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KIM GUADAGNO

Lt. Governor

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July 31, 2017

Via Email [agenova@genovaburns.com] and USPS Regular Mail

Angelo J. Genova, Esq. Genova Burns, LLC 30 Montgomery Street, 11<sup>th</sup> Floor Jersey City, New Jersey 07302

Re: Protest of Notice of Intent to Award

RFP# 16-X-24049: Enhanced Motor Vehicle Inspection/Maintenance System

Dear Mr. Genova:

This letter is in response to your correspondence of October 24, 2016, to the Division of Purchase and Property (Division) on behalf of Opus Inspection, Inc. (Opus) in which Opus protests the May 13, 2016, Notice of Intent to Award (NOI) a contract to SGS Testcom, Inc. (SGS Testcom) for solicitation #16-X-24049: Enhanced Motor Vehicle Inspection/Maintenance System. Opus alleges that SGS Testcom's "proposal was nonresponsive and misrepresentative of [SGS Testcom's] qualifications which thereby render the intended award to SGS Testcom materially flawed and legally void." See, Opus Protest, p. 1. Opus requests an in-person hearing with respect to this protest and further requests that the Division rescind the May 13, 2016, NOI and instead award the contract to Opus.

## **BACKGROUND**

By way of background, the subject Request for Proposal (RFP) was issued on December 21, 2015, by the Procurement Bureau (Bureau) on behalf of the New Jersey Motor Vehicle Commission (MVC) and the New Jersey Department of Environmental Protection (DEP). The purpose of the RFP was to solicit proposals to engage a contractor to implement a next generation motor vehicle inspection and maintenance system. RFP § 1.1 Purpose and Intent. It is the intent of the Division to award one contract to that responsible bidder whose proposal, conforming to the RFP, is most advantageous to the State, price and other factors considered. Ibid. On February 22, 2016, four proposals received by the submission deadline were opened by the Proposal Review Unit. All four proposals were forwarded to the Bureau and the Evaluation Committee (Committee) for review and evaluation consistent with the criteria set forth in the RFP § 6.7 Evaluation Criteria. Based upon that evaluation, on May 13, 2016, the Bureau issued the NOI advising all bidders that it was the State's intent to award a contract to SGS Testcom.

Subsequent to the issuance of the NOI, the Bureau received a request from Parsons Environment and Infrastructure Technology, Inc. (Parsons) for copies of the proposals submitted by the other bidders. The Bureau provided Parsons with over 3000 pages of information. The Bureau also provided Parsons with an exemption log identifying the pages that had been redacted and the specific reason for the redaction.

On June 30, 2016 Parsons requested that the Division stay the protest period which was set to expire on July 6, 2016. On July 5, 2016, the Division extended the protest period to July 8, 2016. Parsons did not file a protest by July 8, 2016. Instead, on July 7, 2016, Parsons filed an Application for Permission to File an Emergent Motion with the Superior Court of New Jersey - Appellate Division (Appellate Division) seeking a stay of the protest period. On the same date, the Appellate Division entered an order to stay the protest period.

On July 18, 2016, Parsons filed an Order to Show Cause Seeking Injunctive Relief under the Open Public Records Act (OPRA) and the Common Law Right of Access, in the Superior Court of New Jersey - Law Division (Law Division), naming the Division, SGS Testcom, OPUS and Applus Technologies, Inc. (Applus) as defendants.

On July 26, 2016, the Appellate Division issued an Order granting Parsons' Emergent Application for a stay of protest period until the earlier of (1) Law Division's Review and Denial of Parsons' request for release of documents, or (2) ten (10) days following the release of documents sought. See, Appellate Division July 26, 2016 Order.

On October 3, 2016 the Law Division denied Parsons' request for disclosure of bid proposal documents relating to the security measures and technical matters under OPRA and the common law. The Law Division ordered the Division to release the names of the SGS Testcom employees who were identified to work on SGS Testcom's State contract by October 21, 2016. See, Law Division's October 12, 2016 Order memorializing the court's October 3, 2016 decision. The names of the SGS Testcom employees were released to Parsons on October 7, 2016.

In accordance with the Appellate Division's July 26, 2016 Order, the protest period expired on October 24, 2016. On October 24, 2016, Opus and Parsons submitted their protests to the Division. On November 11, 2016, SGS submitted its response to the protests.

## **DISCUSSION**

In its protest, Opus alleges that SGS Testcom's proposal materially deviated from the requirements of the RFP and therefore SGS Testcom's proposal should have been rejected. See, Opus Protest. Specifically, Opus alleges that SGS Testcom's proposal was deficient in three (3) material respects:

(1) SGS Testcom failed to fully complete the Ownership Disclosure Form required to be submitted with its proposal; (2) SGS Testcom's proposal includes corporate financial data for its ultimate parent company but does not contained any corporate financial information for itself; and (3) SGS Testcom failed to disclose its corporate family's endeavors in Northern Ireland.

[Opus Protest, p. 9.]

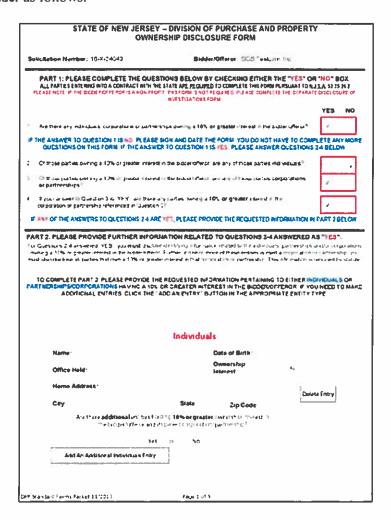
In addition to the alleged material deviations, Opus claims that SGS Testcom should not be awarded the subject contract because (1) SGS Testcom does not have the requisite experience noting that SGS Testcom's "proposal was deficient in that it failed to provide a comprehensive list of contracts similar in size and scope that it successfully completed as required by the RFP"; (2) SGS Testcom's proposal price and proposed labor ratio, when compared to that of the other bidders, indicate that it will be unable to perform the contract; (3) SGS Testcom's proposed timeline does not conform to the timeframes dictated by the RFP. See, Opus Protest, p. 14 - 19.

<sup>&</sup>lt;sup>1</sup> Parsons' protest is addressed in a separate Final Agency Decision.

Opus states that SGS Testcom's proposal is built on misrepresentations that were intended to mislead the Committee and requests an in-person hearing to discuss the issues raised in its protest. With respect to Opus' request for an in-person presentation to challenge the intended contract award, I note that pursuant to N.J.A.C. 17:12-3.3(d)(1), "[t]he Director has sole discretion to determine if an in-person presentation by the protester is necessary to reach an informed decision on the matter(s) of the protest. Inperson presentations are fact-finding for the benefit of the Director." Further, "[i]n cases where no inperson presentation is held, such review of the written record shall, in and of itself, constitute an informal hearing." N.J.A.C. 17:12-3.3(d). In consideration of Opus' protest, I have reviewed the record of this procurement, including the RFP, the proposals submitted, the Evaluation Committee report, the Bureau's Recommendation Report, the relevant statutes, regulations, case law, and the protest submitted by Opus. The issues raised in Opus' protest were sufficiently clear such that a review of the record of this procurement has provided me with the information necessary to determine the facts of this matter and to render an informed final agency decision on the merits of the protest submitted by Opus on the written record, as such an in-person hearing is not warranted.

In its protest, Opus first alleges that SGS Testcom submitted an inaccurate *Ownership Disclosure Form* which was a material deviation and rendered SGS Testcom's proposal nonresponsive. Specifically, Opus alleges that SGS Testcom did not list all of its corporate parents on its *Ownership Disclosure Form* as required; rather, SGS Testcom only listed its ultimate corporate parent company which does not comply with the requirements of the RFP or the ownership disclosure statute.

A review of SGS Testcom's submitted *Ownership Disclosure Form* (below) reveals that on page 1 of the *Ownership Disclosure Form*, SGS Testcom identified that there was an "individual" that owned more than 10% of the bidder as follows:



On page 2 of the form (below), SGS Testcom identified "SGS Group" as having a 100% ownership interest in the company.

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No other individuals or corporations were identified on the form or within the proposal as having an ownership interest in the bidder.

In its response to the Opus' protest, with respect to the ownership disclosure requirement, SGS Testcom noted:

SGS S.A. is the ultimate parent company of SGS Testcom. Opus is alleging [SGS Testcom] failed to disclose SGS North America Inc. SGS Testcom is a subsidiary of SGS North America Inc. While we believe the information provided fully complies with the disclosure requirements, to clarify SGS Testcom's corporate structure — SGS Testcom is wholly owned by SGS North America, Inc., which is wholly owned by SGS U.S. Holding Inc., which is wholly owned by the ultimate parent company, SGS S.A.

[SGS Testcom's November 11, 2016, response to the Opus' protest.]

Based upon SGS Testcom's response to the protest, it appears as though SGS Testcom's submitted Ownership Disclosure Form contained a material deviation.

It is firmly established in New Jersey that material conditions contained in bidding specifications may not be waived. Twp. of Hillside v. Sternin, 25 N.J. 317, 324 (1957). "If the non-compliance is substantial and thus non-waivable, the inquiry is over because the bid is non-conforming and a non-conforming bid is no bid at all." Twp. of River Vale v. Longo Constr. Co., 127 N.J. Super. 207, 222 (Law Div. 1974). The question to be answered is whether or not a bidder's failure to comply completely with the statutory ownership disclosure requirement is a material deviation which would render a bid nonresponsive. C&H Industrial Services. Inc. v. City of Vineland, 2014 N.J. Super Unpub. Lexis 1187, at \*13 (App. Div. May 23, 2014). In Meadowbrook Carting Co. v. Borough of Island Heights, 138 N.J. 307, 315 (1994), the New Jersey Supreme Court adopted the test set forth by the court in Twp. of River Vale v. Longo Constr. Co. for determining materiality. 127 N.J. Super. 207 (Law Div. 1974). "In River Vale, Judge Pressler declared that after identifying the existence of a deviation, the issue is whether a specific noncompliance constitutes a substantial [material] and hence non-waivable irregularity." In re Protest of Award of On-Line Games Prod. And Operation Servs. Contract, 279 N.J. Super. 566, 594 (App. Div. 1995), citing

<u>River Vale</u>, supra, 127 <u>N.J.</u> at 216. The <u>River Vale</u> court set forth a two-part test for determining whether a deviation is material:

First, whether the effect of a waiver would be to deprive the [government entity] of its assurance that the contract will be entered into, performed and guaranteed according to its specified requirements, and second, whether it is of such a nature that its waiver would adversely affect competitive bidding by placing a bidder in a position of advantage over other bidders or by otherwise undermining the necessary common standard of competition.

[River Vale, supra, 127 N.J. at 216.]

The subject solicitation required that bidders provide the complete ownership structure with the proposal as mandated by N.J.S.A. 52:25-24.2. At the time of proposal opening in February 2016, N.J.S.A. 52:25-24.2 stated:<sup>2</sup>

No corporation, partnership, or limited liability company shall be awarded any contract nor shall any agreement be entered into for the performance of any work or the furnishing of any materials or supplies, the cost of which is to be paid with or out of any public funds, by the State, or any county, municipality or school district, or any subsidiary or agency of the State, or of any county, municipality or school district, or by any authority, board, or commission which exercises governmental functions, unless prior to the receipt of the bid or accompanying the bid, of said corporation, said partnership, or said limited liability company there is submitted a statement setting forth the names and addresses of all stockholders in the corporation who own 10 percent or more of its stock, of any class, or of all individual partners in the partnership who own a 10 percent or greater interest therein, or of all members in the limited liability company who own a 10 percent or greater interest therein, as the case may be. If one or more such stockholder or partner or member is itself a corporation or partnership or limited liability company, the stockholders holding 10 percent or more of that corporation's stock, or the individual partners owning 10 percent or greater interest in that partnership, or the members owning 10 percent or greater interest in that limited liability company, as the case may be, shall also be listed. The disclosure shall be continued until names and addresses of every noncorporate stockholder, and individual partner, and member, exceeding the 10 percent ownership criteria established in this act, has been listed.

With respect to the submission of the *Ownership Disclosure Form* the RFP stated:

Pursuant to N.J.S.A. 52:25-24.2, in the event the bidder is a corporation, partnership or sole proprietorship, the bidder must complete and sign the attached Ownership Disclosure Form. A current completed Ownership Disclosure Form must be received prior to or accompany the submitted proposal. A bidder's failure to submit the completed and signed form with its proposal will result in the rejection of the proposal as non-responsive and preclude the award of a contract to said bidder unless the Division has on file a signed and accurate Ownership Disclosure Form dated and

<sup>&</sup>lt;sup>2</sup> In August 2016 N.J.S.A. 52:25-24.2 was amended to permit alternative sources of disclosure to comply with the statute; however, the statute was not retroactive.

received no more than six months prior to the proposal submission deadline for this procurement. If any ownership change has occurred within the last six months, a new Ownership Disclosure Form must be completed, signed and submitted with the proposal.

[RFP § 4.4.1.2.1, emphasis added.]

Further, the Ownership Disclosure Form itself requires that the bidder

must disclose identifying information related to the individuals, partnerships and/or corporations owning a 10% or greater interest in the bidder/offeror. Further, if one or more of these entities is itself a corporation or partnership, you must also disclose all parties that own a 10% or greater interest in that corporation or partnership. This information is required by statute.

[Emphasis in the original.]

In its consideration of Opus's protest, and in connection with its review of SGS Testcom's submitted *Ownership Disclosure Form* and SGS Testcom's response to the protest, on January 12, 2017 the Division's Hearing Unit wrote to SGS Testcom requesting further clarification regarding SGS Testcom's ownership structure as of the bid submission deadline. On January 13, 2017 and January 18, 2017, SGS Testcom wrote to the Hearing Unit stating: "SGS Testcom is wholly owned by SGS North America Inc., which is wholly owned by SGS U.S. Holding Inc., which is wholly owned by the ultimate parent company, SGS SA, which is publically traded on the Six Swiss Exchange." See, SGS Testcom's January 13, 2016 letter. Further, SGS Testcom advised that SGS SA is in part held by Groupe Bruxelles Lambert which has a 16.38% interest and the Von Finck Family which has a 15.03% interest in SGS SA. In its response SGS Testcom also referred to the 2015 Annual Report for SGS SA, which is available on SGS SA's website, and lists the following significant shareholders:

## SIGNIFICANT SHAREHOLDERS

As at 31 December 2015, Mr. August von Finck and members of his family acting in concert held 15.03%, Groupe Bruxelles Lambert acting through Serena SARL held 15.00%, the Bank of New York Mellon Corporation held 3.35%, BlackRock Inc. held 3.03% and MFS Investment Management held 3.01% of the share capital and voting rights of the Company. At the same date, SGS Group held 2.77% of the share capital of the Company.

[SGS SA's 2015 Annual Report, p. 3.]

Based upon the information submitted to the Hearing Unit in response to the protest, SGS Group<sup>3</sup> does not hold a 100% ownership interest in the bidder – SGS Testcom as indicated on the *Ownership Disclosure Form*. Rather, SGS Group, appears to hold only 2.77% interest in SGS SA.

<sup>&</sup>lt;sup>3</sup> I note that SGS SA's 2015 Annual Report suggests that SGS SA and SGS Group may be used interchangeably stating "SGS SA and its subsidiaries (the "Group") operate around the world under the name SGS". See, SGS SA's 2015 Annual Report, p. 138. However, the Annual Report also states "SGS SA (the "Company") is the ultimate parent company of SGS Group which owns and finances, either directly or indirectly, its subsidiaries and joint ventures throughout the world." See, SGS SA's 2015 Annual Report, p. 188. Therefore, even reviewing the Annual Report, SGS Testcom's corporate structure is unclear.

A review of SGS Testcom's proposal reveals that nowhere within its proposal did SGS Testcom fully describe its subsidiary relationships with SGS North America Inc. and SGS Group/SGS SA. The only references to SGS North America Inc. within the proposal are as follows:

- Testcom's subsidiary relationship enables us to leverage [SGS Testcom's] vast expertise and corporate support from the SGS North America corporate headquarters in East Rutherford, New Jersey while maintaining the flexibility and personalized customer care that is the signature of a smaller firm. See, SGS Testcom Proposal, Vol. 1, Section 3-Organizational Support and Experience, p. 1.
- All other suppliers are subject to SGS Automotive, SGS North America and SGS Geneva corporate supplier approval procedures. <u>See</u>, SGS Testcom Proposal, A.1.5 Quality Assurance (Q/A) Plan, p. A-28.
- This requires site selection and negotiation by SGS North America procurement, installation of leased lines, hardware, and software, and rerouting of the network. <u>See</u>, SGS Testcom Proposal, A.2.6 Business Continuity and Disaster Recovery Plan, p. A-10.

Moreover, nowhere within its proposal or *Ownership Disclosure Form* did SGS Testcom reference SGS U.S. Holding Inc., SGS SA, Groupe Bruxelles Lambert or the Von Finck Family. Additionally, SGS Testcom's corporate financial data for SGS Group, submitted with its proposal, included a consolidated income statement, consolidated balance sheet and consolidated statement of cash flows. Nothing contained within these documents detailed SGS Testcom, Inc.'s ownership structure, such that compliance with the statutory requirement could be gleaned from the SGS Testcom's submitted corporate financial data.

SGS Testcom did not include the 2015 Annual Report for SGS SA with its proposal; however, even if it had, the Annual Report alone, which was prepared for the ultimate parent company, does not fully address the ownership disclosure requirements of N.J.S.A. 52:25-24.2 for the bidder. In response to the Hearing Unit's clarification request, SGS Testcom admits that there are no public filings<sup>4</sup> which fully address the corporate ownership structure of the bidder.

We have done additional research, but have not been able to find any public documents outlining SGS's corporate structure from SGS Testcom, to the ultimate parent, SGS SA. SGS is a publically traded company and information about its corporate structure and ownership is in its annual reports, which are publically available on SGS's website at the following link, <a href="http://www.sgs.com/en/our-company/investor-relations/financial-reports">http://www.sgs.com/en/our-company/investor-relations/financial-reports</a>.

The New Jersey Courts have consistently held that strict compliance with the ownership disclosure requirements of N.J.S.A. 52:25-24.2 is necessary. As such, a proposal is properly rejected where it contains

To comply with this section, a bidder with any direct or indirect parent entity which is publicly traded may submit the name and address of each publicly traded entity and the name and address of each person that holds a 10 percent or greater beneficial interest in the publicly traded entity as of the last annual filing with the federal Securities and Exchange Commission or the foreign equivalent, and, if there is any person that holds a 10 percent or greater beneficial interest, also shall submit links to the websites containing the last annual filings with the federal Securities and Exchange Commission or the foreign equivalent and the relevant page numbers of the filings that contain the information on each person that holds a 10 percent or greater beneficial interest.

<sup>&</sup>lt;sup>4</sup> Subsequent to the bid submission deadline, on August 31, 2016 the New Jersey Legislature amended N.J.S.A. 52:25-24.2 to include the following language:

inaccurate ownership information. See, Impac, Inc. v. City of Paterson, 178 N.J. Super. 195, 200-01 (App. Div. 1981); Muirfield Const. Co., Inc. v. Essex County Imp. Authority, 336 N.J. Super. 126 (App. Div. 2000).

The Appellate Division has applied this well-settled law to a protest of another Division procurement. In the Matter of Protest of Scheduled Award of Term Contract T2813 RFP 12-X-22361 Laboratory Testing Service. Equine Drug Testing, Lexis 1698, at \*25 (App. Div. July 10, 2013) (Equine). In Equine, HFL Sport Science (HFL) submitted an Ownership Disclosure Form to the Division with its proposal which indicated that there were no individuals, corporations or partnerships having a 10% or greater interest in the company. Id. at \*2. However, its narrative proposal included a more involved ownership structure than set forth on the Ownership Disclosure Form. The Division sought clarification from HFL, which HFL provided, but the clarification would have acted as a supplement the bid documents, which is not permissible. Therefore, the Division ultimately found, and the Appellate Division affirmed, that the initial Ownership Disclosure Form provide by HFL did not conform to the requirements of the law and the additional information provided by HFL was an impermissible supplementation. Id. at 6, 18-19.

I further note that the matter before me can be distinguished from that matter before the court in, Schlumberger Industries, Inc. v. Borough of Avalon, 252 N.J. Super. 202 (App. Div. 1991). There, the Appellate Division recognized that a post-bid clarification could be permitted in limited circumstances. In Schlumberger, the bidder failed to list its full ownership structure with its proposal. The court concluded that the bidder was wholly-owned by a public company with the same name in its title; this fact was evidently known by the municipality that solicited the bids. Id. at 212-13. In Schlumberger, the municipality had engaged in negotiations with the bidder on a previous contract and the information regarding the bidder's ownership had been supplied to the municipality in connection with the earlier contract. Therefore, the municipality was aware of the bidder's ownership structure prior to the bid opening date. Id. at 207. However, the Court noted that "if there had been undisclosed shareholders holding 10% or more of the stock...the bid might be properly rejected." Id. at 212.

Here, the State has not had a prior contract with SGS Testcom; therefore, unlike the situation in <u>Schlumberger</u>, the Division did not have pre-bid knowledge or a record of SGS Testcom's ownership structure.

Based upon the relevant case law, I find that SGS Testcom's proposal contains a material deviation from the requirements of the solicitation making SGS Testcom's proposal nonresponsive. With respect to the River Vale factors, I note that "noncompliance with N.J.S.A. 52:25-24.2 deprives the [contracting entity] of its assurance that the contract will be entered in to performed and guaranteed according to its specified requirements" because the failure to fully disclose 10% owners deprive the contracting entity and the public of the information with which it can be made aware of the real parties in interest, identify conflicts of interest, and the information necessary to assess the capability, financial stability and moral integrity of the bidder. C&H, supra, Lexis 1187 at \*14-15; citing, George Harms, supra, 161 N.J. Super. at 372. Second, noncompliance with the statutory requirement "places the non-compliant bidder in a position of advantage over other bidders who might have bid on the project had they known they could avoid timely filing of the disclosure statement or that it would be waived." C&H, supra, Lexis 1187 at \*16; citing, Muirfield, supra, 336 N.J. Super. at 136-37.

Accordingly, I find that SGS Testcom is ineligible for a contract award. In light of the finding set forth above I need not address the remaining protest issues raised by Opus in its October 24, 2016 protest. In addition, I direct the Bureau to rescind the May 13, 2016, NOI indicating that a contract would be awarded to SGS Testcom, to review the other proposals submitted, and issue a new NOI as appropriate. This is my final agency decision with respect to the protest submitted by Opus.

Thank you for your company's continuing interest in doing business with the State of New Jersey and for registering your company with *NJSTART* at www.njstart.gov, the State of New Jersey's new eProcurement system.

Sincerely,

Maurice A Griffe Acting Director

MAG: RUD

c: M. Tagliaferri

J. Strype P. Hom

M. Cannon