. Well, as the township clerk, he had no authority to be involved in the selection of the insurance. However, I am confident that, as a citizen and as a broker from 1971 on, he was always available for advice and for counsel on --

Q. Was he used for advice and counsel?

A. Be certainly was. His advice and counsel concerning insurance matters was certainly used by people in the Township of North Bergen, no question about it, but not while he was functioning as a the township clerk.

The North Bergen Finance Director

As one of the five elected township commissioners, John J. Duffy, the next witness, was director of the North Bergen Department of Revenue and Finance. Although the township's insurance coverage was purchased through his department, he had little or no knowledge of the process and relied on the mayor's brother, Township Clerk Joseph Mocco, for advice. He provided background on the switching of township contracts from the Joseph J. Hermo Agency, Inc., to the Martini Agency, and when Martini bowed out of the picture, to the McCloskey agency.\* S.C.I. Counsel Peter M. Schirmer questioned Mr. Duffy:

*Q. What do you have to do with insurance?*

*A. We -- the account -- the monies that we pay out insurance are in the revenue and finance department.*

*Q. How does the Town of North Bergen, since you have been the Commissioner of Revenue and Finance, how do they obtain their insurance?*

*A. Through McCloskey Agency.*

*Q. My understanding is that in 1975, and prior to that, the Hermo Agency was the insurance broker for North Bergen. Is that correct?*

*A. Yeah, Hermo. I believe he was for a while, and then there was Martini Agency was, also.*

*Q. But Hermo Agency preceded the Martini Agency; is that correct?*

*A. Yes.*

*Q. In any event, they were not renewed or there was some problem? Will you describe the problem that occurred for the Commission?*

*A. We had a problem not with the agency but with the insurance company, as I recall. They claimed we owed them, I believe it was, in excess of \$50,000, and we didn't feel we owed them that money.*

*Q. Who told you that you owed approximately half that amount?*

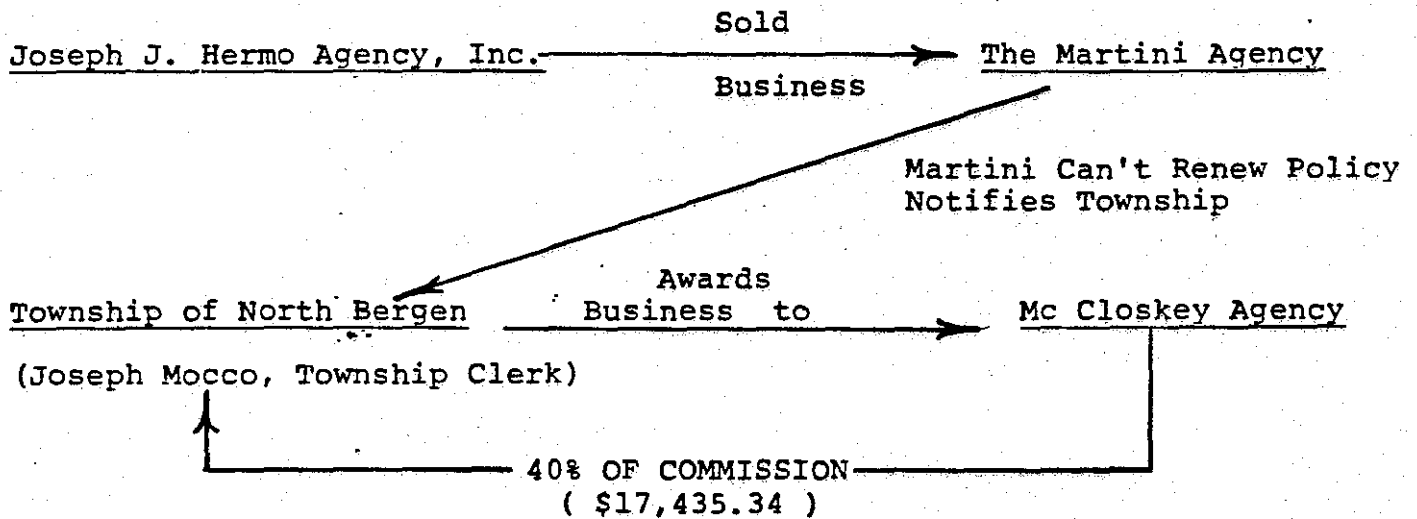
*A. Mr. Spendley and Mr. Mocco.*

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\*See Chart, P. 258.

NORTH BERGEN INSURANCE -- 1

1. Township of North Bergen



Q. Mr. Mocco. Did you rely, or do you rely, on Mr. Mocco for advice on insurance matters?

A. I did.

Q. Do you still?

A. No.

Q. Who do you rely on now?

A. Well, Mr. McCloskey.

Q. Mr. McCloskey. But at the time that the contract was given to the McCloskey Agency you relied on the advice of Mr. Mocco; is that correct?

A. Partly, yes.

Q. Partly you relied on it. Do you have any experience in insurance yourself?

A. No.

Q. So you, in doing your job as an official of the township and not knowing, having any knowledge about insurance, relied on certain people for that information?

A. That's correct.

THE CHAIRMAN: Let's just not leave this \$50,000 in midair. Do I understand that you settled that with the insurance company for \$25,000?

THE WITNESS: Approximately, sir. Approximately.

THE CHAIRMAN: To their satisfaction and your satisfaction?

THE WITNESS: Well, to our satisfaction, yes. I don't know about to their satisfaction, but they didn't take us to court.

COMMISSIONER PATTERSON: And when you refer to Mr. Mocco, you mean Mr. Joseph Mocco?

THE WITNESS: Correct.

BY MR. SCHIRMER:

Q. Joseph Mocco is the clerk of the township; is that correct?

A. Yes.

Q. Is that part of his responsibilities as clerk?

A. I don't, I don't think it would fall directly under his responsibility, no.

Q. Did you delegate that responsibility to handle insurance to Mr. Mocco and other people? I'm talking about Joseph Mocco.

A. To him and other people.

Q. Because you are not that knowledgeable in insurance?

A. That's right.

Q. Mr. Spindley, is that the gentleman you mentioned?

A. Spendley.

Q. Spendley. What type of insurance would he advise you about?

A. Primarily, the health; health insurance.

Q. And the other types of insurance you would receive advice from Mr. Joseph Mocco on; is that correct?

A. Mr. Joseph Mocco, Mr. Sinatra, and Mr. Blisko at different points.

THE CHAIRMAN: You mentioned Mr. McCloskey, too?

THE WITNESS: And Mr. McCloskey.

THE CHAIRMAN: Who's he?

THE WITNESS: Broker. The insurance agent.

Q. My understanding is that the Hermo Agency sold their business to the Martini Agency. Is that correct?

A. Yeah, I believe so.

Q. Do you know if Mr. Hermo, who is a principal of the Hermo Agency, ever got another job in the Township of North Bergen?

A. I believe he works in the housing, for the housing authority.



Q. When you were notified that you would not be renewed for the township insurance, what acts did you take? What things did you do?

A. I asked three people to find insurance for the township.

Q. Who were those three people?

A. Mr. Sinatra, Mr. Mocco and Mr. Blisko.

Q. Mr. Joseph Mocco?

A. Right.

Q. What did you ask Mr. Blisko to do?

A. To look into different agencies to try and find coverage for the township.

Q. And again you were delegating your responsibility as a purchasing agent for the township to three individuals that you felt were knowledgeable in insurance?

A. No, I was not the purchasing agent.

Q. But part of the responsibilities in that office was purchasing?

A. Right. But Mr. Sinatra is in purchasing.

Q. Do you know if Mr. Sinatra went out and looked for other companies?

A. I assume he did, yes.

Q. Is he an insurance broker?

A. No.

Q. Does he have any expertise in insurance?

A. Not to my knowledge.

Q. Did anyone come back to you with a suggestion on who might be the broker who could give coverage?

A. Yes, but I don't recall which of the individuals, either Mr. Sinatra or Mr. Mocco, came back. I'm not sure.

THE CHAIRMAN: Well, what was the recommendation?

THE WITNESS: To, to get insurance from the McCloskey Agency.

X X X

Q. So, as far as you know, the only agency that was considered was the McCloskey Agency?

A. Yes.

Q. You consequently gave the contract to the McCloskey Agency; is that correct?

A. That's correct.

Q. And you paid the receipts or bills and you renewed policies with the McCloskey Agency; is that correct?

A. Yes.

Q. Was Joseph Mocco ever designated as broker of record for the Township of North Bergen?

A. Not to my knowledge.

Q. In fact, that position doesn't exist for the Township of North Bergen?

A. Not to my knowledge.

Q. Did you know at the time that Mr. Mocco was receiving a per cent of the commission earned by the McCloskey Agency?

A. Not at that point I didn't.

Q. When did you learn?

A. Approximately a year ago; a little more than a year ago.

Q. Would it be fair to say that Joseph Mocco, after being delegated the responsibility by you, was acting as a township employee in seeking out the McCloskey Agency?

A. Yes.

Q. Did you ever authorize, or did you ever speak to Mr. Mocco and he inform you that he was going to receive part of that commission?

A. No.

Q. That was never made aware to you of that fact?

A. Not at the beginning, no.

Q. Then I think it follows that that fact was never made known at a township meeting where the bills were paid?

A. Not while I was there.

Q. The township does not have an excess policy on workers' compensation. Is that correct?

A. That's correct.

Q. They're self-insured for that policy?

A. That's correct.

Q. Did you ever question whether this was a good practice not to have an excess policy?

A. Yes.

Q. Was anything ever done?

A. No.

Q. You are now self-insured for general liability; is that correct?

A. Yes.

X X X

Q. Do you recall any proposals that Joseph Mocco presented to the governing body in North Bergen in 1975 pertaining to the coverage, the insurance coverage, that he was going to provide?

A. I don't recall, no.

Q. This morning Peter Mocco also testified that his brother had no responsibility for insurance, but that's incorrect as far as you're concerned. Is that true?

A. Well, again, as township clerk, officially he did not have a responsibility. He just did it at my request.

Q. He's been delegated that responsibility by you, and he accepted that responsibility?

A. Well, yes, yes.

Q. If you had gone out and were able to place that insurance coverage yourself, would you expect to receive forty per cent of the commission earned by the McCloskey Agency?

A. No.

#### Housing Authority Insurance

Ronald J. Jeffrey was called to testify about the manner in which the North Bergen Housing Authority's insurance was handled.\* A political supporter of Peter Mocco for mayor

\*See Chart, P. 266.

in 1971, he became the Housing Authority's executive director after holding other municipal posts, including that of welfare director. All but one of the seven commissioners on the Authority were appointed by the Mocco-controlled Township Commission, a factor which he indicated was influential in swinging the Authority's insurance to Township Clerk Joseph Mocco's Meadowlands Agency. Counsel Schirmer questioned Mr. Jeffrey:

Q. What is your occupation?

A. I'm the executive director of the North Bergen Housing Authority.

Q. When did you first come to that position?

A. Approximately five and a half years ago, a little more than that.

Q. And how did you receive that appointment?

A. Through the commissioners of the housing authority. I applied for it and they appointed me.

Q. You are the day-to-day administrator?

A. The day-to-day operation, I have a budget that I run by, and, you know, the commissioners approve final.

Q. And based on bills you recommend be paid --

A. Right.

Q. -- the commissioners pay them?

Looking directly at insurance, how is insurance purchased for the township? Strike that. For the housing authority of North Bergen.

A. Similarly, I would, you know, interview somebody for insurance and find out what they had and what they want to give us, and present it to the board of commissioners. If they approve it, it's passed.

Q. Based on your recommendation you could select a broker of insurance policy and then, assuming it met the approval of the six-man commission or seven-man commission, that that bill would be paid. Is that correct?

A. If they accept it, yes, it would.

THE CHAIRMAN: You tell us how it's done.

THE WITNESS: The housing authority would need insurance, so I would go out and try to get the best coverage for the housing authority at the best price.

Specifically with insurance, they had a representative come to -- I don't know if -- I don't remember if it was a board meeting at one time or a commissioner or two, and, you know, they discussed insurance and they approved it under those circumstances.

THE CHAIRMAN: Who was that representative that came into the board and discussed it?

THE WITNESS: Well, we had -- the one that received the insurance was the Meadowlands Insurance Agency.

THE CHAIRMAN: When?

THE WITNESS: That was in 1975, '76. I don't know the exact year.

THE CHAIRMAN: And continues to have it down through those four or five years?

THE WITNESS: Yes, sir.

THE CHAIRMAN: And did you go to the Meadowlands and interview Meadowlands prior to bringing that name before this board of yours?

THE WITNESS: Well, we had a problem. They had an insurance agency previously that had the insurance for a couple of years and then for some reason he couldn't cover the housing authority insurance. So then I went out and searched for another insurance agency.

X X X

BY MR. SCHIRMER

Q. Prior to the Meadowlands Agency receiving the insurance package, the agency we are talking about is the Martini Agency. Correct?

A. I think it's correct.

Q. Your testimony is that they were not able to renew your coverage?

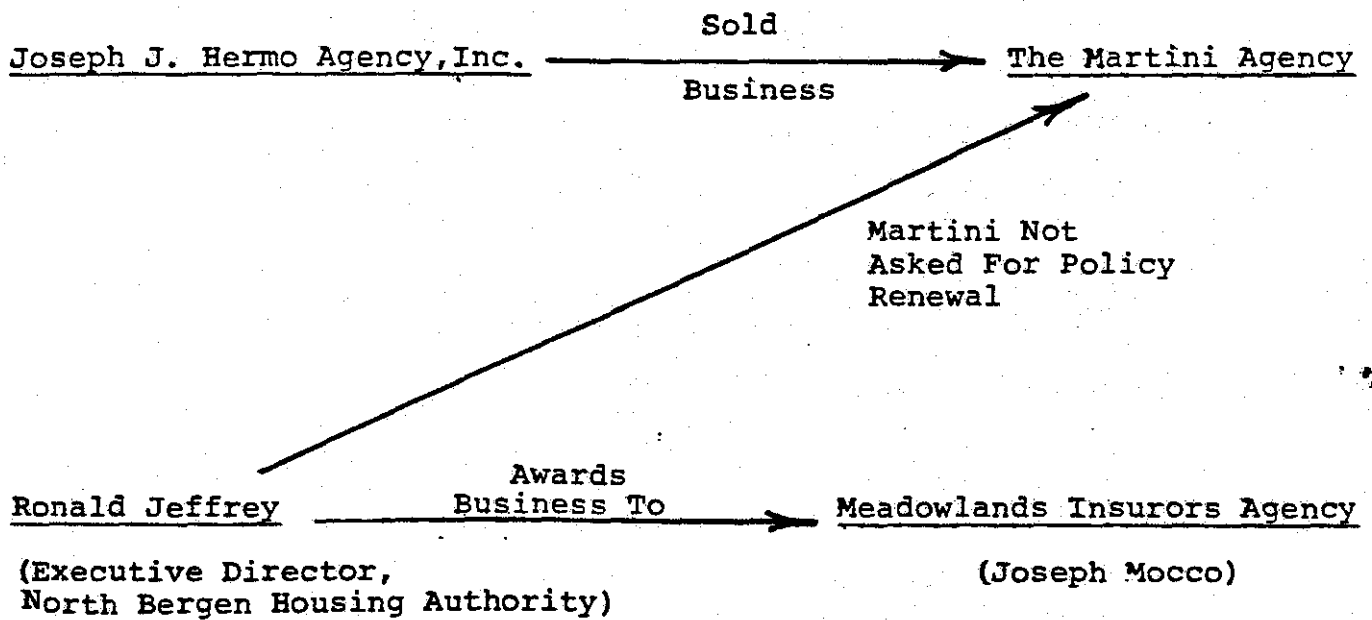
A. I'm almost positive that that was the problem at that time, yes.

Q. And you don't recall the fact that you did not ask the Martini Agency to renew the coverage?

A. No, sir.

NORTH BERGEN INSURANCE -- 2

3. North Bergen Housing Authority



Q. And they were never requested in to provide the coverage?

A. I don't remember that.

Q. But, in any event, it was your recommendation that the Meadowlands Agency receive the policy?

A. Well, it was my recommendation to have the agency come up and talk to a commissioner or two, and myself included at the time, and I don't remember who it was, and under that discussion we, you know, recommended having that agency insure us.

Q. You were aware at the time that Joseph Mocco, who at that time was township clerk, was a principal in the Meadowlands Agency?

A. I assumed that, yes.

Q. Isn't it that Joseph Mocco made the presentation to yourself?

A. Yes, correct.

Q. And you aware that he was affiliated with that agency, whether or not he was a principal?

A. Right, affiliated, yes.

THE CHAIRMAN: Do I understand that Joseph Mocco appeared before the board, the seven members, and made his presentation?

THE WITNESS: He either appeared before the board or one or two of the commissioners. I really can't remember, you know, exactly what it was.

THE CHAIRMAN: Well, it's rather important. I suppose they'd all know that he was connected or affiliated with the agency if they had him appear before them and describe what he was going to do for them. It would be quite obvious that he was affiliated. But if he didn't make that appearance before the board, they might not know.

BY MR. SCHIRMER:

Q. Are you yourself knowledgeable in insurance?

A. No, sir, not that much.

Q. So you are relying on Mr. Joseph Mocco for the coverages?

A. Generally speaking, yes.

Insurance Procedures Criticized by HUD

The U.S. Department of Housing and Urban Development, which was responsible for the financing of Township Housing Authority projects, strongly questioned the Authority's insurance program by mail in 1976. HUD criticized the agency's failure to utilize a bidding process, its subservience to Township Clerk Mocco and the overpricing of its program in general. When Executive Director Jeffrey observed that he didn't regard the HUD letter as critical of his insurance operation, he was asked to read the actual criticisms contained in the notice. Counsel:

Q. But are there any guidelines published by HUD, Housing and Urban Development, which would tell you that you should try to bid the insurance?

A. I really don't know. I know I contacted a bunch of authorities and many of them did not bid them, so I assumed that it was the practice to just get the best.

Q. I would like to show you a letter, Mr. Jeffery, dated November 3rd, 1976, marked for identification C-166, to Ronald Jeffery from the Housing Authority, Raymond E. Rath, Director, Housing Management Division. Again, November 3rd, 1976. I ask whether you recognize that letter.

A. I don't remember the letter itself, but I remember some things, you know, about it.

Q. So this letter was subsequent to the award of the contract to Meadowlands Agency and there was an evaluation of your insurance program, is that correct, by the Housing Authority?

A. Correct.

Q. Was that critical of the program, this letter?

A. No, I don't think it was critical.

Q. Why don't you read into the record the first criticism of the program? And that's my characterization of the criticism.



A. "You are reminded that the Annual Contributions Contract requires that fire and liability coverages be secured through open and competitive bidding. In cases where a multi-peril package policy substitutes for the above coverages, this coverage must be bid. In the case of your Authority, the bidding requirement was not fulfilled."

Q. And you agree with that?

A. It was not bid.

COMMISSIONER PATTERSON: You don't consider that criticism?

THE WITNESS: I'm sorry. I didn't understand what he said before. Yes, that's criticism.

BY MR. SCHIRMER:

Q. Has it ever been bid after, subsequent to this letter?

A. No, sir.

Q. No. 2. Would you read No. 2?

A. Yes. "We remind you that the Annual Contributions Contract also requires you to submit all insurance policies to this office for our review no later than forty-five days prior to the effective date of the policy. In the case of your Authority, this has not been done either."

Q. So they are complaining you are not submitting policies to them, is that correct, at that time?

A. At that time, right.

THE CHAIRMAN: Did you submit them subsequent to receipt of that letter?

THE WITNESS: Yes, sir, we do.

Q. If you would look at Item No. 3, would it be fair to characterize them criticizing the designation of Joseph Mocco as broker of record?

A. Yes, I would say.

Q. You should give yourself an option to deal with several brokers --

A. Correct.

Q. -- for the best coverage.

A. Correct.

COMMISSIONER PATTERSON: Why don't you read Item No. 3, too?

A. "We note that an agent of record letter was given to Meadowlands Insurance Agency on August 8, 1976. While we recognize that such a letter is necessary from time to time to secure insurance coverage, the language or any such language should not unqualifiedly commit the Authority to a particular agent. The letter should clearly state that the Authority is free to accept proposals from other agents."

Want me to read 4?

Q. No. 4, if you would.

A. "We note that your Authority's properties are currently insured for an aggregate value of \$27,587" --

Q. Isn't it 27,000,000?

A. I'm sorry. 27,000,000 yes. 27,586,556. Our computation of actual cash value" --

THE CHAIRMAN: Go ahead, just read 4 slowly.

A. "Our computation of actual cash value results in a value of \$17,502,298. We computed value using Factory Mutual indices to update the original insurable value to replacement cost. (In the case of project NJ 4-3 the amount or original insurable value was not available and we estimated replacement cost at \$20,000 per dwelling unit.) Replacement costs were then depreciated at the rate of 1% per year to arrive at actual cash value."

Q. I don't want you to go through the graph they give on the letter, but the next verbiage they have starting with "You are required."

A. "You are required to insure to a value of 80% of actual cash value or \$14,001,838."

Q. So what they are saying to you there is that you have insured under the policies which the Meadowlands Agency has, you have insured your property at \$27,000,000, and based on their recommendation, you should have only been insured at \$14,000,000 or a difference of \$13,000,000?

A. That's what they're saying, right.

THE CHAIRMAN: Did you change? After receiving this letter did you change your insured valuation from the 27,000,000 to the 14,000,000 or any sum in between?

THE WITNESS: I really don't remember.

THE CHAIRMAN: What's the valuation that you are insured at now?

THE WITNESS: I don't have the figures, sir.

THE CHAIRMAN: Aren't you in charge of this?

THE WITNESS: Yes. They have all my records in regards to the insurance, so I don't know what.

COMMISSIONER PATTERSON: Wouldn't you remember if you reduced the insurance coverage by \$13,000,000? Wouldn't you remember that?

THE WITNESS: I really don't.

COMMISSIONER PATTERSON: It seems to me that that would be an important decision that somebody would have made, and one important enough so that one would remember it.

#### Township Clerk's Insurance Transactions

Township Clerk Joseph Mocco, who also was an insurance broker, was called to testify about the insurance contracts purchased in 1975 by the township itself, the township's housing authority and the township's Board of Education, all of which resulted in lucrative commissions to himself. These three governmental entities all were dominated by the Township Commission headed by the clerk's brother, Peter, as the mayor. S.C.I. Counsel Rhoads questioned Clerk Mocco about these various transactions, starting with the township's insurance, and about his relationship with the mayor:

Q. How long have you been the township clerk in North Bergen?

A. Since 1971.

Q. You have a brother, Peter Mocco, do you not?

A. Yes, I do.

Q. In 1971 he was the mayor of North Bergen, was he not?

A. Yes, he was.

Q. To your knowledge, was he instrumental in your becoming the township clerk?

(Whereupon, the witness confers with counsel.)

A. He was one of the commissioners at the time.

Q. Well, as a commissioner, do you know whether or not the commission voted on your appointment to become township clerk?

A. Yes, they did. In May, in May of 1971.

Q. And do you know whether your brother voted against you becoming township clerk?

A. No, he didn't.

Q. He voted for you?

A. Yes, he did.

Q. Well, were you ever the North Bergen township chairman, Democratic Chairman?

A. Yes, that's correct.

Q. And what period were you the chairman?

A. From 1973 to 1976.

Q. Did you have anything to do with the campaign of your brother and perhaps other commissioners in 1971 when they ran for the position of commissioner?

A. Yes.

Q. And what did you do?

A. I voted for him and I solicited votes for him.

Q. Okay. And did you do so for the other elected commissioners in that town in 1971?

A. Yes, I did.

Q. And in 1975, as Democratic Chairman, having supported the slate that you just enumerated, did they then appoint you as township clerk? Or re-appoint you, I should say.

A. Yes, that's correct.

Q. Is that a salaried position?

A. Yes, that's correct.

Q. Is there any statute that regulates whether you could have employment other than that as township clerk?

A. Not to my knowledge.

Q. All right. Now, you also said that you are in the field of insurance. Is that so?

A. Yes.

Q. Do you have an insurance agency?

A. Yes, I do.

Q. And what's the name of the agency?

A. Meadowlands Insurors.

Q. Who are the principals in there?

A. I am the principal in Meadowlands Insurors.

Q. Did Peter Mocco ever have an interest in it?

A. No, Peter Mocco never had an interest.

Q. Was he ever employed by the agency at any time?

A. No, not that I can recall. No.

Q. Did he ever perform any service for the agency for which he got paid?

A. Not that I can recall, no.

Q. Okay. I am addressing you now in your capacity as an insurance broker, I suppose. Is that a fair term?

A. Yes.

Q. Addressing you in that capacity, do you now service any municipal insurance contracts for the Township of North Bergen?

A. Yes, I do.

Q. Yes. Would you tell us what they are, what it is you insure for North Bergen?

A. A liability, automobile liability, fire insurance, and some bonds.

Clerk Mocco's municipal insurance business expanded in 1975 after various contracts expired and he "wrote" the replacement programs. Counsel Rhoads questioned him about these transactions:

Q. Okay. Then you wrote the insurance for the municipality?

A. That's correct.

Q. And you did that because, as township clerk, you were aware that the insurance had expired. Isn't that so?

A. No, it had nothing to do with being township clerk.

Q. How did you know it expired?

A. Because I was advised it had expired through the purchasing department, that the insurance had run out and that they didn't have insurance in the municipality at the time.

Q. Can I ask you this: Why is it that they bothered to advise you?

A. Well, I also insure a number of people that work in the municipality. I also insure a large number of people that live in the municipality. A couple of hundred clients. So it's general knowledge that I am an insurance agent and broker in the community, and I have my office located there.

Q. Well, did anyone from the purchasing department give you a reason why they were telling you that the insurance had lapsed?

A. I don't remember the specifics, but generally at that time there was a problem in trying to place the coverage because it's a problem trying to place, to get the coverage placed with the carrier, and the problem at that time was the policies expired and they were looking for coverage to be placed.

Q. Well, what is it? They advise you now that the coverages -- well, did they advise you that it already had lapsed, in other words, that they were uninsured?

A. Yes, I was advised that the policies had terminated; that the policy had terminated.

Q. So there was a period of time where the municipality was uninsured for the various risks?

A. Specifically, you would have to check the record, but I believe it was either on the date or there was a few days when there was a lapse.

Q. Who approached you from the purchasing department?

A. I spoke with Mr. Sinatra. He's the purchasing agent.

Q. And what did you do ultimately?

A. Ultimately I was able to place the risk.

Q. And how is it that you placed it?

A. Well, I first called up the companies that I represented at that time, and I asked them if they would insure the Township of North Bergen on a general liability policy and they -- I went over experience that the township had, and the companies that I represented in the office turned it down. They said that they didn't want to write the risk.

So then I started calling up different insurance brokers and asking them if they would underwrite the risk, you know, to place coverage on the municipality. I spoke with a broker by the name of O'Connor, an agent by the name of O'Connor, and he told me that he was writing the municipality of Union City and that he couldn't place it with his own companies through his own office and that he had brokered the account through the McCloskey Agency in Bergen County. So I called up the McCloskey Agency and I had a meeting with Mr. McCloskey, and he was able to bind coverage and we were able to place the account.

Q. And are you now operating as the township clerk -- by that I mean an agent for North Bergen -- when you approached McCloskey?

A. No, I operated as Joseph Mocco.

Q. Joseph Mocco what?

A. Insurance broker.

Q. And McCloskey ultimately does place this insurance for you. Did you get any part of the commission that McCloskey got?

A. Yes, as an insurance broker I would get a commission on the business that's placed with an agent.

Q. And how much did you get? By that I mean, what percentage did you get of the commission from McCloskey?

A. It varied.

Q. Well, in '75 what did you get?

A. You have the checks there. If you could show me the checks or if I can go over them --

Q. Well, if I were to tell you it was \$6,067 in 1975, does that refresh your recollection?

A. If that's what the check says. Whatever it is on the check, that's what the amount would be.

Q. Now, with respect to the sharing of the commission with McCloskey, what is it that you did to earn the commission in '75 other than just to go to him and say, "Will you please place our insurance for us for the town?"

A. I did what I normally do with all by brokered accounts.

Q. What did you do to earn the shared commission with McCloskey in 1975?

A. I did a risk analysis. I selected work on handling the risk which would result in a net economic gain to the municipality.

Q. Well, did you handle any claims, or is that what you're talking about?

A. Well, claims would be in the risk management. That came later on during the course of the year.

Q. What did McCloskey do? Did he do anything? Was there anything left for him to do?

A. Yes, yes. I worked with McCloskey on a joint basis. I didn't know the man prior to my calling him as a recommendation from another insurance agent, and I wanted to work with him on the risk itself because I didn't know his capabilities and I didn't know his capacity as far as the insurance industry itself.

Q. Okay. Now, with regard to this agreement, that you are going to share the commission, did there come a time when you told the board of commissioners that this was an agreement you had with McCloskey?

(Whereupon, the witness confers with counsel.)

A. I don't recall on that.



Q. Well, is it that you didn't do it or you just don't recall ever doing it?

A. No, it's possible. It's possible I would have communicated with them, but I don't recall at this time.

Q. It's possible?

A. That's right.

Q. And, of course, it's possible you may not have?

A. I just said that.

Q. All right. Having now once made this arrangement with McCloskey and McCloskey is able to place the insurance, did you go back to any governing body and present this insurance package to them for approval?

A. I went over the insurance program with the purchasing agent. The purchasing agent then brought it before the board of commissioners in the form of payment, so they get paid.

Q. And they vote to pay it or not pay it?

A. That's correct.

X X X

Q. Your brother, Peter Mocco, the mayor at the time, he, of course, was aware that you were sharing in these commissions prior to voting on whether to pay the first premium check, wasn't he?

A. I couldn't answer that, what my brother was aware of or wasn't aware of.

Q. Well, did you ever tell your brother, "I've got the automobile liability insurance now and I'm placing it through McCloskey and sharing commissions with them"?

A. It's possible. I don't think, as we're saying now, I would say, "I've got the automobile liability and I'm sharing commissions with the McCloskey Agency," no. I don't believe it was done in that manner. But it's possible that, you know, some sort of, some conversation went by. But, again repeating, this is four years ago.

Q. So it's possible that perhaps your brother did know you are sharing part of the commissions on the auto?

A. I can't answer because I don't know.

Q. You just don't know whether he did or not?

A. That's correct.

Q. Now, with respect to the fire insurance, how is it that you were able to get that?

A. I made application to write it.

Q. Well, didn't it lapse at one point?

A. I don't, I don't recall at this time. It's possible it lapsed. I don't recall.

Q. The broker that had the fire insurance prior to you, do you know who that was?

A. I don't recall right now.

Q. If I were to tell you it was the Hermo Agency, does that refresh your recollection?

A. Yes, it does. I believe --

Q. Do you recall testifying on April 26th, 1979, before the Commission in executive session?

A. I was there, if that was the date.

Q. Do you recall being asked this question: "The auto policy was cancelled. Anything else?" Do you recall that question?

A. No, but you recollect me. You can refresh my memory.

Q. All right. Your answer was, "No, the fire ran out when it ran out."

"Question: Did you become broker on that policy?

"Answer: Yes, I did.

"Question: How did that take place? Again, did you just place the insurance?

"Answer: Yeah, I reviewed it. I placed it. I looked for the best possible coverages for the exposure."

Now, as I read that, it's apparent that you yourself just acted on your own volition to place the insurance, the fire insurance. In other words, there is nothing in there to say that Mr. Sinatra, or anyone else, for that matter, came to you and said, "Please place the fire insurance." Isn't that an accurate reflection of what you said?

A. No. One, I think you asked me how did I place the insurance and how did I find out about it. I did place it.

What happened was, the Hermo Agency, I believe, went out of business at that point in time.

Q. Well, what I am asking now is: Who instructed you to place the fire insurance? Who authorized you to do that?

A. I'm sure I spoke with the purchasing agent in the township.

Q. You are sure you did. Do you know one way or another whether you did or not?

A. Well, you're asking me to go back four years, and I'm saying that I communicated with Mr. Sinatra and that was the man that I spoke with. Specifically what transpired in that conversation at that time, I can't recall.

Q. Well, these municipal accounts were rather lucrative for you weren't they?

A. What do you mean by that statement?

Q. Well, I mean you make quite a bit of money on these municipal accounts, did you not, in commissions?

A. I made -- I earned the commission for the work that I did in reference to the accounts.

Q. Well, in 1975, which is the first year, I believe, you started doing the insurance accounts for the municipality, isn't that so?

A. When I became the broker for the municipality.

Q. And that constituted approximately nine per cent of your overall business; isn't that so?

A. That's possible.

Q. And the following year --

A. You had auditors audit my books. So whatever the accountants came up, that's the figures.

Q. You will agree with that. In the following year, '76, will you agree it went up to in the neighborhood of forty-five per cent of your business?

A. Go ahead.

Q. Will you agree with that?

A. If that's what your auditors come up with, you know.

Q. And in '77 it's about forty-five, forty-six per cent of your entire business, the insurance business?

A. See, in handling a risk, it would devote more of my time and more of my energy to a specific risk. An example would be the Township of North Bergen in comparison to individual contracts. So when you say I -- also, at the last hearing you mentioned percentage of business and not percentage of income, and I mentioned, I mentioned the last time that, although an example would be the workmen's compensation premium would give a forty-five-thousand-dollar increase in business, somewhere in that area, the commission would only be two per cent, where if I wrote a fire policy or a homeowner's policy, I could get a commission of twenty-five per cent. So though it increased the volume of business, it did not necessarily increase the volume of income from that office when you're using percentages.

Q. Well, what I had asked you was, it was roughly half of your entire income on your insurance business. It calls for a yes or no.

A. Not income, no. I couldn't agree with that.

#### Clerk Mocco and the Housing Authority

Counsel Rhoads now turned to Clerk Mocco's activities in connection with the Township Housing Authority's insurance placement:

Q. How did you get the award for that contract?

A. I believe that there was also a problem in placement. Again, the Hermo Agency had it and the Hermo Agency went out of business, and I also went and did a complete risk analysis for the housing authority whereby we, instead of writing individual policies, we packaged everything and wrote a comprehensive general liability and comprehensive package policies through the Hartford Insurance Company to give them much broader liability coverages and the advantage of dealing with one company instead of dealing with a number of different individual companies.

Q. Well, what I am asking you is: How did you get the award? In other words, who said to you, "Mr. Mocco, you may place the housing authority insurance," if anyone?

A. I specifically don't recall. Again, we're going back to 1975. It's four years ago. I specifically don't recall anyone using those terms or reacting in that way.

What I do recall is going up with engineers and with underwriters and working with the executive director of the housing authority. I remember speaking with some of the members of the housing authority itself, and reviewing the exposures, reviewing the problems that were facing the authority, and the methods of passing on those liabilities or handling those liabilities, and then working with the engineers, with the department heads and the respective people in the authority for supplying coverages.

When all was completed, I secured a policy from the Hartford Insurance Company and we submitted that to the housing commissioners.

Q. And who would that be?

A. The members of the North Bergen Housing Authority Commission.

Q. Is there a commissioner within the town government that's responsible for the housing authority? In other words, is it under his table of organization?

(Whereupon, the witness confers with counsel.)

A. I don't believe so, no.

Q. In other words, what you are telling me is -- correct me if I'm wrong -- the board of commissioners, the governing body in North Bergen, has nothing to do with the housing authority; in other words, they can exercise no control over it?

THE CHAIRMAN: Doesn't the board of commissioners appoint the members of the housing authority?

THE WITNESS: The board of commissioners appoint. The Governor of the State of New Jersey appoints one member of the housing authority, and the board of commissioners appoints the other members. But the board of commissioners do not regulate, oversee and administrate the housing authority.

BY MR. RHOADS:

Q. Do you know the commission dollar amounts you made on the contract with the housing authority?

A. No, I don't.

Q. If I were to tell you in 1976 you made \$10,768, does that refresh your recollection?

A. No, it doesn't.

THE CHAIRMAN: But you would have no reason to doubt the accuracy of the figure?

THE WITNESS: No. I know the members of the S.C.I. were out at the insurance companies requesting this information over the past couple of years, so I wouldn't doubt it if that's what your auditors come up with.

Q. Thank you. In 1978, I will represent to you, you made \$12,203 from the housing authority. Would you consider that a sizable amount in commission dollars to have made vis-a-vis your business?

A. Vis-a-vis any account, I think that any commission is good and I think that's a good commission, yes.

Q. Now, with respect to the payment of the premiums, with respect to the payment of the premiums for that coverage, who has the power to authorize the payments of those premiums?

A. The payment of premiums are authorized by the North Bergen Housing Authority.

Q. Did you actually receive the checks for the premiums that then would pay the insurance carrier? How did it work?

A. I would have to go back and check through the records to see specifically how it was done.

THE CHAIRMAN: Do I understand the housing authority commissions were not split commissions, they're commissions entirely --

THE WITNESS: Of mine.

THE CHAIRMAN: A hundred per cent yours?

THE WITNESS: Yes. Whatever the commissions were, yes, that's correct, Mr. Chairman.

Clerk Mocco and School Board Insurance\*

Mr. Mocco also obtained insurance for the Township Board of Education, whose Secretary, Dennis J. Mulvihill, was his brother-in-law. Counsel:

*Q. Now, with respect to the board of education, did you ever have the insurance contract for that body?*

*A. Yes, I did.*

*Q. And when did you first pick up the board of education; do you recall?*

*A. Yes. That was also in 1975. Specifically, I don't know the time. It probably would be in the spring or summer of '75.*

*Q. Now, Mr. Mocco, who authorized you to place the insurance for the board of education?*

*A. In placing the insurance for the board of education, I received a call that they were concerned with cost figures.*

*Q. Who called you?*

*A. I believe -- I'm not sure -- I believe it was Mr. Mulvihill, but I spoke with someone in reference in that area.*

*Q. All right. If I may, who is Mr. Mulvihill?*

*A. Mr. Mulvihill is the secretary of the board of education.*

*Q. Would you continue, please?*

*A. They were shopping insurance. They were shopping for in reference to coverages; in reference to premiums. I remember one meeting up there where they were concerned with professional liability for the members of the board of education and trying to get coverage which would cover them on a professional basis and cover the trustees of the board of education and the administrators of the school. And it's very hard to place this coverage and to get this coverage for a board of education or for any governmental agency, the professional liability.*

*I went up there and I reviewed the risk and I went over it and underwrote it, and I presented to the secretary of the board, and, I believe, also to the president of the board, a portfolio of what*

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\*See Chart, P. 285.

we could do through our office insofar as underwriting, as far as risk management was concerned, and as far as premiums. And I believe we were, approximately, about 8 or \$9,000 lower in premium cost, and we were able to provide this comprehensive general liability and were able to provide professional legal liability for all the administrators in the school system, and I submitted by policies and what my recommendations were and the board of education approved it.

*Q. So the board of education authorized you to place this insurance?*

*A. By paying the premiums, yes.*

X X X

*Q. Mr. Mulvihill. Was he instrumental in any fashion in you getting this contract award, the insurance contract?*

*A. I worked with him. I met with him. I had underwriters and engineers meet with him because he's the secretary of the board of education. He is the person that you would see in reference to this.*

*Q. Is he any relation to you?*

*A. Yes, he is.*

*Q. What's the relationship?*

*A. He's my brother-in-law.*

*Q. Did he share in any of the commissions with you that you earned?*

*A. No, he never did. No, he never did.*

*Q. Did your brother, the mayor?*

*A. No.*

X X X

*Q. All right. Mr. Mocco, to your knowledge, did the secretary, your brother-in-law, vote on whether or not you would get this award, the insurance award?*

*A. To both of our knowledges, the secretary of the board of education does not vote on any awards in any board of education in the state of New Jersey.*

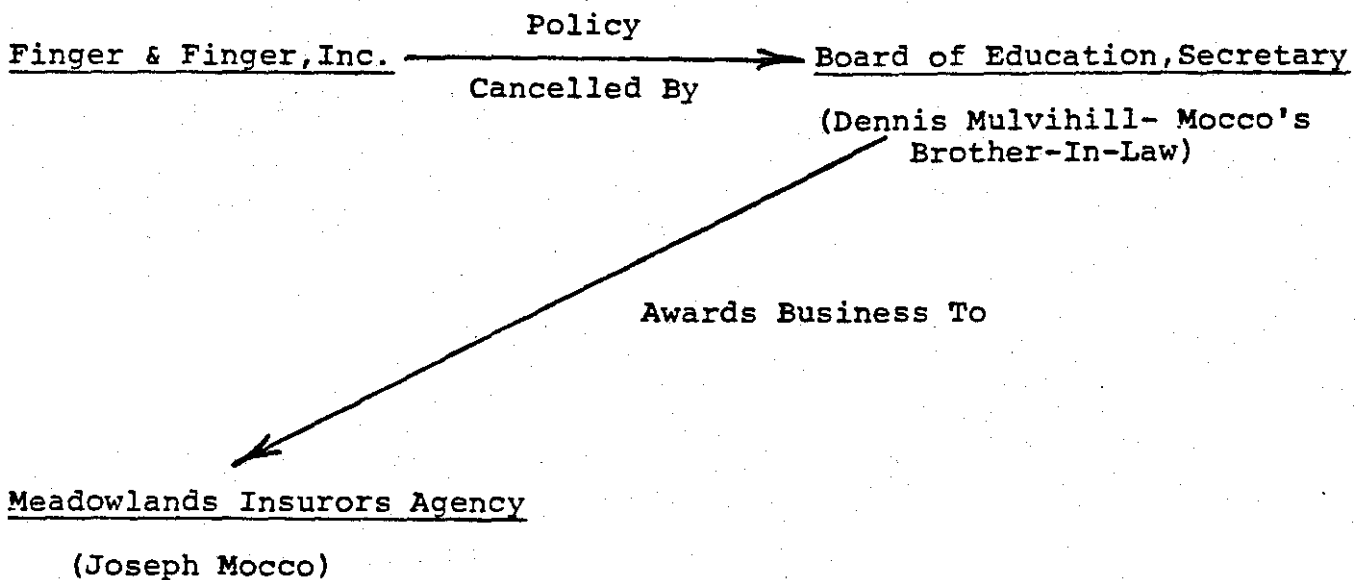
*Q. All right. Now, with respect to the dental plan. How did you obtain the insurance for that?*

*A. It was written through the New Jersey Dental Program.*



NORTH BERGEN INSURANCE -- 3

North Bergen Board of Education



Q. Well, how did you obtain it? In other words, who, again, who says to Joe Mocco, "You may place the insurance for the dental program"? Who does that?

A. The board of education does that. In the Town of North Bergen, the Town of North Bergen does it. The board of commissioners. Each body or each agency is governed by either trustees or commissioners, and those people vote on the specific purchase, whatever the coverage is or whatever the policy is or anything in the municipality, and it's up to those individuals to review it and to see what they're going to have, and that's how it is placed.

Q. As township clerk, do you have anything to do with the operation of the board of education?

A. No, as township clerk, the township clerk has absolutely nothing to do, is in no way involved in the board of education, the township clerk. The township clerk is a clerk for the Township of North Bergen. You know, if I was superintendent of public works, I'd be superintendent of public works.

Q. Now, of all the monies that you earned in this insurance commission, commissions for operating as an insurance broker from the board of ed., housing authority, dental program, municipal contracts --

A. In certain areas I was broker, in certain areas I was an agent.

Q. All the commission amounts that came in your possession, did you ever contribute any money politically from those commissions?

A. No, I never did.

#### Clerk Mocco's Commissions

Charles McCloskey, president of McCloskey Agency of Closter, recalled that it was an "understanding" at the time his agency was awarded North Bergen insurance contracts that Clerk Mocco would share in his company's commissions. Counsel Schirmer questioned Mr. McCloskey:

Q. My understanding is that in approximately the year 1975 you acquired the North Bergen insurance business. Is that correct?

A. That's correct.

Q. How did that come about?

A. We received a phone call from, I believe it was, Mr. Joe Mocco, stating that the town had trouble getting -- with insurance; could we help them.

Q. Did you know who Mr. Joseph Mocco was at that time?

A. I had never met the man, no.

Q. What was the next thing that you did?

A. We went down to -- I went down to Mr. Mocco's office and reviewed the insurance with him.

Q. Now, why would the insurance be at his office? Did he have the insurance prior?

A. He had the possession of the policies.

THE CHAIRMAN: What office? His township office or his insurance office?

THE WITNESS: His township office.

Q. Then what happened?

A. Then we took the policies, which were cancelled at the time, and called some of our carriers that we represented and found one that was interested, and got the manager of the company in; reviewed the whole thing. We brought out an engineer, and we really did many weeks' work in two days.

THE CHAIRMAN: Who is "we"? Who is "we"?

THE WITNESS: My father and myself.

Q. What did Joseph Mocco do?

A. Well, he had everything all ready for us.

Q. The information?

A. The information he had ready, and any information required by the engineer or the manager, he had the answers for.

Q. In any event, you were able to place the coverage; is that correct?

A. Yes.

Q. Did you later share commissions with Mr. Mocco on this account?

A. Yes.

Q. And how did that come about?

A. Well, as I said before, Mr. Mocco is a licensed broker, and he said -- he told us he was the broker for the town and he wanted a commission for it.

Q. If the mayor of a town came to you and asked you to place the insurance, and had the information available because he was the mayor of the township, would you give him a commission?

A. No.

Q. And Mr. Mocco did no more than the mayor might if the mayor asked you to get the coverage?

A. I wouldn't know. I've never spoken to the mayor on it.

Q. If you go to a commercial account, do you expect that commercial account to produce information for you to evaluate the risk?

A. Only if I am the only agent involved. If -- I do some other subbrokering business.

Q. But in that case where you were going to actually write the coverage, you would go to the commercial account and expect them to produce loss information or previous policies similar to which Mr. Mocco did for the Township of North Bergen?

A. Yes.

Q. What was the per cent of the commission you agreed to split with Mr. Mocco?

A. Six per cent.

Q. And what was your per cent?

A. It was a varying percentage between -- some parts of the policy were fifteen per cent, some were seventeen and a half, some were twenty.

Q. Would it be fair to characterize that about forty per cent of the commission that you earned?

A. It would be an approximation. A little less. That would be less. About a third.

X X X

Q. Do you know approximately how much money that Mr. Mocco received for 1975?

A. Not without records in front of me I wouldn't.

Q. I am going to show you three checks, the first marked for identification C-134 from the McCloskey Agency to Joper Associates in the amount \$66.80, dated October 16th, 1975; a second check for identification, D-133, from McCloskey Agency to Joper Associates, dated December 2nd, 1975, for \$141.18; a third check, dated December 29th, 1975, marked for identification C-132, from McCloskey Agency to Joseph Mocco, in the amount of \$6,000. Are they the checks that Mr. Mocco received for --

A. Yes.

Q. -- placing the account with you agency?

A. Yes.

Q. The question is: Were you aware, when Mr. Mocco came to you, that if you did not share the commission with him, he would not place the account with your agency?

A. I believe that was set up right at the beginning.

Q. Who said that?

A. I don't remember.

Q. Well, it would have been Joseph Mocco, wouldn't it? He was the only one involved.

A. Most likely. Well, --

Q. Who asked the question?

A. My father had the original conversation with him.

Q. Was it your understanding that it was made clear to your father that he was to --

A. That's my understanding.

Q. In the year 1976 you shared commissions with Mr. Mocco; is that correct?

A. Yes.

Q. I show you a number of checks, first 131 for identification --

THE CHAIRMAN: Excuse me. First you gave him a lot of checks there. What were they? They were for the first year, '75?

MR. SCHIRMER: First year, '75.

THE CHAIRMAN: What's the aggregate amount?

THE WITNESS: Approximately 6200.

Q. Check 131 for identification from McCloskey Agency to Joseph Mocco, dated March 15th, '76, in the amount of \$643.60; a second check, dated May 7, 1976, in the amount of \$215.90, from the McCloskey Agency to Joseph Mocco, for identification 130; a third check, dated June 9th, 1976, in the amount of \$4,540.56 from the McCloskey Agency to Joseph Mocco, marked for identification 129, a third check, fourth check from the McCloskey Agency to Joseph Mocco, dated December 16th, 1976, in the amount of \$2,190.30 marked for identification C-128. Are those the four checks that were given to Mr. Mocco as a sharing broker?

A. They are.

Q. Approximately how much money are we talking about?

A. Well, 45, 57 -- about 76 or \$7700.

Q. Would it be fair to say you shared approximately \$6,000 a year with Mr. Mocco?

A. Yeah, that would be, for a couple of years.

Q. For a couple of years?

A. Yes.

Q. Just so the record is accurate, in the year 1977 what happened?

A. In 1977 the carrier that I had placed the township with decided that they did not want to insure any more municipalities, of which they only had about five in the state, and they nonrenewed them all. The automobile was going to be placed in the assigned risk.

Q. So what did you do?

A. We prepared an assigned-risk policy for the liability for the automobiles on the town.

Q. And did you place that policy?

A. Yes.

Q. My understanding is that in the year 1977, the year 1978, you decided to go self-insured on liability?

A. I didn't decide anything.

Q. General liability. Who made that decision?

A. The township.

Q. Why did they make that decision?

A. The quotes that we had gotten for liability when the carrier nonrenewed were very high. At that time there were a couple of carriers that were willing to replace this policy, but the township at the time was getting some adverse publicity politically and the carriers withdrew. So the only thing left to the township was the surplus market, which is very expensive.

Q. Self-insured in general liability?

A. Yes.

X X X

Q. Was Mr. Mocco the person that you dealt with --

A. Yes.

Q. -- as far as your relationships with the town?

A. In the majority of the time, yes.

Q. Are you continuing to share commissions with Joseph Mocco?

A. No.

Q. It has been terminated?

A. Yes.

Q. When was that terminated?

A. After the, I guess it was, the end of '77.

Q. Why was it terminated?

A. Well, I told Joe, I had gotten some adverse publicity. I had been subpoenaed by the Hudson County Prosecutor. I was on television. It was costing me a lot of money in business. My reputation was damaged.

I said, "I'll keep the line, but I'm not going to give you any more commissions. You can do what you want."

THE CHAIRMAN: Do you still have some of the insurance?

THE WITNESS: Yes, sir.

The School Board Secretary/Administrator

Dennis J. Mulvihill, secretary and business administrator for the North Bergen Board of Education, testified next. He recalled his activities in connection with the board's decision to change its insurance agent from Finger & Finger to Clerk Mocco's company. Counsel Schirmer:

*Q. Concerning the insurance for the board of education, do you have any involvement, or are you charged with securing insurance for the board of education?*

A. Yes.

*Q. It's part of your responsibilities?*

A. Yes.

*Q. How does that come about? What do you do? If I might, do you go out and look for brokers and make recommendations to the board?*

A. I'm sorry, sir. I don't understand.

THE CHAIRMAN: Well, let's approach it this way: When you first took this job with the board of education, what was the insurance situation?

THE WITNESS: We had --

THE CHAIRMAN: Who was the broker?

THE WITNESS: There was a company, the brokers were Finger & Finger.

THE CHAIRMAN: And how long did they continue after you took the secretary's job?

THE WITNESS: A little over, a little over a year. A year and three months.

THE CHAIRMAN: Then there was a change?

THE WITNESS: Yes, sir. That's correct.

THE CHAIRMAN: Why?



THW WITNESS: At that time the board of education -- a lot of prices had increased. We had lost state aid. The president of the board of education asked me to look into many different areas to try to save the board of education money.

BY MR. SCHIRMER:

*Q. And what did you do to save money as far as insurance is concerned?*

A. Well, I didn't really know too much about insurance myself. I asked the person that I did insurance with, that I have my own personal insurance with, on what procedure.

*Q. Who is that?*

A. Sir? Mr. Joseph Mocco.

*Q. And he is your brother-in-law; is that correct?*

A. That is correct.

*Q. Did he get the coverage for you?*

A. Excuse me. Well, he told me that I had to contact insurance companies and ask them to come in and check over our system; check over the business office; check over the policies; do a rating. And I called -- he, after looking at it, and compared some of the coverages, he asked me if I would like some people to come up and take a look.

X X X

*Q. What did you do next?*

A. Mr. Mocco sent people up from, I think, different companies that he is a broker for, and they came in. They checked over our policies. They, I believe, they checked our, I think the term is, experience.

*Q. Your loss experience?*

A. I believe that's the term, sir.

They looked at our building and contents; checked over our facilities. I think it was two or three different companies that did come in that he deals with. And then he gave a presentation to me.

*Q. What did you do then once he gave a presentation to you?*

A. I made a comparison to the board; to the president and to the board.

Q. Do you have any experience in insurance?

A. No, sir. My background is accounting.

Q. Did you rely on his experience as far as what policies were better and whether it was a good policy or not? The proposal that he presented --

A. Yes, sir.

Q. Were there any other brokers that you called in other than your brother, Joseph Mocco? Your brother-in-law?

A. No, sir.

Q. No other brokers. Were you at all worried that this might or might not be a competitive -- that maybe someone might consider it a conflict in the sense that this was your brother-in-law and there weren't other brokers involved?

A. No, sir, at no time was I ever worried about that.

Q. You were not. You never solicited an opinion as far as whether this was a conflict of interest?

A. It's not a conflict of interest. Neither Mr. Mocco nor do I vote on the insurance.

Q. Do you recommend to the board of the board of education that they accept the insurance coverage provided by Mr. Mocco?

A. I believe that we received superior coverage at a cheaper price, sir.

THE CHAIRMAN: You haven't answered the question whether you recommended this program to your board.

THE WITNESS: I gave --

THE CHAIRMAN: Did you or didn't you?

THE WITNESS: I gave a presentation to them, sir, based upon the facts that I had assembled.

THE CHAIRMAN: Did you recommend or not?

THE WITNESS: I don't remember stating that I recommend this is a better one or not. I don't remember, sir.

BY MR. SCHIRMER:

Q. But this is the only presentation given to the board; is that correct?

A. To the best of my knowledge.

Q. This is a presentation you sponsored?

A. Yes.

Q. The broker who had this before was Finger & Finger. Is that correct?

A. Yes.

Q. I am going to show you three letters, which is correspondence between you and Finger & Finger, dated June 10, 1975, as far as the first letter. It's been marked C-136 for identification. The second letter, 137 for identification, dated July 28th, 1975, from yourself to Finger & Finger, and a third letter, dated July 28, 1975, C-138 for identification, from Finger & Finger to Dennis Mulvihill, and I ask you whether those letters reflect the fact that, number one, you requested a loss experience from Finger & Finger in June of 1975.

A. It says, "Please send a list of claims paid by U.S.F.&G. for '73-74, '74-75 school year for comprehensive general automobile liability insurance," and states the policy number and give the information to me.

Q. Why did you send that letter?

A. I was asked to get this information for the insurance companies.

Q. Who were you asked to get that information for? Joseph Mocco?

A. The broker.

Q. Joseph Mocco?

A. Yes.

Q. You then cancelled all the insurance coverages with Finger & Finger. Is that correct?

A. I believe so.

Q. At whose direction did you do that?

A. The board president.

Q. Who is that?

A. Dr. Nino Falcon.

Q. Did he do this based on the fact that they were going to select the Meadowlands as the new insurance broker?

A. I believe it was because we were going to be able to save money for the school system and the taxpayers of North Bergen.

Q. This wasn't your decision to cancel Finger & Finger?

A. The board of education made the decision.

Q. You were certainly looking for a competitive proposal in insurance; is that correct?

A. We were looking for the best possible insurance at the cheapest price.

Q. Tell me how you can decide that something is the best possible program if you only have one program.

A. I compared, I compared the new proposals for the 19, I believe it was, 75-76 school year, when prices were escalating and increasing, with the coverage that we had from Finger & Finger from the previous year.

Q. Did you ever get what the new cost was going to be from Finger & Finger, what their --

A. I don't remember. I don't remember if they sent us anything or not.

THE CHAIRMAN: Did you get the figures from the third or fourth or fifth company?

THE WITNESS: Excuse me, sir? No, sir. I just told him earlier that this is what I received.

THE CHAIRMAN: You just compared the Mocco figures with what you had the year before with the company that was then covering you; is that correct?

THE WITNESS: That is correct.

#### School Trustee Didn't Know Mocco Link

Mrs. Christine Sorge, a longtime member and officer of the North Bergen Board of Education, recalled a 1975 board meeting at which it was decided to cancel the school insurance

contact with Finger & Finger. But she said she was never made aware of Mocco's connection with this decision until 1979, when an S.C.I. agent discussed the board's action with her. Counsel Schirmer:

Q. Do you remember in 1975 that the contract for the insurance for the North Bergen Board of Education was awarded to the Meadowlands Agency?

A. I don't remember who it was awarded to, but I remember that we had a caucus and I know who we did have insurance with, and they came in and said they were going to change insurance companies. We used to have Finger & Finger and we were going to a new insurance company that could save us money.

Q. Who is "they"?

A. Our board secretary came in.

Q. Who is that?

A. Dennis Mulvihill.

Q. Did you question him about the change?

A. Yes, I did.

Q. And what were your questions?

A. We asked -- I asked him why we're changing, and he said, to save money. He says we could save 7 to \$9,000 a year.

Q. Did you ever see any figures?

A. No, I didn't.

Q. Did you ever have a proposal presented by this insurance broker?

A. No, I didn't see it.

THE CHAIRMAN: This discussion was at a board meeting?

THE WITNESS: Yes, sir.

THE CHAIRMAN: And you were all present there?

THE WITNESS: Yes, we were all present at caucus.

Q. Were you aware of the fact that the agency was the Meadowlands Agency?

A. I wasn't aware of it till Mr. Corrigan (S.C.I. Agent) told me.

Q. You were not aware of that fact till 1979?

A. No, I didn't.

Q. Were you aware that the broker on the contract was Joseph Mocco?

A. No.

Q. Would you feel that that would be something that should be discussed if you knew that Joseph Mocco was a broker on that contract?

A. Well, I think we should have discussed it, yes.

Q. Why would you want to discuss it?

A. Well, he -- well, because he was active in the town and I was on the board and I was appointed to the board first by the mayor.

Q. He was an influential member of the township political forces; is that correct?

A. Well, I never knew Joey Mocco. I only know his brother, so I really couldn't say. I knew he was township clerk.

Q. Was his brother influential?

A. His brother was the mayor at the time. That's how I got appointed to the board.

#### Housing Authority Commissioner Told Nothing

Miss Theresa Ferraro of the North Bergen Housing Authority was also a professional insurance broker as president of James Mellon, Inc., of North Bergen. However, her advice was never sought when the authority's insurance was awarded to Township Clerk Mocco's Meadowlands agency, and her access to the authority's insurance records was restricted to the point where she never even saw the letter from HUD criticising the award and the high price of the Mocco contract. She also raised the issue of a conflict of interest. Counsel Schirmer questioned his final witness from North Bergen:

Q. My understanding is that the insurance business for the housing authority was switched from the Hermo Agency in 1975 to the Meadowlands Agency. Is that correct?

A. We had the Joseph Hermo Agency, then the Charles Martini came in just for one policy. I think it was on an audit for workmen's comp, as he had purchased the Hermo Agency, and then it was automatically put into the Meadowlands Insurance Agency.

Q. You said, "automatically." What do you mean by that?

A. I was not aware of it that it was going there. It was just presented, a bill was presented at the board for insurance.

Q. Had the board that you served on, the seven-member board, had they passed a resolution awarding the contract to the Meadowlands?

A. No.

THE CHAIRMAN: Was there any discussion or dissatisfaction with the agency that had had the insurance?

THE WITNESS: No, it was just presented Meadowlands Insurance Agency as the new agent.

THE CHAIRMAN: Any discussion about it? Anybody raise any questions about it?

THE WITNESS: Well, the question I asked was, was it a conflict of interest due to the fact that Joseph Mocco, Jr., was the owner of the Meadowlands Agency, and I was told that HUD approved of it and there was nothing wrong with that, and, also, our attorney was sitting there, Mr. Joseph Freiman. He did not say that it wasn't.

Q. You certainly were concerned about possible conflict?

A. Yes.

Q. Were you ever apprised that HUD had raised some objections in 1976 concerning the insurance coverage for the housing authority?

A. Never.

Q. I would like to show you a letter, which I would ask you to read, marked for identification 126, dated November 3rd, 1976, from Raymond Rath of the Housing Authority to Mr. Ronald J. Jeffery. Mr. Jeffery is the executive director. Correct?

A. Correct.

Q. You never saw that letter?

A. No.

Q. Mr. Jeffery never gave it to you?

A. No.

Q. Did Mr. Jeffery ever make you aware of the facts that are contained in that letter?

A. No.

Q. You are an experienced insurance broker; is that correct?

A. Yes.

Q. Are you alarmed by the facts revealed by that letter?

A. Definitely.

Q. Was anything done in 1976 which could have been considered a response to the information in that letter?

A. Not that I know of.

Q. For instance, did Mr. Jeffery suggest to the board that the insurance should be bid?

A. Never.

Q. Did he ever suggest that the values of the properties should be revalued?

A. Never.

Q. Were you ever asked for your advice on insurance matters by Mr. Jeffery?

A. I was never asked for any advice. But there was one time when we had a policy with the Consolidated Mutual Insurance Company, which was written for one year, and when it was presented for payment I questioned the fact why it was written for only one year; why we didn't have it written for three years, prepaid, and we would have a better rate on it. And with that, they contacted the Joseph Hermo Agency, who, in turn, endorsed the policy in his office and signed the endorsement and presented it to the board, and upon looking at the endorsement, I said, no, that wasn't correct. The premium was still not correct. It was much too high. And with that, I don't remember if it was



Mr. Jefferies or Mr. Charlie Masky, but someone did leave the room and in about ten or fifteen minutes later Joseph Mocco, Jr., walked into the room and he asked me what seemed to be the trouble. And I told him that the policy was not rated correctly; that there should be at least a four-thousand-dollar return premium; that the three-year premium was not correct. And he said not to get excited, that he would take care of it and see to it that it was taken care of.

With that, the meeting was closed and, as I was leaving, Mr. Mocco stopped me in the hallway of the housing authority office and told me not to make any waves; that Mr. Hermo was a very -- a weak man.

THE CHAIRMAN: A weak man in the sense of sick person or --

THE WITNESS: Really, I think he can't take pressure.

Q. Were you ever present when Joseph Mocco made a presentation to the board concerning insurance?

A. No.

Q. You talked about the time that you gave advice. Did you frequently give advice to Mr. Jeffery?

A. That was the only time I gave him any advice of any kind on any insurance policy, because the insurance policy -- we never saw -- let me put it this way: We never saw an insurance policy, even though many times I requested that I would like to go over the policy, to look at them. The policies were never presented. There was always something that, I'm sorry, but the agent isn't in, he can't get it for us, but we will at some later date. But --

Q. Are you saying that you were denied access to this information?

A. Oh, yes, definitely. Even as a commissioner, as the vice-chairlady that I was there for maybe two or three years, I could never go into a file or walk into an office and ask Mr. -- or say to the girls in the office and say, "I'm Commissioner Theresa Ferraro. I would like to see the insurance files." Everything had to go through Mr. Jefferies, and if he wasn't there, I was not allowed access.

Q. Well, don't you need this information to perform your responsibilities or duties as commissioner?

A. Definitely.

Q. But you are denied that information?

A. They never gave it to me.

Q. Miss Ferraro, I would like to sum up with you, based on prior testimony we have and the testimony you have offered today, what happened in the Township of North Bergen for the years 1975 to the present.

The town. The Joseph J. Hermo Agency had the business in 1975. They then sold the business to the Martini Agency. The Martini Agency was not able to renew the policy with their carrier. They then informed the Township of North Bergen that they were not able to renew the policies. North Bergen, responding to this problem, reached out for a new carrier. Joseph Mocco, the town clerk, who had been given responsibility to look for carriers based on his expertise in insurance, awarded the contract to the McCloskey Agency and over the course of three years, or approximately four years, the McCloskey Agency gave about -- this is the S.C.I.'s percentage -- forty per cent or exactly \$17,435.34 back to the township clerk, Joseph Mocco.

THE CHAIRMAN: That's a shared commission?

MR. SCHIRMER: Shared commission as opposed to a service commission.

Q. (Continuing) In the situation of the North Bergen Board of Education, Finger & Finger had the insurance business for a number of years. The policy was cancelled by the board of education secretary, Dennis Mulvihill, Mocco's brother-in-law, in the year 1975. Dennis Mulvihill then was given a presentation by a person he called, Joseph Mocco, and then Dennis Mulvihill presented this proposal to the board of the board of education and they awarded the contract to the Meadowlands Insurance Agency, and it wasn't that the Meadowlands was given the contract; they were simply paid bills, the bills that the Meadowlands submitted were paid, and again Joseph Mocco derived a commission from

that, but in this case he is the servicing broker. He is servicing the account of the board of education.

Finally, the North Bergen Housing Authority, which you just testified to, the Joseph J. Hermo Agency, the business was sold, and there has been testimony that Joseph J. Hermo then began to work for the housing authority about the same time.

A. That is correct.

Q. Do you recall when he was appointed?

A. It could have been about 1975.

Q. About 1975. Do you know who made that appointment?

A. Just found him there.

Q. Do you know whether there was any connection between Mr. Hermo selling the business and his becoming employed with the housing authority?

A. All I know is that he was a good friend of both Peter and Joseph Mocco.

Q. In any event, Joseph J. Hermo Agency was sold to Martini Agency. The Martini Agency was not asked to renew the policies. Ronald Jeffery called in his -- called in Joseph Mocco, and the contract was awarded to the Meadowlands Insurance Agency, Joseph Mocco, Broker, from which Joseph Mocco derived commissions.

A. That's correct.

#### Examples of Proper Conduct

The public hearing spotlight turned next to certain jurisdictions -- Clifton and the New Jersey Turnpike Authority -- where the proper handling of public insurance resulted in savings of taxpayer funds and in better insurance programs. They were to be followed by expert witnesses, whose testimony also would form a basis for the S.C.I.'s future report and detailed recommendations on the public insurance problems revealed during three days of public hearings.

The first witness in this hearing segment was Gordon H. Hahn, president of Charles F. Hahn, Inc., of Clifton. He had been writing insurance coverage for the city since 1966 and had served on a so-called committee of brokers who shared commissions.

In 1975 he eliminated this sharing practice by negotiating a lower commission with the carrier and saved \$20,000 for the citizens of Clifton. S.C.I. Counsel John R. Dillon, III, questioned Mr. Hahn:

Q. What is the business of Charles F. Hahn, Incorporated?

A. General insurance agent and life insurance also.

Q. How many employees do you have?

A. Three.

Q. Can you tell me what volume you write each year in premiums?

A. It's well in excess of a half-million dollars.

Q. And how long have you been in the insurance business?

A. Since October 1, 1956. That's me personally. The corporation was incorporated on June 1st, 1953.

Q. I see. What percentage of your accounts are in governmental insurance?

A. Volume-wise, premium-wise, that is approximately one-third.

Q. When did you begin writing the insurance coverage for the City of Clifton?

A. I believe it was January 1st, 1967.

Q. How did you obtain the City of Clifton insurance account?

A. I was appointed to the insurance committee with the city council.

Q. And that appointment required you to, or insured the fact, that you would write the insurance?

A. I believe the words that they used in the letter they sent out notifying us of the appointment was to secure the insurance, the best coverage for the lowest possible cost.

Q. And that was true -- when you say "a committee," how many members were on this committee?

A. At that time there were four, including myself.

Q. And did each of those members write insurance for the City of Clifton?

A. The one or two others in addition to myself wrote the insurance.

X X X

Q. So, then, it's fair to say this committee was an oversight committee?

A. You could call it that, yes.

X X X

Q. When was the committee originated, if you know?

A. Well, I don't know. I don't know about that, but it was many years before my arrival upon the scene.

Q. You were designated as a member of this committee by the city council?

A. Yes, sir.

Q. You had -- who appointed you on the city council?

A. The seven members of the city council.

Q. I see. Did you have a political connection that resulted in your appointment?

A. I had some personal friends on the council; I had some social friends on the council; I had some political friends on the council.

Q. Is it fair to say that all members of this committee were appointed in the same fashion?

A. That would be my guesstimate.

Q. Did you solicit the business at any point of the City of Clifton?

A. I don't think I really solicited. The several people who were on the city council were good friends of mine over a period of years. They knew I was in the insurance business, and I believe I enjoyed a good reputation, not only with them, but in the community.

Q. What percentage of insurance coverage for the city did you have, did your agency have?

A. I wrote all the fire and casualty insurance.

Q. This is 1967?

A. 1967 only, that's correct. There was, not included in that, as I said, was a group life, major medical, a small accident policy for the auxiliary police, and statutory bonds and what few other bonds that were not statutory.

Q. What was the commission on the policy that you had with the city?

A. In 1967? I would say it was probably, that particular year, I think it was probably in the area of maybe about twelve, \$13,000. I couldn't be sure on that, but it was in that area.

Q. And who received that commission? Did you receive all of the commission?

A. Yes.

Q. Now, concerning the insurance advisory commission of which you were a member, were the members paid for their services to the city?

A. You're talking about 1967?

Q. 1967, today as well. Does the committee still exist today.

A. I understand the committee is in existence today. I'm not a member of it.

Q. Well, in 1967, were they paid for their services?

A. In 1967, yes, they were.

Q. And, to your knowledge, they are still paid today?

A. To my knowledge, they are not paid today.

Q. I see. Okay. In 1967, what was the method of payment?

A. Method of payment was, of the commissions, I received twenty-five per cent of the service fee, and the remaining seventy-five per cent of commissions were split up among the four of us.

In effect, I received something in the neighborhood of over forty per cent of commissions.

Q. Approximately sixty per cent was contributed to the committee to pay them for their services?

A. That's correct.

Q. What was the method of payment?

A. Check.

Q. And beginning with 1967, how long did you have this arrangement?

A. The arrangement existed or continued in effect until it was terminated effective January 1, 1976. The formula varied from year-to-year depending on the number of brokers involved, but in theory it was basically the same.

Q. Mr. Hahn, I'm going to show you a letter that has been marked C-141 for identification. It's on the stationery of Charles F. Hahn Incorporated. It is addressed to Mr. William Holster, City Manager, City Hall, Main Avenue, Clifton, New Jersey, and it bears the signature Gordon Hahn, and I'll ask you if you recognize that letter.

A. I do.

Q. Did you write that letter, Mr. Hahn?

A. Yes, sir.

Q. I direct your attention to the first sentence of the second paragraph. Would you read that sentence for me?

A. "In my presentation to the council on January 27th, I raised the question of a conflict of interest and suggested at the time that the council make inquiry as to a possible conflict."

Q. All right. Now, regarding the same letter, the last paragraph, would you read that for us, please?

A. "In summary, please accept this letter as my declination of the council's appointment to act as broker or consultant while also acting in the capacity of a Royal Globe agent writing insurance for the City of Clifton.

"I further respectfully suggest that the council review the position of the other members of the insurance committee as there is a similar -- as there are similar conflicts there.

"Finally, it is suggested, once again, that the council give serious consideration to the appointment of a consultant based on my letter of January 14th, 1976."

Q. Would you explain to us the circumstances surrounding this letter and what you meant by "conflict of interest"?

A. Well, basically, the conflict of interest existed in that you had, in effect, a consulting or advisory committee that would advise the city council or recommend that they purchase certain types of insurance. If the city council accepted the recommendation, it resulted in additional premium. An additional premium resulted in additional commission, and additional commission in additional brokerage commission to the brokers who were recommending in the first place.

In that same letter I pointed out and mentioned a Mrs. Olen as the broker of record on this policy. That's a life insurance policy which you made a recommendation to increase the amount of life insurance to \$5,000. If this was accepted by the city, she would receive a greater commission. It's, you know, it's pretty obvious that it is a conflict. I'm not an attorney, but, in my opinion, that is.

Q. Now, you made a presentation of fact to the council on January 27th in, I assume, 1976; is that correct?

A. January 27th, 1976.

Q. Okay. Did they make a change as a result of your presentation at this point in time; that is, in 1976?

A. No effective change. They changed nomenclatures of the brokers and called them advisory and consultants and insurance brokers group and associations, different things like that.

Q. Did there come a time when you ceased to make these commission payments to the committee?

A. Yes, effective January 1st, 1976.

Q. Mr. Hahn, I show you a letter that's been marked C-140 for identification. Again, it appears on the stationery of Charles F. Hahn Incorporated, addressed to Mr. William Holster, City Manager, and signed by Gordon Hahn, and I'll ask you if you do recognize it.

A. I do recognize it.



Q. Did you write that letter, Mr. Hahn?

A. Yes, sir.

Q. I direct your attention to the first sentence of the second paragraph, and I'll ask if you will read that, please.

A. "In the makeup of the cost of the city's insurance program, these commissions represent the only negotiable factor over which the agent has complete control, subject, of course, to a maximum percentage that the company would pay."

Q. All right. Would you explain to me what that means?

A. Well, what it means is this: That the insurance company reviews the hazards, knows the amount of fire insurance, liability coverages, payrolls, and things like that, and they come up with a rate which is modified one way or the other, depending upon the type of risk and what the loss experience has been and what their forecast is for the future, and they come up with a premium that premium is based on. In each company you can work it one way or the other. They can start at their net or they can start at gross and assume that the normal commission on a policy is X per cent, and he will give you a price, and that's it at that price.

Now, if the agent wants to, for whatever reason, to reduce his percentage of commission, there should be a resulting savings in the premium to the policyholder.

Q. So, then, your commission is negotiable?

A. Yes, sir.

Q. Is that true of all policies?

A. I would say the major portion of the policies it is.

Q. All right. Now, turning to the fourth paragraph on the same letter, would you read that paragraph for us, please?

A. "This year, the insurance industry as a whole has been hit not only with double-digit inflation, but also with loss of surplus and disastrous underwriting losses. This has caused the insurance market to become very tight, and basic rates have increased greatly. Once again, in a effort to offset these increases in cost, I have negotiated these commissions down to an absolute minimum level, to the point where there are no longer any funds available to pay brokerage commissions to the Insurance Committee. This will result in a savings of \$20,000 to the city."

Q. Would you explain to us what that means?

A. Well, the insurance company gave me a price for the renewal policies at X number of dollars at Y commission, and I said to the insurance company, "Give me a price at Z commission," and it resulted in \$20,000 less cost to the city.

Q. So you ceased to make the payments to the advisory committee and used those payments, or that portion of your commission, and credited it to the premium that the town was paying; in effect reducing the premium for the township. Is that correct?

A. Well, it was credited to it, but the insurance company wrote it at a lesser amount. In other words, a credit was not given for it, but a policy was issued.

Q. A lower commission, but they took into account the fact that you reduced your commission?

A. That's correct.

Q. What were the members of this insurance advisory committee doing for the compensation that they had received through these commissions?

A. In 1975, that year it became very evident to me that as far as I was concerned, as the writing agent, that this insurance committee was no longer of any service to me. I felt, therefore, I shouldn't be required to pay them any commissions. I further felt that if the city council felt there were a necessity to have them, then they should be the ones to pay them.

Q. Were they performing any services at all at this point in time when you ceased to make the payments?

A. The majority of them were not. One man, again, was handling the group life and the major medical coverages. Someone else was handling the bonds. The others were there in an advisory capacity, but, quite frankly, I felt I didn't need them.

Q. So they were not providing any services with regard to this particular contract?

A. Not as far as I was concerned.

Q. Now, you dealt with the insurance contractor as the writing agent. Who represented the city?

A. Well, the -- all my contact with the city, as far as discussing renewal policies and day-to-day operations, handling of the insurance account, was normally through the city manager, or whoever he designated for that particular subject that was up.

Q. What was the city manager's reaction when you ceased to make these payments?

A. Well, I spoke to him before I took the final step and went and started, you know, my negotiating, and I told him, I said, "You know, now there's one or two ways we can handle this and which way do you want me to go," and his words to me were to bring it in at the lowest possible cost.

Q. And what was the reaction of the committee, if you recall?

A. I gave them a letter in a sealed envelope, and after giving them the letter, I left, so I really don't know exactly what it was. I don't think it was a very good reaction.

Q. Did they seek to interfere with your insurance contract at any point subsequent to that?

A. Well, I think you have the complete file and there's been letter after letter. They wanted to go back over ten years to find out what I had done and see if there were any mistakes made, and they recommended to the city that they not pay a certain policy; that the increase hadn't been confirmed with the insurance company, which I felt was questioning my integrity. It was actually, at that point, it then became a ridiculous situation.

Q. But as far as you know, the insurance committee is still in existence today; is that true?

A. My understanding is that there is an insurance committee, and I believe there are two members of that committee now. There was originally three. One resigned, but another one resigned and then somebody else went in. I think they have two on there at the present time.

Q. Was there any recommendation at one point to increase it to seven?

A. Well, in 19 -- the latter part of 1974 they increased the insurance committee to seven for the year 1975.

Q. Do you know why they made that suggestion?

A. Well, there were seven members on the insurance committee. There were also seven councilmen. My thought would be that each one had an appointment to the insurance committee.

Q. One final question, Mr. Hahn.

Are you aware of any other municipality with these fee splitting arrangements with an insurance committee?

A. From what I read in the newspapers, I assume -- I'm under the impression that a major portion of them have the same situation at the present time.

### The Turnpike Experience

Charles A. Dupuis, Jr., director of insurance for the New Jersey Turnpike Authority, was the right man at the right time when it came to modernizing the authority's insurance procedures. He had majored in insurance at Wharton School of the University of Pennsylvania and, while operating his own agency for many years, had kept up to date with changes in the insurance field by attending special courses sponsored by Rutgers University and the Insurance Society of New York. He came to the Turnpike Authority in 1971 as its legal and real estate administrator and in 1972 was promoted to insurance director, a fulltime, salaried position.

The Turnpike Authority, unlike other entities investigated by the S.C.I., solicits proposals from competing brokers when purchasing insurance. It requires each broker to reveal what his or her commission will be if awarded a contract.

S.C.I. Counsel Rhoads obtained a before-and-after picture of insurance conditions at the authority from Mr. Dupuis:

Q. Now, if you will, please, would you give us an idea of the situation, the insurance situation, prior to your assuming this title at the New Jersey Turnpike?

A. Well, it was, it was all over the lot, if you will excuse the expression. Some of the insurance was purchased by the legal department; some was purchased by the purchasing department; some by real estate. Policies were not kept in the central filing department. They were all over the buildings. We found a situation where some buildings were insured twice; some where they weren't insured at all, and it was at the request of the then chairman, Alfred E. Driscoll, we established an insurance department and put me in charge of it and allowed me to hire the help that I needed to run it in a manner that I thought was efficient.

Q. Now, in your initial stages, 1971, '72, what were some of the steps that you took to rectify this situation?

A. Well, would you like a specific example?

Q. Please.

A. We had a comprehensive general liability policy written by a large broker in the State of New Jersey situated up in Essex County, and he had been writing insurance for the Turnpike for a number of years, this agency had.

The premium for the year 1972 -- the policy began, it was a three-year policy with a renewal date of January 1, and the renewal premium was \$190,000. About March of this year, that year, this agent wrote a letter very -- rather -- well, it said, "I'm enclosing a statement for an additional one-hundred-twenty-one-thousand-dollar premium which the insurance company feels is warranted. Would you please process this in your usual manner and have the commissioners approve it." And I really couldn't believe that anybody would ask you to produce satisfactory evidence of our loss experience for three years to warrant this increase, which he couldn't do. That would have been -- that was a hundred-twenty-thousand-dollar increase on a hundred-ninety-thousand dollar premium.

When he couldn't satisfy me, I put it out for bids, and the policy, entire policy, was written for \$149,000.

Q. A substantial difference?

A. Yeah, a hundred-sixty-two-thousand-dollar difference.

Q. Now, you say you put this out on bid. Did that become the procedure that you used?

A. That became a procedure that the Turnpike Authority commissioners allowed me to inaugurate and carry out, and I would write specifications for what we wanted.

We were at that time involved in what was then called the Toms River Expressway, and we were going to do, write the insurance on a wrap-up program, and I wrote the specifications for it and gave it out to any interested brokers who were qualified. We now have a prequalification requirement for brokers, but, at any rate, the quote came back and it was coincidental that the low bidders on this particular piece of insurance

were the same outfit that wrote the Sports Complex. The program never went through, as I'm sure most of you gentlemen know, and it has since been washed down, so the insurance was never written, but we put, from that moment on, we required bidding on all of our insurance. I know of a substantial change of a hundred-thousand-dollar policy we wouldn't do that, but we did fairly well with it for a while, but then it got to a point where the insurance companies weren't interested in bidding, and a specific example, the hundred-forty-nine-thousand premium that I mentioned a few minutes ago, the company that was on that, the name escapes me, it may have been the Hartford, I'm not sure, they were on the line at the time we had our bad fog accidents and they were stuck, at least in paper, they were in for the policy limit, which is a million dollars, and then at the end of the policy period we threw it out for bids, again, which is grossly unfair to the insurance carrier I thought, and to prove the point, nobody wanted it. We solicited thirty-six companies and we got one bid.

We then went back to the commissioners and asked them, "Could we ease off on that?" And they granted me the authority to solicit proposals, which, in a way is a form of bidding, but not regulated. We don't write any specs for it. We're not sealed bids.

*Q. One of the Commission's concerns with bidding would be how does the agency, for instance, let's say, well, the Turnpike Authority, how would you safeguard against the availability of a broker who may not be capable of placing your insurance and yet solicits a bid?*

*A. Well, what we do, first, the broker who wouldn't be able to carrying out what we thought was necessary would never get the permission to bid for this. We make the brokers submit their qualifications in advance.*

*Q. I see.*

*A. They must have X number of dollars volume of business on the books, of which fifty per cent of it must be in commercial aspects. I'm talking homeowners and automobiles. He must give evidence of service or write accounts for some form of a municipal government or major corporation and has the people in his office to service this account for us; loss control, claims, and any other experience that we might need, a principal of which is marketing.*

Q. One other point I wanted to ask, when you say a broker submits a proposal and you have solicited various brokers to do this, at that juncture, do you have any idea what the commission's going to be for the individual broker on his package?

A. Yes, and if I don't, I ask.

Q. And they give you this information when you ask for it?

A. Yes, they do.

Q. You're not going to consider it --

A. Yeah. I know, for example, on our liability policy the commission is five per cent, which is a reasonable fee, in my mind, for the type of work that the brokers perform for us.

Q. So it seems to me there is nothing so miniscule about asking an insurance broker what is this going to cost us from your end?

A. No, it isn't, because if he doesn't want to tell you, you have to suspect he's making too much money.

#### An Expert Assesses the Problems

A widely recognized insurance professional was called next to discuss the public insurance problems highlighted by the public hearings. He was Richard C. Lofberg, chairman and executive officer of Clarence Lofberg, Inc., of Teaneck. A graduate of Cornell University, Mr. Lofberg also studied at Rutgers and Fairleigh Dickinson universities. He became in 1959 a member of the Society of Charter Property and Casualty Underwriters (CPCU), the highest professional accreditation in the insurance field. His experience included service as a consultant to more than 60 public entities in New Jersey, including Newark, Passaic County and most of New Jersey's community colleges. He is a teacher, is qualified to testify in civil trials and is an arbitrator on insurance matters for the American Arbitration Association. The S.C.I.'s survey of procedures in 21 counties, conducted during its overall investigation of public insurance, was utilized by Mr. Lofberg during his presentation. S.C.I. Counsel Schirmer began his questioning with a brief summary:

Q. Mr. Lofberg, before I get into your testimony, I would like to summarize the total shared commissions that these hearings have revealed.

The exhibit\* is 142, Union Township in the years 1962/1975. We have \$59,186.51; Burlington County, 1974/'76, \$66,301.00; Burlington County, Republican, 1977/1979, \$45,000; Gloucester County, 1974/1977, \$25,122.06.

A note was also paid off that was part of the commission in Gloucester County, \$6,846.24; New Jersey Expressway Authority, 1971/1979, \$51,531.42; North Bergen, 1975/1977, \$17,435.34.

I would like to note on that item that they are only the shared commissions which Mr. Mocco received from Mr. McCloskey and does not show commissions Mr. Mocco received as the servicing broker on the housing authority account and the board of education account; and finally we have Clifton, which was illustrated this afternoon, between 1973 and 1975, \$44,309.53 was shared, for a total, those incidents that we looked at during these hearings, of \$315,732.10.

I'd like to next show you, Mr. Lofberg, a chart\*\* which shows the increase in budgets for the twenty-one counties for the years 1977, 1978, and I'd like your comments on that, if you would.

A. Based upon the information presented, it is rather obvious that there has been a substantial increase in cost over the last two years. There is indication there is increase in cost between '76 to '77, an equivalent or even higher increases in some cases from '77 to 1978. It's very obvious that the cost of insurance for the counties is becoming a major item in all of their budgets. It's also extremely obvious that under a cap rule where their overall budget cannot increase roughly beyond five per cent, that the cost of insurance in the majority of the cases there is well in excess of five per cent.

This would mean that wherein some cases insurance premiums are predicated upon payroll, where payroll was retained at about five to six per cent; that there is a drastic increase in rates; that there is obviously even more drastic increase in premiums and that other services of the entities involved, in this case counties, must be reduced accordingly.

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\*See Chart, P. 317

\*\*See Chart, P. 318



TOTAL SHARED COMMISSIONS

Union Township (1962-1975)	\$ 59,186.51
Burlington County, Democrat (1974-1976)	66,301.00
Burlington County, Republican (1977-1979)	45,000.00
Gloucester County (1974-1977)	25,122.06
1978 Note Payment for Gloucester County Democratic Executive Committee	6,846.24
New Jersey Expressway Authority (1971-1979) (Atlantic City Expressway)	51,531.42
North Bergen (1975-1977)	17,435.34
Clifton (1973-1975)	<u>44,309.53</u>

TOTAL

\$315,732.10

New Jersey County Insurance Budgets  
(Excluding Employee Group Insurance)

	<u>1977 Insurance Cost</u>	<u>1977 Percentage Increase (Decrease) from 1976</u>	<u>1978 Insurance Cost</u>	<u>1978 Percentage Increase (Decrease) from 1977</u>
Atlantic	\$ 497,000	14.2	\$ 569,616	14.6
Bergen	730,119	(13.8)	995,500	36.4
Burlington	600,194	11.7	683,374	13.9
Camden	2,072,888	9.7	1,987,148	(4.1)
Cape May	283,700	30.9	354,200	24.9
Cumberland	280,015	34.4	336,681	20.2
Essex	1,578,027	22.0	1,844,971	16.9
Gloucester	202,500	30.7	312,580	54.4
Hudson	655,000	87.0	825,000	26.0
Hunterdon	155,000	30.6	215,000	38.7
Mercer	722,003	106.7	1,066,274	47.7
Middlesex	1,512,820	9.1	2,114,400	39.8
Monmouth	685,487	21.3	1,140,714	72.4
Morris	710,000	29.1	998,000	40.6
Ocean	491,100	29.8	637,800	29.9
Passaic	762,610	9.9	637,500	(16.4)
Salem	148,000	20.6	232,000	56.8
Somerset	345,750	44.1	491,000	42.0
Sussex	381,980	43.4	264,200	(30.8)
Union	858,450	53.3	1,047,500	22.0
Warren	185,660	7.0	234,807	26.5

Q. So other counties don't have sufficient funds for insurance than other counties?

A. So other entities in the municipality will suffer. In some cases you have to fire one more person to pay the premium.

Q. I'd like to next direct your attention to the chart\* we have prepared based on your testimony that has previously been given to the Commission entitled "Major Problems In Governmental Insurance Purchasing Practices," and if I can have your comments on that chart.

A. I might change the order in which I address them based upon my own feelings as to the greatest problems.

I would feel, myself, that Items No. 5 and 6 represent a major problem to proper insurance coverage for a public entity at a proper premium in the case of appointment of advisory committees.

Unfortunately too many advisory committees are based upon the designation of local brokers or agents to participate as, quote, advisors, in the insurance coverage being purchased for the entity.

Unfortunately a number of advisors cannot be qualified. They would not be expected to be qualified. You don't have that many public entities to insure; therefore too many times we have found that when we go in to do an audit or provide consultation services, that the committee has not been of assistance. The recommendations, if any, cannot be found. The total advice given is little or none, and about the only purpose seems to be a method of sharing of commissions being paid to the so-called lead broker, the one who is actually doing the work, because of the fact that there is too frequently little knowledge. We find that too frequently there are gaps in insurance coverage. The coverage is inadequate. It is improperly presented and improperly priced. We know that there have been a number of increases in cost. It's very obvious from the prior chart, but in too many cases the increases are not only because of proper commissions, proper increases and exchanges and claims be paid, but because of little knowledge of true cost involved, of the true factors involved in the claims.

It's very obvious I would take No. 2 as being the next item that, again, all too frequently --

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\*See Chart, P. 320.

MAJOR PROBLEMS IN GOVERNMENTAL  
INSURANCE PURCHASING PRACTICES

1. EXCESSIVE COMMISSIONS.
2. LACK OF COMPETITION AND A LACK OF INCENTIVE TO REDUCE COSTS.
3. SELECTION OF BROKERS FOR POLITICAL REASONS AND NOT FOR REASONS OF THE BROKERS' EXPERTISE OR KNOWLEDGE OF GOVERNMENTAL INSURANCE.
4. A GLARING LACK OF EXPERTISE AND KNOWLEDGE ON THE PART OF MANY GOVERNMENTAL OFFICIALS IN PURCHASING INSURANCE.
5. ADVISORY COMMITTEES WHICH HAVE NO SPECIFIC RESPONSIBILITIES, LACK EXPERTISE, AND WHO RENDER LITTLE OR NO SERVICE FOR THE LARGE COMMISSIONS THEY RECEIVE.
6. CONFLICT OF INTEREST ON THE PART OF ADVISORY COMMITTEES AND TOWNSHIP OFFICIALS.
7. INADEQUATE COVERAGE.

COMMISSIONER PATTERSON: Let's go back to No. 5, advisory committees for a moment, and I couldn't agree with you more, the evidence that we have heard that advisory committees are doing nothing and getting paid for it.

As an expert, do you think a municipality -- maybe the answer is yes for some and no for others depending upon size, need some insurance expert to guide them other than the new broker whose incentive is to make money in selling insurance? In other words, is it necessary to have a replacement for an advisory committee, either an individual, a service, or a group that is separated, that is going to give the town advice and is separated from the commission part of it?

THE WITNESS: I would like to say, no, that the providing of insurance is so simple that is not required. Unfortunately the providing of insurance for public entities is becoming more and more complex, substantially applying to public entities, are extremely complex. Therefore the entity must have some kind of advice.

I feel it's highly important that they receive some kind of advisory assistance. That doesn't have to be consulting. It might be by the requiring of specifications of standards of insurance coverage for that type of entity; a school board, a municipality or other.

COMMISSIONER PATTERSON: How would they acquire the standards?

THE WITNESS: In the case of school boards, the New Jersey School Board Association established a committee for the preparation of the standards. I'm a member of that committee. The standards are in effect in mind. The specifications. These were then disseminated to all school boards in the State of New Jersey, to all school board members, and that set of standards is updated yearly.

It's more than a set of specifications, because attached to it is a rather large appendix indicating policy forms, reason for buying coverage, the questions to ask, exposures to outline or to provide.

COMMISSIONER PATTERSON: How about general municipal insurance?

THE WITNESS: General municipal, there has been no set of standards adopted by the League of Municipalities, the Clerk's Association or any of the others. Standards have been written. We use them in our own line of work as consultants, and they have been given out rather freely to a number of entities.

The same is true with counties; the same is true with county colleges.

THE CHAIRMAN: Can they be used effectively?

THE WITNESS: We think they can. The school board one, in particular, was designed to be used by an administrator almost as a check-off list. As you go down the line, here is what you need, here is why, fill in the boxes at the back in the appendix to indicate the amount of coverage you need and why; the number of students, et cetera.

It's not a panacea. It doesn't save the one thing, and that is you still need somebody to understand what's been done, but at least it helps and it helps the administrator to the point of being able to ask questions. That may be the most vital thing, is to be able to ask questions.

COMMISSIONER PATTERSON: Well, at what point, if there is one, is an entity large enough to be able to afford their own -- well, I have heard it described as risk manager. I would prefer to describe it as an insurance expert, okay? Probably quotes around the expert.

THE WITNESS: Let's take the risk manager. Now, a risk manager is employed by the entity. He is a member of the staff. His responsibility is not only the purchase of insurance; his responsibility is to prevent claims from happening. He has responsibility --

COMMISSIONER PATTERSON: He's a safety man.

THE WITNESS: He's a safety man. He's in charge of so-called non-business risks of that entity.

If you wanted to take a number, you would say that the cost of his services would approximate about five per cent of the premium involved before you could justify the person. If you want to take a basic cost of a risk manager, the salary range would be twenty-five to thirty-five-thousand a year, including secretary services,

overhead. You're talking about a fifty-thousand-dollar total cost of risk management on behalf of the entity.

If you take that and the five per cent factor, you're in the million-dollar range for general insurance coverage, so you could say, if you want full risk management services dedicated, the person dedicated only to that, that you would need about a million dollars in premium to truly justify it.

COMMISSIONER PATTERSON: If that's so, then according to one of the exhibits, there are only six counties that would, for instance, qualify?

THE WITNESS: That is correct. To my knowledge, there is only one county that does have a full-time manager, that is Middlesex, and Middlesex's budget, as you can see, their so-called insurance cost is two-million plus.

COMMISSIONER PATTERSON: Not the biggest county, but the biggest budget and the only one with risk-management?

THE WITNESS: Yes.

THE CHAIRMAN: Could you have a risk manager covering two or three counties?

THE WITNESS: I think it can be done. Either that, or, again, the providing of outside consulting services so that at least you can parcel one person as far out as you can stretch him.

COMMISSIONER PATTERSON: Does the State Insurance Department have people available that can go to the municipalities, and give this kind of advice, staying away from the safety part. I realize that's a day-to-day that should be done by every municipality.

THE WITNESS: No. The Department of Insurance, both the Department of Insurance of the State of New Jersey and the Insurance Department, which is responsible as a risk manager for the State of New Jersey, neither one have the personnel available.

COMMISSIONER PATTERSON: Would that be a factor to cost?

THE WITNESS: It could be of assistance. In some cases there are, I can name Illinois, for example. Illinois does have that particular department and they have people on staff providing that function. In the case of the State of Illinois, they are very effective.

COMMISSIONER PATTERSON: Then, of course, the other possibility is to use people like yourself.

THE WITNESS: Unfortunately, that's what's left, sir.

COMMISSIONER PATTERSON: I don't think that's unfortunate. Go ahead. You were now talking about No. 2.

A. (Continuing) No. 2 I would place, the problem is a lack of competition, is one of the problems of purchasing insurance. That all too often, I think as the hearings have brought out, there is an appointment based on friendship, on political connections; not on the basis of the abilities of the broker to produce the proper insurance broker for the entity. Because of this there are a good number of highly qualified insurance brokers in the state who just refuse to become involved in the insurance program for public entities. Their feeling is, "Look, I can't get involved because it's already locked in. Why should I get involved, because if there's a change in party, I'm going to be thrown out anyway." And, therefore, a number of highly qualified people are not becoming involved in this field.

Now, the ones who are appointed, knowing that there is no other competition, really don't have the incentive to do what they should be doing. They may not have the knowledge. We already indicated that. They may feel that because it's maybe a short-term appointment, depending upon the political stability of the community, that they might as well get as much as they can while they are there because they won't be there too long. Therefore, there is very little incentive to reduce cost; therefore to study or to learn as much as possible about the problems involved in the entity and how to provide a proper insurance program for them.



This in turn goes down to No. 4, and that's lack of expertise and knowledge on the part of governmental officials. Most of the officials within an entity, let's take the clerk, either a municipal clerk or a county clerk, are not involved in the administration of the purchase of insurance. At the same time the purchasing agent is used to purchasing nuts and bolts. He doesn't know what the insurance program should have. If there is an administrator, he will just know that something has to be done and hopefully something is done.

What it boils down to is, because there is all too frequently a lack of knowledge of insurance except, one, we have to have it; or, two, why should we buy it, let's go self-insured, you don't have enough knowledge to really produce a proper program. You don't have the knowledge available to properly purchase the insurance coverage.

COMMISSIONER PATTERSON: That gets us back to our discussion on No. 5.

THE WITNESS: That's correct.

A. (Continuing) Because now we had seen the prior outgrowth of this; that is, let's appoint the advisory committee, but the same problem exists with the advisory committees. Again, they are not specialists. Again, there may be an incentive to only participate in the commissions and not to provide service, and I think in some cases, before the hearings, it's been indicated that when an offer was made to provide assistance, the answer was, "No, don't bother me."

A properly handled advisory committee, one operating in the public interest, without participation at all in the insurance commissions, could be highly effective. There are all too few of those. They just don't happen any more, let's put it that way, and that, in turn, brings us down to No. 7, inadequate coverage because insurance hasn't been purchased properly.

There are gaps. There are exposures you have not purchased, excess liability insurance. You haven't properly protected, as the last witness mentioned as far as workmen's compensation, the overexposure of a self-insurance. What happens if the claim's over \$150,000? What happens if there's more than one person killed at the same time?

X X X

Those exposures are there. They are very evident, yet too frequently there are gaps, and serious gaps, in coverage. What happens to the employee who is sued for assault because he killed somebody in the line of duty? And the entities find that they don't have any coverage for assault. Maybe they will have no coverage for false arrest. Under the police defense statute, the entity must defend them. They must indemnify the man.

X X X

*Q. The advisory committees that you have just talked about, is there also a conflict involved in those advisory committees?*

*A. I feel that there is a conflict, the same as almost any other way. If you are both the buyer and the seller --*

COMMISSIONER PATTERSON: A conflict arises out of the makeup of the advisory committee, not under the -- not the advisory committee per se?

THE WITNESS: That's correct, but it arises out of that.

If you are buying coverage on behalf of the municipality, as well as selling it, there's an obvious conflict. Has to be.

COMMISSIONER PATTERSON: I just want to go back to the coverage a minute. Perhaps you're going to be asked about this anyway.

It seems to me there are two problems we have covered, and, I mean, they grew out of each other, perhaps. One is someone gets together and doesn't know enough to have it; and the other is you can't get it, or it's so expensive that you can't afford to get it.

We had a witness this morning indicate to us that their town, the Town of North Bergen, has no liability insurance, and I must say, if I were a taxpayer in North Bergen, I would move out tomorrow for fear that I might have to pay a share of a catastrophe.

We had a little difficulty defining that also this morning, but that's neither here nor there. The -- what bothers me, I think the ignorance can be taken care of. We can, you know, you can set up a consulting service, for lack of a better word, at a county level or a state level, or private consulting service, or as Judge Lane indicated, do it with several municipalities, several counties getting together, but what about the problem of just getting coverage and the fact that the insurance companies are more and more reluctant to cover anybody?

THE WITNESS: This problem was very obvious beginning in 1975, continuing through, to some extent, to the current period. It had become so horrendous that the Governor's Office and the Department of Insurance established the so-called Market Assistance Plan, what we call a MAP Committee.

The MAP Committee was established by the insurance industry on a voluntary basis on those requests to guarantee no entity within the State of New Jersey would be without insurance. There was no guarantee of price, but only a guarantee that insurance coverage would be provided through standard markets.

With respect to the cost, the most effective way of handling cost is if you have the knowledge of what your prior cost was from the standpoint of losses; what kind of claims did you have; what kind of losses have been paid.

The biggest problem that we have is nobody knows. Once you have prior history, you can at least project forward a little bit as to what you think future costs will be. That's all an insurance company does.

With that information, you can then sit back and say, "Fine, we recognize that we cannot afford so-called first-dollar liability coverage. The insurance company will pay every bill coming through for a liability claim. However, we could afford to pay, say, the first fifteen-hundred dollars of any claim ourselves."

There might be five-thousand, it might be twenty-five-thousand. It depends on the prior loss history; how much do you have in the budget for this kind of thing. You would then go back into the market and say, "We will retain, say, \$5,000 of any claim. Now, what kind of insurance do we get?"

You will then establish a trust fund to hold the money required for the smaller claims. You build this level up and that becomes self-insurance, but the point is: What is your definition of "self-insurance"?

I have got two, actually. I established one that's called without insurance. It's also called going bare. That means any claim that occurs is paid out of the budget on which that claim, the judgment is rendered.

But the second alternate, self-insurance, is where, in advance, you assume or project the cost of the claims. You then establish your trust fund for the so-called standard cost, the standard claims you expect to pay each year. You then purchase excess insurance coverage over the assets of the trust fund, for example, or the normal claims that you might have.

COMMISSIONER PATTERSON: Well, what, if anything, is the difference between the deductible plan and that kind of self-insurance?

THE WITNESS: A deductible plan may or may not be funded by a trust fund.

COMMISSIONER PATTERSON: That's the only difference?

THE WITNESS: That's the only difference.

COMMISSIONER PATTERSON: Okay.

THE WITNESS: True self-insurance you understand and expect to pay claims. You make the provision for it by dedicating a trust fund. You also have investment income on that trust fund.

COMMISSIONER PATTERSON: Is there any possibility of municipalities being able to acquire better coverage at the least cost if they go together as a group to apply for the insurance?

THE WITNESS: Yes. That's what we call a pooled program whereby a number of entities, municipalities, boards of education, whatever, join together within a geographical, political region and jointly purchase their insurance coverage. There have to be savings.

Number one, it's far easier to project the total cost of claims based upon the total size of the entity. The larger you are, the easier it is to say that that information is correct. The smaller you are, the less.

COMMISSIONER PATTERSON: Then that's something that should be explored into?

THE WITNESS: It should be explored. It's being explored right now. There are, I understand, some bills in the hopper that will authorize pooling.

We had recommended this, incidentally, a year ago to the Joint Streamlining Committee. We had established four districts for the School Board District of New Jersey. The one problem we have had since then, the feeling on the part of some people, is that by pooling any one entity is then guaranteeing the debts of another entity, which would mean that supposing Trenton has a horrendous loss experience where the total cost of the pooled insurance program goes up next year, and say Lawrence says we have no claims, but our cost went up, this becomes an indirect guarantee of the debts of another entity. I don't like it. I think it's stretching the subject.

BY MR. SCHIRMER:

*Q. If I might get back to one other thing, I think we are starting to develop the recommendations, and I would like to develop one other point as far as problems before we go into recommendations.*

*It has been clear during the hearings the there were large commissions paid out for no services. Do you have any comment on whether there are excessive commissions involved?*

*A. Well, you have got a good number of dollars and so-called shared commissions which just, by itself, indicates, since it was obvious little or no services were provided, that there are excessive commissions.*

*In general, on an account the size of most of the entities that have been discussed, not the smaller ones, but the larger ones, a broker would, in a corporate account, negotiate his commission. He would advise his client of what he thought his cost of business was going to be. There would be a joint agreement on the total cost of services. His commission would then be adjusted with the insurance carriers involved, and at the end the premium would be adjusted accordingly. It would be reduced by the amount.*

I should indicate something here. There is a nasty word in the insurance industry. It's called rebate. Now rebate is the direct payment of a part of the commission by a licensed agent or broker to somebody who is not licensed to do business in insurance. It's a direct payoff. I mean, that's a good way of calling it as anything else. It's a payment to somebody not licensed to do business.

X X X

COMMISSIONER PATTERSON: Then it is possible for a municipality to receive, through a broker, the -- well, let's say there are two brokers, now, and the two brokers are going out using the same insurance company and using exactly the same coverage, exactly the same factors for fire insurance, liability insurance, with this particular municipality. There's no argument about the value of the buildings; there's no trying to shade the insurance cost by any kind of manipulation of the figures. The same package. That legally one insurance broker could cover that package to a municipality, A, at a lower price than the other broker if the first broker was willing to accept it at a lower commission from the insurance company?

THE WITNESS: That is correct. I remember one case --

COMMISSIONER PATTERSON: So that commissions are, in effect, negotiable?

THE WITNESS: They may be negotiable. It was indicated with the last witness that five per cent is paid on the general liability policy.

COMMISSIONER PATTERSON: I understand that. I just wanted to make sure that we're all clear, at least that this is possible, so that if a municipality that is now using a shared brokerage setup where the brokers, some of the brokers, the committee, who are doing nothing, they could eliminate that committee. The then broker of record willing, assuming he is willing, the taxpayer could get back the money that is now being given to the brokers, other brokers, on the argument, well, they have to pay it anyway.

THE WITNESS: That's correct.

X X X

EXAMINATION BY MR. SCHIRMER:

*Q. Do you have any recommendations which would help respond to the series of problems that have been illustrated by these hearings?*

*A. Yes, I do. I think before we finish it, though, that one item that's become very obvious is a matter of secrecy in the matter of placing insurance has become all too obvious is that coverage is placed and literally no one knows what happened or why.*

*In my own way, I think that's a violation of the Sunshine Law. I think it's the violation of the appointment of the broker, and that the insurance broker has deemed himself to be a professional person. If he is a professional person, and I think he is, or should be, then he must accept the obligations that any other professional has to have with respect to a public entity, and that is that he must accept his appointment by resolution. He must accept the advertising of his appointment in accordance with the statutes, and he must accept the fact that his income will be divulged; that his professional fee, or whatever you want to call it, commission, service fee, whatever, is an item that becomes a published document. It is not hidden within the aspects of a commission paid as part of an insurance premium. That would obviously eliminate a number of questions that you have seen here today.*

*I think just the publication of this information and to let the public know what is happening is the greatest way of taking care of a number of problems.*

*But going, then, into recommendations, there are a number.*

*It is obvious, as we have seen, that there are not as much competition as we would desire; that competition should be introduced not only in the purchase of insurance by standard means, it should be introduced by the utilization of alternates.*

We have discussed the pooling program, self-insurance program. These are alternates to insurance coverage. These alternates are used by corporate accounts continuously. They have been used for years. There's nothing new about it.

What it boils down to is, any corporation doing business for profit at one point or another says, "This is how much I can afford, and if it cost more than that, I can't do it. I won't do it. There are other ways of making money."

The same thing should be done here. Public entities are not run for profit, but they have to be run officially these days. Therefore the alternates have to be reviewed. Competition can be introduced. It can be introduced by utilization of the public bidding statutes or, more preferably these days, negotiation with brokers. That means that the committee, the council, the freeholders, whatever, are going to have to take their time to sit down, interview brokers the same as they would the attorney or the auditor and say, "What can you do for us? How will you do it? What experience do you have and what does it cost?" It doesn't matter whether you take it because they are all important, and along the way we will then say, "Fine. The commissions are a negotiable item, or a service fee in lieu of commissions." That can be done. It's being done right now with public entities in Jersey and it works.

I think any broker of competence is going to know exactly how much it will cost him to handle an account, and he knows how much profit he wants. He may not be right all the time, but most of the time he will be pretty close. That should be the basis of his fee in those cases.

In the case of a large account, that is the way it's done. In smaller accounts it's obvious that you can't take the time to price it out. You accept commissions. That's it, and that's fine. It works very well, but we're talking about entities now that are getting very large dollars in their budget that have to be paid out for insurance premiums and things should be looked at again.

We talked about the lack of knowledge on the part of firms and the purchasing of programs. More work has to be spent there in the



education. The New Jersey School Business Officials' Association, at their annual meeting, historically has a so-called insurance desk in their workshop sessions. They have insurance desks where the administrator just sits down and talks in workshop session. "These are the problems, what do I do?" The community college business officials annually, more than annually, but at an annual meeting, always have an insurance discussion. The municipalities haven't done such. More work should be done there with the municipalities and the counties in educating officials and also the elected officials. There is too little information out, unfortunately, on what an elected official should know about the purchase of insurance and why. There is too little information out about the statutes involved.

It's obvious that, in most cases, considering the number of entities in the state, that you can't dedicate people to full-risk management, but you can at least dedicate people to education and knowledge.

There are two things that I think there are most important. The one thing we keep hammering on is ask questions. I have never seen anybody who got hurt by asking a question to an insurance broker. I have seen a lot of upset insurance brokers when they don't know the answer, but the point is, if you keep asking the questions, you will learn a lot more about what's happening. There is too little knowledge of the loss experience in the entities. The biggest problem we have, that the entity has or the insurance industry has, is there is too little information about the true claims history and experience of public entities. Not only in the State of New Jersey, but country-wide.

The specifications, as I mentioned, have been established in part for some entities. They should be established for all entities. That's an easy way of at least getting the minimum.

There are problems with insurance responsibilities. Too often, now, within the entity, the purchasing agent does a bit, the clerk will do a bit, the administrator will do a bit, the Law Department may do something, and somebody is going to be charged with safety, but he doesn't have any other responsibility except safety, and he doesn't know who to report back to. The net result is that because -- also I forgot the personnel department, but they are doing workers'

compensation administration, so nobody really puts the whole thing together.

There should be a centralization and a delegated responsibility.

*Q. Mr. Lofberg, if you would, you passed over fairly quickly the specifications. Could you expand a little bit? Are there standards?*

A. Yeah. We had mentioned before that the New Jersey School Board Association has so-called standards. They were adopted -- they're disseminating to all school boards, there did become a documented standard of insurance coverage. It's the only occasion where it is fully true. Community colleges of the State of New Jersey are effectively using the same standards, and not because their association did it, but because they all have copies of the same set of specifications that are written.

*Q. The Commission has heard that the difficulty in bidding these type of government insurance contracts is because it's impossible, or at least difficult, to develop specifications. Is this true?*

A. This is a problem which we had when the new public statute, or the bidding statute went through in 1977. The key point between that which can be bid and not bid under the bidding statute is whether you can establish standards or specifications.

The answer is, yes, you can establish specifications. You can establish a basic minimum model, requirement of insurance coverage. You can invite programs which provide coverage in excess of that or give alternates, but you can establish standards.

The insurance industry, as I said, felt that this was sort of a slap at the professional abilities, and yet any corporation that purchases insurance will establish a set of standards, its requirements for insurance coverage. The entity can do same thing regardless. The purchase of insurance is eliminated from the bidding statute. I have no objections to that. We do, at some times, go back into the bidding statute. We have the right to do so, but we can establish specifications without that much of a problem. The biggest problem we have is obtaining the data to back up the specifications.

Q. We have seen during the hearings limited knowledge on the part of governmental officials concerning insurance. What's your recommendation on risk managers and consultants?

A. With the complexity of not only the insurance program but the exposures of entities these days, it is becoming more and more advisable. Years ago there weren't that many problems. You bought a fire insurance policy and there was only one kind of fire policy. You bought a liability policy that did something, nobody knew what, but probably it helped because probably the entity was immune from liability. That's not true any more.

You have Title 59 in the State of New Jersey. Requirements of liability coverage under Title 59 change almost daily based upon court interpretations. You have to change your insurance program to keep up with it. The number of variations in insurance policies for covering property are almost too numerous to mention. They have to be analyzed. You can't analyze them without knowing what your exposures are. Do I have old buildings that are ready to fall down and burn? Do I have brand new buildings that are not ready to burn? Do I have a building standing out in an earthquake fault?

Q. Who would you get this assistance from?

A. You would get it from a consultant or a risk manager or somebody providing quasi-service. One of the biggest problems we have seen along the way, though, is that a consultant unfortunately doesn't mean anything in the State of New Jersey. I mean that literally. The consultant under the bidding statute is an extraordinary unspecified service and I interpret it as saying I don't know what you're doing and you don't know what I'm doing and I don't either because that's almost what an EUS is. There is no licensing standard for consultants within the state, insurance consultants. There is no licensing of an administrator of self-insurance programs; therefore your biggest problem is finding somebody who is, in fact, a consultant who can give you the advice that you require and obtaining that at a reasonable price.

Q. Do you have any recommendations on the selection of brokers?

A. I would bring in a number of brokers qualified, or qualified by reputation by contact with other entities. I would sit down and interview them. I would find out exactly what kind of knowledge they have, the number of entities they presently handle and why and the cause of their services, and I would also gauge part of my selection on the proximity of the entity. I don't want a broker 250 miles away handling my account. If I have got a problem, I'd like to see him there fairly rapidly.

Q. You mentioned before with Commissioner Patterson pooling. Is there anything that you would like to add onto that concept that you started to develop?

A. I think the pooling concept assists because you can afford the cost of additional services, outside services, to bring the pool group together. You can afford -- well, you are obtaining almost automatically with a larger group additional services that you couldn't afford otherwise. More safety, more lost data and higher elements of coverage, for example, or better coverage. You may, also, may assume more deductibility in-house, but you will be able to afford them.

At the moment, if we do require, and I think it would be helpful if we had legislation that established the right, I think it would be fine if we had, under legislation, the right to pool a number of entities together at their option. I don't think you can make it mandatory.

There will be a number of cases where that right of self-rule is far more important than the cost of insurance, but where an entity feels that economically it is to their advantage to pool with another entity, they should have that right without question.

Q. If self-insurance an alternative to commercial coverage; is that correct?

A. Yes.

Q. Is it true that more and more entities are getting into self-insurance?

A. More and more entities are. Self-insurance is not a panacea. Somebody has to pay a claim. You couldn't stop people from having claims because you're called self-insured, but what you do have is some savings.

I'll just quickly indicate you're going to save a tax payment to the State of New Jersey, which you pay when you buy insurance. You're going to save a tax payment to the Federal Government, which you pay when you pay your premium. You're going to save some broker's commissions. You're going to have the profit which the insurance company expected to make, but, by and large, until you get into large size accounts, the expected savings will be about ten per cent of premium. It's not that much and it may well be that you're going to lose your shirt with that amount of money that you decided to assume and then found out it wasn't enough.

It's interesting, on that first exhibit on insurance budgets, one account here is a client of ours, the County of Passaic. Their cost in 1978 for insurance coverage reduced by 16.4 per cent. That reduction is directly attributable to a self-insured workers' compensation program which went into force in 1978. In fact, the savings were in excess of that amount, but a reduction of that 16.4 per cent is some \$125,000, and that's one of the budget items here that has gone down.

So self-insurance is dramatic. There's another factor therein. We call it the ESI factor. It's short for Enlightened Self Interest, and, very bluntly, if you're paying a claim out of your dollar, out of your pocketbook, you don't pay it the same way that you expect an insurance company to pay it. On a worker's compensation claim, if a department head knows that his boy has been having comp claims and if his department is being charged back with the cost of those claims, he's a little bit more careful about the accidents that his people have, otherwise he might not be able to buy a new truck next year.

#### The New Jersey Department of Insurance

Assistant Commissioner Herman W. Hanssler of the State Insurance Department read into the hearing record a statement approved by his superior, Insurance Commissioner James J. Sheeran. Included in the statement was a pledge of full cooperation by the Department with the S.C.I. in developing public insurance reforms. Mr. Hanssler was questioned by counsel and S.C.I. commissioners on these official departmental views. Mr. Hanssler:

Commissioner Sheeran has designated me to act as his surrogate at this hearing. My intent with this statement is to be of assistance insofar as the current statutory requirements concerning your area of investigation and to suggest possible remedies to preclude abuses this Commission has uncovered.

It is my understanding that the New Jersey State Commission of Investigation is interested in recommendations from the Department of Insurance relevant to the Commission's findings of "political patronage, commission sharing and brokerage participation" in the placement of property and casualty insurance for public entities.

For the record, I would like to outline the statutory requirements pertaining to insurance commissions and fees. The "keystone" to that portion of Title 17 which deals with insurance regulation is N.J.S. 17:17-12, more commonly referred to as the "Misdemeanor Statute." N.J.S. 17:17-12 provides that:

"No person by himself, or by his brokers, agents, solicitors, surveyors, canvassers or other representatives of whatever designation, nor any such broker, agent, solicitor, surveyor, canvasser, or other representative, shall solicit, negotiate or effect any contract of insurance of any kind, or receive any premium, commission, fee or other payment thereon, or maintain or operate any office in the State for the transaction of the business of insurance, or in any manner, directly or indirectly, transact the business of insurance of any kind whatsoever, within this State, unless specifically authorized under the laws of this State. Any person violating any such of the provisions of this section shall be guilty of a misdemeanor."

In order to become authorized as a producer of insurance as distinguished from an insurance company, one must first qualify in accordance with the provisions of N.J.S. 17:22-6 et seq. This chapter of the Insurance Law sets forth under N.J.S. 17:22-6 through N.J.S. 17:22-6.23, the qualifications that must be met to be licensed as an insurance agent, broker or solicitor. The qualifications for a license to write property and casualty insurance are the same for each type of license and consist of the successful completion of a 121-hour course of instruction prescribed by regulation, and that regulation is N.J.A.C. 11:2-1 et seq, and also the successful completion of a multiple-choice-type of examination consisting of 150 questions.

The definitions of insurance agent, broker and solicitor are set forth in N.J.S. 17:22-6.1, 6.2, 6.3 respectively.

The conduct of licensed insurance agents, brokers and solicitors is controlled by 17:22-6.16 which empowers the Commissioner of Insurance to hold hearings and to order the suspension or revocation of a license for cause. One of the reasons for license suspension or revocation is for the unauthorized "splitting of commissions." Section 6.16, Paragraph F, provides that after a hearing the commissioner may suspend or revoke a license if the licensee, "... has paid all or any part of commissions on insurance premiums to a person not licensed in this State, or in a state in which the assured has interests which are the subject of the insurance on which the commissions are earned...."

Furthermore, Section 6/18 prohibits compensation to unlicensed entities. This section also permits fees to be charged by licensed brokers providing the compensation is based upon a written memorandum signed by the insured and otherwise conforms with the requirements of N.J.A.C. 11.1-7.1.

In addition to requiring the prior approval of property and casualty insurance rates, Chapter 29A of Title 17 prohibits the guaranteeing or receipt of a rebate, discount, abatement, credit or reduction of premium. N.J.S. 17:29A-15 reads as follows:

"No insurer or employee thereof, and no broker or agent shall knowingly charge, demand or receive a premium for any policy of insurance except in accordance with the respective rating systems on file with and approved by the commissioner. No insurer, no employee thereof, and no broker or agent shall pay, allow or give, or offer to pay, allow or give, directly or indirectly, as an inducement to insurance, or after insurance has been effected, any rebate, discount, abatement, credit or reduction of the premium named in a policy of insurance, or any special favor or advantage in the dividends or other benefits to accrue thereon, or any valuable consideration or inducement whatever, not specified in the policy of insurance, except to the extent that such rebate, discount, abatement, credit, reduction, favor, advantage or consideration may be provided for in rating systems filed by or on behalf of such insurer and approved by the commissioner. No insured named in a policy of insurance, nor any employee of such insured,

shall knowingly receive or accept, directly or indirectly, any such rebate, discount, abatement, or reduction of premium, or any such special favor or advantage or valuable consideration or inducement. Nothing herein contained shall be construed as prohibiting the payment of commissions or other compensation to regularly appointed and licensed agents and to brokers duly licensed by this state, nor as prohibiting a discount, abatement, or reduction in premium in policies issued to or on behalf of the State of New Jersey."

BY MR. SCHIRMER:

*Q. Mr. Hanssler, if I could just interrupt. One of the points that was certainly in debate during this proceeding is whether a broker could negotiate his commission. My understanding from reading the statute along with you is that you can negotiate a commission if your rate filings with the Department of Insurance allow it?*

*A. That is correct. Any modification of the premium, or I should say modification formula, must be filed with the Department.*

*Q. Are there such filings that would allow reduction commissions?*

*A. I have, on three separate occasions, checked with the people in charge of the so-called rating division, and as late as noontime today, in connection with the payroll rates, we could find no modification with respect to acquisition costs or submission commissions.*

COMMISSIONER PATTERSON: Then the answer to the question that I posed to the previous witness, which he answered saying, "Yes, you can," you would say, "No, you can't"?

THE WITNESS: Well, you must --

COMMISSIONER PATTERSON: On the basis of realizing unless you file, but on the basis of what has been filed, the answer is no?



THE WITNESS: No. You see, Commissioner Patterson, we are what we call an independent filer state and there are many independent companies that make filings, and for me to make a statement, blanket statement like that, would be impossible at this time without making a thorough review of all the filings.

COMMISSIONER PATTERSON: So there may be some that have filed?

THE WITNESS: Yes, sir.

COMMISSIONER PATTERSON: And variable rates put in?

THE WITNESS: It could be, but no one has a recollection of it, and I did check the bureau rates this noontime and there is no such filing for the bureau rates.

COMMISSIONER PATTERSON: You have not discovered any filing that has been accepted that would permit it?

THE WITNESS: That is correct.

A. (Continuing) It should be noted that the State of New Jersey is the only insured entitled to a discount abatement or reduction in premium without making that particular filing. This exception was entered into law effective May 20, 1971 as Chapter 152.

Now, if I may, I'd like to offer some recommendations.

Presently in New Jersey there are no bidding requirements under the State Law dealing with public contracts applicable to insurance. This presumably is the case because of the amount of work required on the part of insurance agents and companies in complying with the bidding specifications and the insurance market structures that have prevailed in the recent past. As a result, when bidding was required prior to 1977 in many instances public entities received no bids at all.

In view of the lack of bidding requirements, it would seem only reasonable that public entities should be given greater latitude in directly negotiating contracts of insurance. This could be accomplished by amending N.J.S. 17:29A-15 to permit all municipalities, school boards and other public entities to obtain the discount, abatement or reduction in premium presently enjoyed only by the State of New Jersey.

Because of a number of questions have arisen as to the brokers' role in the placement of insurance on public entities, it is recommended that the definition of "insurance broker" in N.J.S. 17:22-6.2 be amended to require each and every broker that is involved in the insurance transaction to be specifically designated by the insured, or the name of such broker be disclosed to the insured in the event blanket authority is given an intermediary. Furthermore, the appointment of the insurance broker should be made in writing and the agreement should indicate the extent of the brokers' authority and responsibility; that is, whether it is merely to place the risk or whether it is to be a continuing service or a combination of both.

You might also want to consider the licensing of persons engaged in the business of acting as insurance consultants. Consultants are presently engaged by public entities and other insureds throughout the state to provide expert advice in connection with the assumption or transfer of risks. There is no statutory provision or regulation governing the services rendered by an insurance consultant and, therefore, the regulation of insurance consultants merits consideration at this time.

Many licensed producers perform the function of an insurance consultant without pay by serving on non-statutory insurance advisory committees or on commissions formed pursuant to N.J.S. 40:26-5 for counties, or N.J.S. 40:51-5 for municipalities. In most cases, this is done as a community service without any conflict with the licensee's business operation. In some cases, however, these very same agents and/or brokers may also be participants in an insurance transaction recommended by the insurance advisory committee or the insurance commission that they are serving on. Such a conflict should be prohibited by amending Title 40 and Title 17 to make it a violation of the respective statutes if a licensed insurance agent, broker or solicitor or any other person accepts a commission, fee or other form of remuneration on an insurance transaction that was authorized by them directly or as a member of an insurance advisory committee or an insurance commission.

Of course, if political contributions are involved, they are covered by N.J.S. 19:34-32 and N.J.S. 19:34-45 of the Election Law period. These sections of the statutes could be strengthened by adding provisions to prohibit "kickbacks" by any intermediary in an insurance transaction not only by insurance companies and their agents as is presently the case.

Uncertainty that insurance will be available at the affordable cost under existing insurance markets requires has caused a number of public entities to consider self-insurance programs and also seek enabling legislation to pool risks. While the Market Assistance Program, which was mentioned earlier, while this MAP Program for public entities was established in December of 1977 has been very effective in addressing the availability problem, it was never intended to make insurance affordable.

Self-insurance is not meant for all public entities since many are too small to undertake such a program. For those that are large enough, the statutes permit self-insurance programs for automobile liability and physical damage insurance, workers' compensation insurance and property damage. Public entities, however, do not have the expressed statutory authority to establish a self-insurance general liability insurance program, nor do they have the authority to form insurance pools at the present time.

In regard to self-insurance and the pooling of risks by municipalities, the Department of Insurance has offered to cooperate with the Department of Community Affairs and local governmental units in the conduct of a feasibility study to examine the possibility of cooperative ventures between local governments.

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EXAMINATION BY COMMISSIONER PATTERSON:

Q. You talked about competitive bidding, so I agree with that; lower commissions through negotiations. You covered that. I'm sure it could be done. You would agree that it would be a good idea to do it?

A. I generally agree with Mr. Lofberg's presentation. I think very highly of Mr. Lofberg, incidentally, who happens to be one of the licensees of the Department of Insurance, and I'm also a CPCU as he is.

I do agree with him except, I think, there may be a little problem in making a distinction between a rebate and soliciting of commission, which perhaps we can explore a little later.

With respect to the self-insurance program, I notice that Mr. Lofberg did refer to the fact that he is for voluntary programs.

Unfortunately, I don't believe that voluntary self-insurance pools, that is pools, are effective, and the reason I say that is because of the fact that only those risks that are having a difficult time getting insurance on a voluntary market or that are not able to carry out their own self-insurance program will seek the services of that pool, so, in effect, it is sowing its own -- the seeds of self-destruction, its own self-destruction.

I'd rather see a pool formed, for example, for liability insurance. This is my personal observation, and I might say there are two bills now before the legislature to carry out this particular concept that I'm speaking of. I would rather see a pool formed at a level of coverage in the case of liability insurance that is relatively high so that -- and I would like to see that pool made mandatory, so that every municipality and every school board, both of which are subjected to unlimited liability under the Tort Liability Act, would participate and gain equally from participation in that pool.

#### Concluding Statement

The public hearings concluded with a final statement by S.C.I. Chairman Lane, in which he summarized the testimony, pinpointed basic problems and suggested an outline of recommendations for improving the public insurance process:

This is the appropriate time for me, on behalf of the State Commission of Investigation, to summarize the highly questionable practices and procedures that three days of public testimony have exposed and to suggest how these problems can be resolved. The recommendations that will be outlined here will be expanded in much detail in a full report on these proceedings that the S.C.I. hopes will serve as a base upon which to build a better system.

We have used the catch-all word "questionable" in describing the general nature of the improper activities that have been scrutinized at these forums. However, the callous abuse of the public trust by many public officials and brokers in handling public insurance is much more reprehensible than the word "questionable" implies. Example after example has been cited of considerably more serious machinations that have been engineered by various governmental bodies and officials. Indeed, certain commission rebates and other transgressions, cloaked in secrecy, have approached the point of corruption in the squandering of public dollars by a number of public buyers and private sellers of insurance. The objectives of their conduct has been - not the honest efficient and adequate purchase and management of insurance programs for safeguarding public personnel and property - but partisan political and personal gain at the expense of the taxpayers who pay the bills. For such personal greed and partisan advantage, the essential needs of the general citizenry have been largely neglected by many municipal, county and state entities. Proof of this disturbing behavior has been put into our public hearing records by more than 40 witnesses, whose testimony has been buttressed by at least 140 evidential exhibits, charts and records of personal, corporate and official transactions assembled and scrutinized for more than a year by S.C.I. special agents and accountants. The outstanding cooperation of Attorney General Degnan's department in the investigative work has been extremely helpful as has been the professional assistance rendered to our agency by many public officials and brokers who are trying to provide and administer credible insurance services and programs.

Whatever the manner in which public insurance is obtained and managed, the process has become a problem of extremely complex administrative and budgetary impact at every governmental level. The necessity for adequate indemnification of public workers and property against injury, damage and loss is a complex process of increasing magnitude - particularly so from the standpoint of the ever increasing public expenditures that are required. Throughout New Jersey the cost of providing public insurance is a major financial burden at a time when so-called "cap laws" are imposing mandatory restrictions on even essential governmental spending. Unless corrective steps are taken, the unwarranted misuse of public funds in this field will remain as a sizable factor in the continuing rise in costs under inflationary pressures that affect us all.

A recent study of county insurance costs alone suggest the magnitude of public insurance as an increasing public tax burden. These county costs - exclusive of employee group insurance plans - have risen from a total of over eleven-million dollars in 1976 to nearly seventeen-million dollars last year - a fifty per cent increase in a two-year period. An exhibit charting these county costs focused attention, naturally, on those areas where abuses of municipal as well as county insurance procedures have been highlighted at these public hearings. In these particular counties, insurance costs increased last year over 1977 costs by more than fifty-four per cent in Gloucester, twenty-six per cent in Hudson, twenty-two per cent in Union and almost fourteen per cent in Burlington. In only three of the twenty-one counties was there a drop in costs - in Camden, Passaic and Sussex. It is apparent, therefore, that public insurance is certainly an enlarging tax load in all public entities, including counties. Nonetheless, despite this mounting fiscal impact, witnesses at our hearings have testified to the wasting of thousands of dollars of tax funds by public officials and brokers collaborating in commission sharing schemes and other unwarranted practices.

Insurance commission sharing has long been a widespread if little publicized practice in the public insurance field in New Jersey. Related practices contrary to the public interest have also gone unrestrained for many years, due to both the absence of adequate statutory restraints and the furtiveness with which these deals have been devised and implemented. While fee-splitting has been the most glaring illustration of misconduct in the purchase and management of public insurance, it is both a cause and a result of many more basic problems in this area, as these public hearings have confirmed.

Testimony before the S.C.I. has clearly demonstrated - case-by-case - how these abuses have proliferated largely to the benefit of controlling political regimes - whether Republican or Democrat - and influential officials and brokers rather than to the benefit of the public at large.

A disturbing pattern of political rebates, patronage for which no work was required, overpriced premiums and commissions, and insufficient, carelessly designed insurance programming permeated these undercover deals in all of the public entities that have been subjected to our public hearing scrutiny. While there are certainly notable exceptions to these practices -- as also testified to - some veteran politicians and brokers have suggested under questioning by our lawyers that the subversion of the system is far more prevalent throughout the state than most realize.

At our request, a number of highly reputable leaders in the insurance field generously contributed their professional expertise to the hearing record. In general, this expert testimony has emphasized a series of fundamental problems that prevail in many public entities, namely:

-- That existing highly inappropriate conditions generate a ripe opportunity for serious conflicts of interests among both public officials responsible for buying and administering insurance programs and brokers who sell the coverage. So-called "advisory insurance committees" comprising brokers favored with split commissions have demonstrated dismayingly

irresponsibility toward the governments they're supposed to serve, have rendered minimal service, if any, in return for their payments, and lack either the professional knowledge, or the incentive if they do know their business, to adequately guide appointing authorities along a proper course of selection and management of insurance programs.

-- That in a state with probably 3,500 agencies potentially available to serve the insurance demands of some 1,500 public entities, there is a shocking lack of competition among officials and brokers alike to adopt or offer economical and adequate programs. And there is a critical lack of effort among officials and brokers to provide more responsible coverage at reduced costs. Insurance leaders have testified here that the prevalence of unstable and conflicting political pressures governing the process make many reputable firms reluctant or unwilling to seek public business.

-- That public bodies responding more often than not to political dictation choose brokers presumably on the basis of political rather than professional qualifications, to the detriment of the programs they buy and administer.

-- That excessive commissions based on overpriced insurance coverage have largely resulted in the failure or refusal by a number of officials to obtain professional counseling and has generated personal misconduct in the distribution of these commissions to politically favored cronies and agencies. In effect, such excessive commissions have aided and abetted the purchase of political services rather than insurance services.

-- That, in summary, all of these abuses have led to the adoption by many governmental entities of overpriced and inefficient coverage under procedures catering to political and profiteering demands rather than to the public need for efficient, economical and adequate public insurance protection.

As noted at the outset, these conditions urgently require statutory and regulatory reforms that will be outlined here and subsequently expanded in a formal S.C.I. report on our investigation and public hearing testimony. It must also be said that at this point that some of the concepts to be proposed by our agency have not only been in place for many years, but also have been widely utilized in private industry because of their proven feasibility. The question that situation raises is why are public entities so intractable in the face of such proof of workability. The answer, as independent professionals



realize, is unfortunately this: Those public officials and acquiescent brokers who have joined in the misdeeds depicted here find it more profitable, politically and personally, to leave the system as is.

For the present, let us project in capsule form certain recommendations that should be seriously and immediately considered by all public bodies and officials - and insurance representatives - involved in the public insurance process. These proposals include:

-- One, alternative methods of buying public insurance should be adopted, including various types of bidding mechanisms and/or hard, face-to-face, negotiations with more than a single broker in an objective quest for proper and reasonably priced coverage.

-- Two, much lower insurance commissions that now prevail should be obtained by negotiating such reduced costs with affected brokers. It seems not to be generally known that insurance commissions can be negotiated downward and still leave adequate profit margins for brokers and insurers.

-- Three, again by negotiation, "service fees" for precisely prescribed service needs should be substituted for the commission system. Payment of commissions in the form of a percentage of overpriced insurance premiums is an inexcusable waste of tax dollars.

-- Four, there should be much more frequent use of professional and independent insurance consultants and risk managers -- in either case, a counsellor totally separate from the vendee/vendor relationship. The cost of such services can be minimized since such consultants, we have been told here, need not become a permanent payroll fixture. Once an adequately designed program is in place, continuing consultations, according to the experts, would then be necessary only on a periodic basis. Where budgetary cost is a major obstacle, particularly among smaller entities, free professional advisory services should be provided by the State Insurance Department.

-- Five, model insurance program specifications designed to meet normal and special needs of public entities of varying sizes are available but are not being widely utilized. Public entities should take the fullest advantage of such low-cost model programs.

-- Six, insurance brokers must be selected solely according to their professional knowledge and experience without regard for politics. The State should establish strict consultant/licensing requirements in tune with the additional insurance functions that are now being sought and placed, including self-insurance programs. At present, there is no licensing requirements for consultants.

-- Seven, full public disclosure should be required for every step of the public insurance purchasing process, including the names of the brokers and commission sharing agents and the amounts of the premiums and commissions. New York now requires all brokers to submit reports of their business activities to its State Insurance Department.

-- Eight, there is an appalling scarcity of educational and workshop programs for the training of public officials in the complexities of public insurance problems and programs. This should be remedied immediately.

-- Nine, State law should be amended to permit smaller localities to pool their resources for public insurance purposes so as to spread the risk and obtain more adequate, efficient and economical coverage. Legislative action is necessary since, under present law, a public entity cannot guarantee the liabilities of another public entity. New Jersey law should be changed to permit such pooling if desired.

-- Ten, as an alternative to present methods of insurance programming, particularly for larger public bodies, the option of adopting self-insurance programs should be reviewed. However, such a step should not be undertaken without the advice of a professionally qualified consultant.

These and other proposals for reforming the obviously deficient public insurance system that presently exists in New Jersey will be described in considerably more detail in a

later report. The State Commission of Investigation believes that these public hearings, undertaken in the face of considerable investigative and other related difficulties, has fulfilled its obligation to alert the public to the mishandling and other abuses of the system. We hope and pray that this public hearing action and subsequent documentation of our inquiry will generate wide-ranging reforms of public insurance practices and procedures. The obligations of public officials to serve only the public welfare imposes a mandate for such corrective action at every governmental level.

Finally, before these proceedings are declared closed, I wish to express the gratitude of the commissioners to the staff of the S.C.I. on another job well done. We know this to have been an extremely complex investigation, accomplished quite often under very difficult circumstances, and, therefore, we wish to thank our entire staff, with particular thanks to the contributions of Counsellor Schirmer, Accountants Cayson, Zanino and Cimino and Special Agents Corrigan, Diszler and Hutchinson.

Thank you all very much. The proceedings are closed.



RECOMMENDATIONS

IN

DETAIL

## RECOMMENDATIONS IN DETAIL

### Introduction

In compiling its recommendations for eliminating abuses in the purchase and management of public insurance, the Commission emphasizes a necessity to achieve as quickly as possible four basic objectives. These objectives are:

- Unlimited public scrutiny of all county and municipal governing body discussions and decisions in public insurance matters.
- Full public disclosure of all elements of public insurance programs as they are proposed, purchased and implemented.
- Statewide distribution of all immediately available expertise to county and local governing bodies in the form of guidelines, counseling, manuals, model specifications and related materials.
- A more competitive market for public insurance business.

With these primary goals in mind, the Commission decided to urge the implementation of its recommendations in two steps. The initial step consists of reforms the Commission feels can be implemented at once within the limits of present-day economic restraints on county and municipal governing bodies. The second-step program is essentially an enlargement of the initial reforms, but will require additional budget costs for more sophisticated and detailed procedures not required at the outset. A two-step reform plan reflects the Commission's belief that (1) immediate corrective action is necessary to eliminate abuses spawned by secret, politically partisan insurance transactions, but (2) immediately effective reforms cannot be implemented if they impose undue pressure on cap-law-limited county and municipal budgets.

Although its public hearings highlighted particularly the gross mishandling of commissions and fees paid to and shared among brokers and agents for self-serving or partisan gain, the Commission believes such abuses are -- as Chairman Arthur S. Lane observed -- "merely symptomatic of more fundamental weaknesses in the field of public insurance." Such fundamental weaknesses included:

- An absence of healthy competition for public insurance business, aggravated by the impact of cost increases on cap-law limitations on governmental spending.

- A lack of reliable loss experience data upon which public officials and brokers\* alike can project adequate coverage.

- The absence of incentives for assuring or improving the adequacy of whatever coverage is purchased.

- No mandated guidelines for the proper buying and efficient management of programs.

- No model specifications to help concerned officials resolve the special insurance problems of various types and sizes of public entities.

- No requirements that the advice of accredited insurance consultants or risk managers be sought and heeded.

These basic deficiencies in governmental insurance programs were unknown to most New Jersey taxpayers until the Commission's public hearings.

The hearings particularly confirmed that, in order for political favoritism and private greed to profit from the public insurance process, a shield of secrecy was essential to prevent embarrassment and censure; in turn, the same secrecy with which political horse-trading in commissions was conducted unfortunately enveloped the entire range of vital public insurance programming. Thus, lacking adequate public scrutiny, the practice of buying inadequate programs at excessive costs contrary to the public interest became a fixture in many governmental operations.

Therefore, the Commission's proposals concentrate first on eliminating the primary evil of conducting public business -- in this case, the public insurance business -- almost totally hidden from public view.

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\*Under the state insurance law, a licensed broker represents an insured and a licensed agent represents an insurer. Nonetheless, almost all licensed agents also are licensed brokers. Therefore, for purposes of easier readability, whenever the term "broker" is used in these recommendations, it will mean either a broker or an agent as circumstances may warrant.

- b. A locally designated insurance administrator shall prepare adequate specifications for insurance coverage preparatory to a public notice for proposals or bids. Specifications shall include, as appropriate, a listing of policies to be renewed, the time period of all policies, broker qualifications, duties of the broker and certified evidence of his ability to perform the contract. Specifications shall require the identification of any licensees who are to share in the principal broker's commissions and the duties of such sharing licensees.
- c. Public notice of intention to purchase or renew insurance programs shall be issued by formal resolution of a governing body at least 90 days prior to the date scheduled for the awarding of insurance contracts, and shall be re-issued not less than 30 days prior to the award of such contracts.
- d. A public legal notice of a governing body's intention to purchase or renew insurance or self-insurance coverage shall, at a minimum, list of synopsis of specifications, manner in which insurance is to be awarded, deadline for submission of bids or proposals, and the name of the governing body administrator to be contacted for further information.
- e. Contracts for insurance programs whether for commercial insurance, self-insurance or consulting services shall be ratified only at public meetings of county and municipal governing bodies. Copies of such contracts shall be retained by the governing body through its clerk or other designated insurance administrator and shall be available for public inspection at all times during the regular office hours of each such governing body.



- f. Public insurance contracts so ratified shall specify the dollar amount and conditions or terms of coverage for each particular insured risk, the premium cost for each item, the commission(s) that will accrue to the principal broker and sharing broker(s) for each item, and the service fee(s), if any, to be paid to the principal broker, and sharing broker(s), and the services to be required of each.

Comment

*The standard insurance policy issued by a broker is not alone sufficient as a contract between the broker and governing body. Such a contract must include additional provisions describing the duties and obligations owed by the broker to a municipality or county and in return those duties and obligations of the municipality or county to the broker.*

- g. The State Office shall require that the principal broker of a governing body file with that entity and the State Office a certified statement of the particulars of the insurance contract within 30 days of the award, including the names of the broker, the solicitor (if any), and any sharing brokers, a listing of policies, name(s) of the insurance company issuing each policy, the duties and responsibilities of the principal broker and any sharing brokers, and the amount of commission received by the principal broker, solicitor and/or sharing brokers. This statement shall be updated within seven days from the date of any change by addition or deletion in the certified statement. Changes shall include the addition of any sharing brokers. Within 30 days after the anniversary date of a contract, the principal broker shall stipulate in writing the individual amount of all fees received by the principal broker or sharing broker(s) arising from a governing body's insurance contract. This additional certification shall be filed with the governing body and the State Office. All filing required by this subsection (g) shall be public documents.

- h. The principal broker shall also be required to periodically provide the governing body any and all loss information, including the identification of the person or property injured or damaged, the nature and, if possible, the cause of such injury or damage, claims made and claims paid. The principal broker shall provide a cumulative list of loss data to the governing body with a copy to the State Office within 30 days after the anniversary date of each contract. All data required under this subsection shall be considered public data.
- i. The State Office shall require that every insurance contract that is approved by a municipality or county also be advertised within 30 days after such approval. The advertisement shall be a simple notice accompanied by an explanatory statement. The notice shall list the cost, principal broker, any sharing brokers, commission(s) to be paid by the broker to any sharing brokers and the duties and responsibilities of the principal broker and any sharing brokers.
- j. Each municipal or county governing body shall designate one person who is to be primarily responsible for that entity's insurance program, including compliance with requirements established by law or promulgated by regulation by the State Office of Insurance Management in connection with the purchase and administration of public insurance programs.
- k. Only agents, brokers, risk managers and consultants meeting the qualifications and having the approval of the Department of Insurance shall contract with a governing entity for or in connection with an insurance program.

Comment

Although certain subsections above specify that all filings and records are to be public documents, the Commission wishes to emphasize that, whether specified or not, all public insurance documents of any nature are to be available to public scrutiny during the regular business hours of any public official or entity responsible for maintaining such records.

IV. Monitoring and Coordination

A. The State Office of Public Insurance Management shall provide the following assistance with respect to the insurance programs of county and municipal governing bodies who contract for such programs and services:

1. Prepare and distribute model specifications for insurance coverage to governing bodies.
2. Issue guidelines listing (a) reasonable commissions, service fees, fees paid in lieu of commission for commercial insurance, or administrative fees for self-insurance to be earned by a broker of a self-insurance administrator on a governing body insurance contract, and (b) the duties and responsibilities required of a broker or self-insurance administrator in contracting with a governing body.

Comment

Guidelines issued under this recommendation especially concerning reasonable commissions or fees should be made in conjunction and cooperation with the Department of Insurance.

3. Advise and make written recommendations to local governing bodies concerning problems and improvements of their insurance programs and coverage.
4. Prescribe the risks to be covered by governing bodies and conduct studies of risks a governing body should cover, the amount of losses to be covered, and the manner of insuring a particular risk.

5. Issue regulations concerning the qualifications of county and local administrators of governmental insurance programs.
6. Prepare and update a manual dealing with the purchase and administration of governing body insurance programs which shall be made available to all governmental entities.
7. Arrange regional conferences on a regular basis with local insurance administrators in order to exchange information on governmental insurance purchasing and administrative practices and conduct seminars for the continuing education of governing body personnel responsible for public insurance programs.
8. Conduct studies concerning governmental insurance purchasing and administration, including pooling for insurance purposes.

Comment

*The eight powers and duties enumerated above would be more fully implemented as the second stage of the Commission recommendations come into effect.*

V. Self-Insurance

Comment

*The Commission's investigation and its public hearing witnesses produced facts demonstrating the advantages, in terms of cost savings and improved coverage, of self-insurance over commercial insurance in certain situations. The Commission's experts also noted the under-utilization of self-insurance by many governing bodies apparently eligible for such programs. Therefore the Commission makes these recommendations for expanding self-insurance coverage.*

A. The State Office of Public Insurance Management shall:

1. Conduct a study of self-insurance by governing bodies and recommend steps to be followed in purchasing and administering self-insurance programs.

2. Make recommendations to the Legislature concerning what laws should be enacted to regulate self-insurance as it applies to governing bodies.
- B. Pending completion of its self-insurance study and recommendations, the State Office of Public Insurance Management shall:
1. Encourage the use of self-insurance by governing bodies for any and all risks where self-insurance coverage appears appropriate and feasible.
  2. Issue guidelines on reasonable self-insurance service fees as well as the responsibilities of self-insurance administrators, prescribe limits for excess insurance, and conduct periodic seminars on self-insurance for municipal and county officers.
  3. Issue guidelines concerning the trust dedication of funds required for adequate self-insurance coverage by an affected county or municipality.

## VI. Department of Insurance

### Comment

*The following recommendations concern the accreditation of all individuals, partnerships, or corporations entitled to negotiate or sign public insurance contracts with governing bodies. Since the Department of Insurance presently licenses and otherwise generally regulates brokers, agents, solicitors and insurance companies, this additional function with respect to public insurance transactions would represent merely an extension of the Department's current responsibilities.*

### A. Licensure and Registration

1. The Department of Insurance shall qualify, approve and register all state-licensed insurance brokers, agents and/or solicitors who engage or plan to engage in the sale and servicing of public insurance contracts. Qualifications for applicants shall relate to an applicant's governmental experience, annual volume of public property and public casualty insurance writings, and evidence of ability to adequately service a policy.

2. The Department of Insurance shall qualify, approve and license all consultants, risk managers and self-insurance administrators who contract or plan to contract with governing bodies. Qualifications established by the Department shall relate to an applicant's governmental experience, volume of business and servicing capabilities.
3. All individuals, partnerships, firms or companies registered or licensed by the Department of Insurance as qualified to contract with governing bodies in connection with public insurance transactions shall submit certified statements to the Department and to the Office of Public Insurance Management disclosing all fees, commissions, shared fees and/or commissions and other compensation received as a result of the sale and/or servicing of any public insurance contracts on the first day of the sixth month after the effective date of such licensure or registration and every 12 months thereafter. Such disclosure shall be a public record.
4. The Department of Insurance shall produce and periodically update a registry of brokers, agents, solicitors, consultants, risk managers and self-insurance administrators who are qualified by registration or licensure for public insurance purposes. This list shall be provided to the Office of Public Insurance Management. All such licensed or registered individuals shall be required to pay a yearly licensure or registration fee to the department. Such a registry must be a public record.

## VII. Prohibited Practices

### A. Licensees and Registrants:

1. No member of any insurance advisory committee or similar agency appointed by a county or municipal governing body to assist in the maintaining of an insurance program shall receive any pecuniary benefit, directly or indirectly, as a result of the governing body's contractual decisions on insurance programs. Only state-licensed and state-registered individuals shall be appointed to such advisory committees.

2. No individual, partnership or corporation licensed or registered by the Department of Insurance for public insurance purposes shall make any contribution or gift to any political party or candidate for municipal, county or State Office if such licensee or registrant is receiving commissions, fees or any other compensation resulting from the sale of public insurance to any county or municipal governing body.
3. No principal broker or self-insurance administrator shall share commissions, service or other fees with any other broker, agent, individual, partnership or corporation on a governmental insurance account unless such sharing brokers are required by written agreement to render specific services and actually perform such required services.

B. County and Municipal Public Officials and Employees

1. No elected or appointed officer or employee, whether compensated or not, of a county or municipal public body or members of the families of such officers or employees, or any businesses in which such officers and/or employees have an interest, shall have any interest, financial or otherwise, directly or indirectly, in any contract for the purchase of insurance programs or services to be provided to the county or municipal public body with which such elected or appointed officers or employees are affiliated.

C. Penalties

1. Any violation of the above listed prohibited practices or any failure to comply with the requirements of section III of these recommendations shall be a crime of the fourth degree. Further, all convicted violators, in case of licensees and registrants, shall be subject to cancellation of their licenses and registrations, and any other penalties provided by the insurance laws of this State; and, in the case of elected or appointed public officers and employees, shall be subject to dismissal from office. All contracts that are in violation of any provisions of this statute shall be subject to cancellation and replacement by the affected governing bodies.

VIII. General Recommendations

- A. The Commission urges enactment of legislation similar to Assembly Bill No. 1047 (1979 term) to permit municipal governments to combine or pool for commercial or self-insurance purposes.
- B. The Commission urges the enactment of a County and Local Public Officials' Ethics and Financial Disclosure Law.
- C. The Commission urges enactment of Senate Bill No. 99, which would permit State-created public authorities to avoid insurance commissions by purchasing programs directly from insuring companies.\*

RECOMMENDATIONS -- Step Two

I. State Office of Public Insurance Management

A. Additional Regulatory and Supervisory Powers

- 1. The State Office shall require that every governmental insurance program be reviewed, audited and approved by a licensed and independent consultant or risk manager every three years. A report of this audit shall be filed as a public record with the governing body and forwarded to the State Office.
- 2. The State Office shall be empowered, as may be necessary, to contract with licensed insurance consulting firms to advise and otherwise assist in the fulfillment of State Office responsibilities.
- 3. The State Office shall enact additional regulations concerning the duties and responsibilities of a locally designated officer or administrator for insurance matters, in connection with the duties and operations of such local designee or office responsible for the purchase and administration of a governing body's insurance program.

\*See Atlantic City Expressway testimony, beginning on P. 222.



Comment

*The Commission envisions that either the Clerk or some other individual will be designated by the governing body of each county and municipality and in the case of larger governing bodies a separate and distinct person or office may be designated or established to handle all insurance matters on a full time basis.*

4. The State Office shall be empowered to assess county and municipal governing bodies an annual fee, depending on size, to be applied against its operational budget. Additional fees may be charged for specific or special services provided by the State Office to such governing bodies.

II. County and Municipal Offices of Public Insurance Management

Comment

*Based on the experience of an established State Office of Public Insurance Management, there should be established at the county and local levels, where appropriate, an office of professionally qualified personnel to administer a public entity's insurance program.*

A. Requirements of a County or Municipal Office of Public Insurance Management.

1. Maintain centralized records and files relative to insurance purchases and administration according to regulations promulgated by the State Office of Public Insurance Management.
2. Collect, maintain and update data on losses, claims made or paid, costs of policies, and inventories of governmental property.
3. Prepare and maintain annual reports listing the insurance policies, the cost of those policies, loss information and any other significant insurance facts which occur during the year, such as failure to insure a particular risk. A copy of such annual report shall be maintained as a public record by the county or municipal public insurance office for seven years.

4. Prepare specifications consistent with State Law and State Office regulations prior to the advertisement of any public insurance purchase or service contract.
5. Make available all pertinent information to assist insurers in the preparation of adequate proposals or bids for public insurance contracts.
6. Periodically consult with the principal broker concerning a governing body's insurance program to assure compliance with the specifications of a contract and with all regulations promulgated by the State Office of Public Insurance Management.
7. Operate a safety program, including analyses of losses and the use of preventative programs and standards designed to reduce any potential for loss or damage. The principal broker shall cooperate fully with such a safety program function.
8. Attend periodic training programs conducted by the State Office in order to update the administrator and staff of a county or municipal insurance office so far as advances, innovation and other aspects of public insurance purchase, service and programming are concerned.
9. Assure public access to and scrutiny of all data on the operations of a county or municipal Office of Public Insurance Management.

## APPENDIX



## DEFINITIONS

The following definitions are designed for the general reader of this report and do not incorporate all of the technical criteria that would be required for lawmaking purposes or for professionals in the insurance industry.

BROKER/AGENT -- As stated in a footnote on Page 353 of this report, a licensed broker represents an insured and a licensed agent represents an insurer. Since almost all licensed agents also are licensed brokers, the term "broker" has been used throughout this report for easier readability, with the understanding that the word applies to either a broker or an agent as circumstances warrant.

PRINCIPAL BROKER - An individual who has a direct contractual relationship with a governmental body for insurance purposes.

SHARING BROKER -- An individual who share the commission a principal broker earns on a governmental insurance contract as compensation for services required by the principal broker.

SOLICITOR -- A solicitor is an individual licensed by the State who obtains an insurance contract for a licensed broker. A solicitor is an employee of a licensed broker or agent.

SELF INSURANCE -- A program established in conformance with State law by a governmental body to insure itself by setting up a trust fund from which losses up to a designated amount will be paid out of the governmental body's own funds. An insurance policy should normally be purchased to protect against losses in excess of the designated self insurance limit. Example: A municipality agrees to insure itself against damage to its fire house up to a loss limit of \$25,000. For protection against losses above that limit, the municipality would purchase an insurance policy for indemnification against a specified loss in excess of the self-insurance amount of \$25,000.

RISK MANAGEMENT -- A method of planning to deal with potential losses by 1) identifying exposure to losses, 2) developing and implementing plans to deal with potential losses after they have been identified; and 3) regularly re-evaluating and updating the risk management program.

LOSS EXPERIENCE -- Losses which have been sustained by an insured person or entity over a period of time.

Commission -- Remuneration paid by insurance companies to brokers for the sale and service of insurance policies.

PREMIUM -- The payment or periodic payments an insured agrees to make in return for an insurance policy. This premium normally includes the broker's commission. The commission is normally a percentage of the total premium cost and usually fluctuates with the amount of the premium.

FEE -- An amount earned by the broker to sell and service an insurance policy that is a fixed sum to cover the cost of the service as opposed to a percent of the premium.

SPECIFICATIONS -- A detailed statement prepared by the governmental body describing the legal particulars of risks covered which must be included in any submission of an insurance proposal or bid by a broker.