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Offices of the Inspector General

The New York State Division of the Budget's Handling of Post-COVID-19 Reopening and Transformation Projects at the New York State Department of Motor Vehicles

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EXECUTIVE SUMMARY

In March 2020, many New York State agencies temporarily closed due to the COVID-19 pandemic, resulting in a disruption of government services while agencies struggled to adapt to an unprecedented and rapidly evolving work environment. Some agencies turned to consulting firms to assist with reopening and other pandemic-related projects, with several utilizing a contract between the New York State Division of the Budget (DOB) and Boston Consulting Group (BCG) that allowed DOB to offer BCG's consulting services to other State agencies for projects as the need arose. This arrangement was unlike most State contracts where the agency that holds the contract is also the client. Given this three-party arrangement, it was paramount that all parties were aware of project expectations, the client agency was actively involved in decision-making, consultant oversight was maintained, receipt of deliverables was ensured, and funding sources were determined.

However, when, at the direction of the Executive Chamber (Chamber), DOB engaged BCG to develop a plan to assist the New York State Department of Motor Vehicles (DMV) in reopening its COVID-shuttered doors, dealing with a backlog of transactions, and updating transactions and operations, DOB failed to implement these essential project oversight procedures.

In three projects between August 2020 through August 2021, BCG was tasked with providing strategy and guidance to DMV. The first project aimed to improve DMV's call center, expand its ability to complete transactions online, enable public-facing staff to work remotely, and reduce the backlog that had developed due to the shutdown. The second project sought to identify additional opportunities for online transactions and reduce in-person visits through a technology assessment and planning for a later "Transformation" of DMV's processes and online platforms. The third project was intended to build on the findings of the technology assessment by developing a plan to further update DMV's technology. Fourth and fifth projects, referred to collectively as "Transformation," never came to fruition. The goals of Transformation were to develop a roadmap to overhaul and build out DMV's technology and business operations, improve customer experience by expanding online services, and reduce the need for in-person visits.

While the first project was successful in terms of substantive outcomes—DMV began offering client services despite COVID restrictions—its execution established a pattern of procedural deficiencies that continued throughout the three projects. Most concerning was that DOB did not involve DMV in each project's Statement of Work (SOW), a standard project document that describes the work to be done and associated costs. Moreover, although the DOB-BCG contract required that project services, deliverables, outcomes, and costs be documented in a SOW "at the onset of each project," this did not occur. Instead, SOWs were executed by BCG and DOB retrospectively—*after* work on the project had been completed. In fact, the first project's SOW was executed weeks after the project ended and not provided to DMV until months later.

As for verifying that BCG delivered on the tasks it agreed to perform, DOB again fell short. DOB's engagement manager, who was assigned to review invoices to ensure receipt of deliverables in accordance with the SOWs, did so based largely on the documents provided by BCG regarding the services provided, without contacting DMV for verification of the same. DMV was not provided with an opportunity to review and approve the invoices on the first two projects, although it received BCG's invoice for the third project and provided mixed feedback to DOB.

In addition, although federal Coronavirus Relief Funds (CRF) had been used to pay the almost $11.5 million total bill for the first and second projects, when it came time to pay the $3.6 million due for the third project, DOB determined that CRF could not be tapped because the project was not directly connected to DMV's pandemic response, a necessary prerequisite for using these funds. Therefore, without prior notice to DMV, DOB determined that DMV would instead foot the bill.

Given that DMV was the ultimate client and the party with the most institutional knowledge, the fact that DOB did not consult them with respect to SOWs, decision-making, and the receipt of deliverables left some executives at DMV dissatisfied with BCG's and DOB's project management. It also led these same executives to question whether BCG had provided commensurate value for the $15 million in billables over its 13 months of work. When BCG and DOB then began drafting two SOWs for BCG to guide a set of Transformation projects at DMV

costing $24 million, DMV hit the brakes, with senior-level executives voicing their concerns to the Inspector General and the Chamber.

Subsequently, DMV scaled back BCG's involvement, and by December 2021 notified BCG that its work on Transformation was to cease. Currently, DMV is proceeding with Transformation on its own and has secured a $106 million budget item for this effort, which DMV, rather than DOB, is responsible for managing.

The Inspector General's investigation found that BCG was permitted to execute various projects without substantive input or oversight from DMV, the ultimate client of their work. DOB's engagement manager, the person primarily responsible for substantive oversight and ensuring that project deliverables had been received, did not meaningfully monitor the projects in any way. Additionally, DMV was not included in the drafting or review of SOWs on the first three projects, and did not have an opportunity to review invoices or confirm the listed deliverables had actually been received on the first two projects. At a minimum, DMV should have been involved in setting the scope of each project and verifying the receipt of deliverables. Moreover, BCG and DOB limited DMV's influence on the projects. Had DMV's input been sought, project goals and costs may have been better monitored, confusion over funding sources mitigated, and issues identified sooner. In the absence of meaningful input from DMV, DOB, in consultation with the Chamber, worked directly with BCG to determine DMV's needs and priorities and whether they were ultimately met and paid for.

Given these findings, the Inspector General recommends that DOB, to ensure sufficient and effective contract oversight in future instances where another State agency utilizes a contract held by DOB: (1) assign a liaison to work with a client agency to ensure the client agency is included in the development of SOWs and review of deliverables; (2) develop and execute SOWs at the outset of projects, before work begins; and (3) communicate to the client agency ahead of time if its budget may be tapped to cover the work. These recommendations are particularly important to follow in times of crisis when regular oversight procedures may be relaxed due to the need for expeditious action.

COMPLAINT AND BACKGROUND

On November 9, 2021, a then employee on DMV's executive staff alleged to the Inspector General that work done on DMV projects by BCG under a contract held by DOB lacked oversight and did not have pre-defined objectives, costs, or deliverables. The employee further alleged that BCG accepted little input from DMV, despite DMV's status as the actual client and primary stakeholder on the projects.

The BCG projects at DMV, of which two were never fully realized, included the following:

Project	Start Date	End Date	SOW Execution Date	Amount Billed (Fixed Price)
1. DMV COVID-19 Remediation (Phase 1)	8/24/2020	12/30/2020	1/8/2021	$6,954,880
2. DMV COVID-19 Remediation (Phase 2)	1/21/2021	5/13/2021	6/28/2021	$4,527,273
3. DMV Technology Design	5/10/2021	8/27/2021	8/23/2021	$3,616,995
4. DMV Operational Transformation (Phase 1)	10/4/2021	3/31/2022 (projected)	Not executed, 10/7/2021 draft SOW only.	$14,717,304 (projected)
5. DMV Technology Platform (Tranche 1)	10/4/2021	3/31/2022 (projected)	Not executed, 10/7/2021 draft SOW only.	$9,171,000 (projected)

DMV is responsible for vehicle registrations, driver licensing, maintenance of driving records, issuance of titles, and administration of license plates. For reference, in fiscal year 2023-24, it employed approximately 3,200 people and had an annual budget of approximately $477.6 million. DMV maintains offices throughout the State at which in-person transactions can be conducted and, in recent years, provides many customer transactions online, including learner permit tests, license and registration renewals, and address updates.

DOB administers and monitors State expenditures authorized by the State budget. This includes managing State agency and program budgets. As part of this process, it must weigh and consider competing demands on State resources in order to optimize taxpayer dollars. DOB also conducts and manages its own procurements and may allow other State agencies to use contracts it has negotiated with vendors.

BCG is a large global management consulting firm headquartered in Boston, Massachusetts. It maintains offices in over 50 countries, including one in New York City. As a consulting firm, BCG's typical work involves providing feedback and strategies to its clients to improve their efficiency and solve complex problems, as well as sometimes providing implementation support and project management services. BCG's practice areas include IT, marketing and sales, operations, organization, strategy, and transformation and turnaround. It has clients in both the private and public sectors.

A SOW, which describes a particular project and its requirements, is typically completed before work begins on a project, per standard contracting practices as described by witnesses. It includes a description of the work to be done, timelines, deliverables, costs, and payment terms. A SOW functions like a mini-contract and ensures that all parties, including the vendor and client, have a shared understanding of the work to be done by setting out clear expectations and delineating responsibilities. By facilitating greater understanding between the vendor and client and putting key details of a project in writing, SOWs help reduce the risk of disputes and promote cost control.

METHODOLOGY

The findings in the Inspector General's investigation were based on interviews of six DOB, two Chamber, and five DMV employees, including the head of DMV and other executive staff involved in the development, implementation, or fiscal management of BCG's projects at DMV. The Inspector General also reviewed relevant contracts, draft and final SOWs, emails, slide decks and slideshow presentations,[1] memoranda, meeting records, invoices, and deliverables.

[1] A slide deck differs from a slideshow in that it is often designed to be read alone, not as part of a presentation. Slide decks are commonly used in consulting. In the projects at issue, BCG provided its deliverables in the form of slide decks.

FINDINGS OF FACT

DOB and BCG Enter into a Contract for Consulting Services

In 2019, DOB issued a Request for Proposal (RFP)[2] for strategy and implementation services. According to the RFP, because of the State's complex duties and its responsibility to meet the needs of a diverse population, the State "require[d] services from world class strategic planning advisors to increase efficiencies, improve productivity and better serve the needs of its citizens." The RFP explained that selected consultants would be "called upon on an as-needed basis to advise the State on any one of its many responsibilities, including but not limited to, engaging in problem-solving with top leaders, helping define and execute visions, assisting in the translation of vision into real change, and implementing strategic plans."

After reviewing and evaluating proposals received from several vendors, DOB determined BCG's proposal provided the best value based on a combination of cost and technical factors and awarded BCG a primary consultant contract in August 2019.[3] As required by State Finance Law, the contract was also reviewed and approved by the New York State Attorney General and State Comptroller.[4]

The contract, which covered the period of August 15, 2019, through August 14, 2024, was a "standby" contract. Such contracts are not entered into for a specific project but rather require a vendor to provide services at pre-negotiated rates when needed by the contracting agency. State agencies may choose to enter standby contracts with consulting firms when they anticipate a regular need for consulting expertise and assistance. For instance, consultants may provide an outside perspective and expertise when identifying ways to streamline processes, contribute temporary extra support during transitions, or serve as project managers when significant changes or improvements are being made to State systems and processes. Here, the contract outlined possible items on which BCG could be asked to provide "advice, assistance,

[2] A request for proposal (RFP) announces a project, describes it, and solicits bids from contractors to complete it. New York State agencies regularly use RFPs to procure services through a competitive process. During this process, proposals are scored and evaluated based on cost and technical factors to determine which is the "best value."

[3] The contract provided for primary and secondary vendors, which is typical for consulting services. A secondary vendor is used for several reasons including the primary vendor's work capacity at a given time, the secondary vendor's special expertise, a primary vendor's conflicts of interest, and to avoid a disruption in services. The secondary vendor contract is awarded to the vendor scoring second highest when evaluated for best value. In this instance, the secondary vendor was Deloitte Consulting.

[4] The contract was approved by the Attorney General on August 19, 2019, and by the Comptroller on September 27, 2019.

guidance, or analysis," including "transforming or reengineering government business models and operations" and "supporting effective large-scale transformation and change management initiatives."

Per the contract, "at the onset of each project," BCG and DOB were supposed to "document in a Statement of Work (SOW) the required services to complete the project, deliverables to be developed and outcomes to be achieved, [and] project costs and payment structures." The acceptance criteria for deliverables were "substantial conformance to the requirements and descriptions set forth in any SOW." The contract contained a table with maximum hourly compensation rates for BCG personnel. The contract also gave DOB the option to "extend the terms and conditions related to the scope of services covered by [the contract] to any other state agency, public authority, or entities in New York."

The initial contract between DOB and BCG had a maximum amount "not-to-exceed" $32 million. It was increased in December 2020 to $109 million as a result of the COVID-19 public health emergency, several months after DOB began allowing State agencies in need of assistance with pandemic-related projects to utilize this contract, and again in June 2021 to $134 million.[5] Of this, up to $32 million could be used for "any Strategy and Implementation Advisory Services projects," while up to $102 million was earmarked for "COVID-19 related Strategy and Implementation Advisory Services projects."

DOB's Contract with BCG is Used to Assist DMV in Responding to Issues Arising Due to the Pandemic

In March 2020, DMV operations shut down and its interactions with the public ceased with the closing of all DMV offices due to the COVID-19 pandemic. Its motor vehicle representatives (MVRs), who staff DMV offices and assist the public with licenses, registrations, identification, testing, insurance, penalties, hearings, and related DMV programs, were unable to work in-person and did not have capabilities to work remotely. Because of this, clients could not make appointments or complete most transactions during this time. This led to a large backlog in license and registration applications and renewals, among other types of transactions.

[5] The contract amount was increased again after the DMV work at issue here concluded. As of the writing of this report, according to the New York State Comptroller's Open Book New York dashboard, more than $140 million has been spent on this contract, which now has a not-to-exceed amount of $177 million.

As many State agencies were similarly struggling, DOB began allowing them to use its contract with BCG to assist with reopening and adapting to the pandemic.[6] Between May and August 2020, at the direction of then Governor Andrew Cuomo's Executive Chamber,[7] DOB enlisted BCG to analyze what steps and resources would be required to reopen DMV and, particularly, how to address the backlog that had built up while DMV was shut down. In furtherance of this, BCG met with the Chamber and DOB on several occasions to present models and analyses of DMV's backlog. Then DOB Deputy Director Sandra Beattie was heavily involved in these discussions along with then DOB Deputy Director Charles R. Williams III. Patrick Ryan, a chief budget examiner who then served as the head of DOB's Transportation Unit, and then Deputy Secretary for Transportation Christopher O'Brien were also regularly present. BCG also proposed some solutions, including making changes to DMV's call centers, enabling MVRs to work remotely, and moving some transactions online. DMV was not represented at these meetings.

While DOB initially engaged BCG to *analyze* how to reopen DMV and deal with its backlog, BCG eventually proposed that it should also be engaged to *manage* the implementation of its proposed solutions. On August 18, 2020, BCG Principal John Rose urged Beattie to decide within "the next few days" whether to engage BCG to fix DMV's backlog issue. The same day, Beattie authorized BCG to begin crafting a SOW for its proposed work. Later in August 2020, BCG made a presentation to DMV executive staff regarding its plan for what it called DMV's "Transformation." BCG's work at DMV officially began on August 24, 2020.

According to numerous witnesses, the Chamber and DOB were responsible for both retaining BCG to assist with DMV's pandemic response and excluding DMV from early decision-making and planning conversations based on perceptions that DMV's executive staff had been incompetent in their handling of earlier initiatives and modernization projects. Thus, when discussions around reopening DMV began in summer 2020, the involved parties from DOB and the Chamber had little confidence in DMV's ability to address such a challenge.

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[6] For example, BCG assisted the New York State Department of Health in developing and rolling out Excelsior Pass, a mobile app that stored and verified New Yorkers' COVID-19 vaccination status. Between 2021 and 2023, 11.5 million New Yorkers used Excelsior Pass to show proof of vaccination or negative test to enter places like restaurants or entertainment venues.

[7] Due to witnesses' imperfect recollections and the large number of Chamber personnel involved, most witnesses referred to the "Chamber" as a collective.

O'Brien testified that Governor Cuomo told him around the time that DMV was planning to reopen that DMV's management "left something to be desired." Additionally, the Inspector General reviewed internal DOB emails discussing DMV reopening plans that reflected similar sentiments of distrust towards DMV. In an email dated August 28, 2020, discussing why DMV needed BCG to manage its reopening effort, Beattie wrote, "DMV has proven incapable of project managing." DOB Deputy Director Williams responded in agreement that DMV "has a management issue."

According to the former assistant secretary for transportation in the Chamber, DOB's and the Chamber's attitudes of distrust regarding DMV's ability to manage itself may have led to a mentality within BCG that DOB had hired them to "fix" DMV, and that "DMV was not to stand in their way." Distrust of DMV, in addition to the Chamber's need to remain apprised of major pandemic response projects, may also explain why the Chamber continued to be involved throughout the BCG-DMV engagement by having certain members—particularly the deputy and assistant secretaries for Transportation—attend periodic status update meetings with DOB, BCG, and eventually DMV.

The First Project: DMV COVID-19 Remediation (Phase 1)

During fall 2020, after the first project had commenced, DOB and BCG began drafting the first SOW, titled "DMV COVID-19 Remediation." The SOW included specific tasks and deliverables aimed at improving DMV's call center, expanding DMV's ability to intake and complete transactions online, and enabling MVRs to work remotely, all with the ultimate goal of reducing DMV's backlog. DOB, the Chamber, and BCG participated in meetings to discuss and develop the SOW beginning in late September 2020. On October 2, 2020, Jacob Luce, a then partner at BCG, emailed the draft SOW to DOB personnel—namely, Beattie, the assistant chief of the Legal and Procurement Unit (procurement assistant chief), and the director of procurement. Based on the then BCG partner's comments in this email and on interviews with DMV staff, it is clear that BCG drafted this SOW based only on conversations with DOB and without DMV's input or review. The director of procurement reviewed the SOW strictly to ensure that it was within the scope of DOB's contract, within budget, and contained reasonable terms. After DOB conducted its internal review of the SOW, DOB and BCG executed the SOW in early January 2021. Notably, the SOW was signed after the conclusion of the work it covered.

According to the finalized SOW, BCG completed its work over a four-month period from August 24, 2020, to December 30, 2020.

It is standard, expected practice in state contracting for a SOW to be completed prior to the beginning of the work, as opposed to during or after the work. Per DOB staff including the chief of DOB's Legal and Procurement Unit, this too was the regular practice at DOB. The order of operations is important because SOWs provide clarity on specific work to be done, roles and responsibilities of the vendor and client, and costs. During the BCG-DMV engagement, however, SOWs were regularly finalized only after the work was already substantially underway, and sometimes, as with this first SOW, after it was completed entirely. Per the chief of DOB's Legal and Procurement Unit, this meant that BCG was working "at risk" of not being paid.[8] Multiple DOB personnel advised the Inspector General that this was done because the pandemic created a need to quickly respond to new problems and changing circumstances during an emergency. Additionally, internal DOB emails suggest that BCG regularly started working on other projects under DOB's contract before SOWs were completed.

In emails to her staff and colleagues at DOB, Beattie expressed her desire for BCG's work at DMV to begin before the completion of the first SOW. In an email dated August 20, 2020, Beattie wrote to her staff inquiring about the status of the first SOW, noting, "Prefer to get some work streams started while we [finish the] SOW – consistent with other projects with BCG." This email suggests that it was regular practice for projects under DOB's contract with BCG to begin before SOWs were finalized and executed, despite the language in the contract stating that BCG and DOB were supposed to "document in a [SOW]" the required services, deliverables, and outcomes "at the onset of each project." While this practice did not directly lead to issues with this first SOW, it would contribute to problems with subsequent projects.

In addition to the SOW issues, DOB did not communicate with DMV about possible funding sources at the outset of the BCG-DMV engagement. According to DOB, a definite funding source need not be established at the outset of a project, but DOB would identify which funding sources could potentially be tapped to pay for the work. In this instance, DOB internally

[8] "At risk" work is a term used to mean work performed without the required contracting documents, such as SOWs, being executed. If a contractor works without a SOW in place, it may be at risk of not being paid. The contractor may still choose to work at risk with the expectation that a SOW will eventually be approved in good faith.

discussed issues of costs and funding sources from approximately late August through early September 2020. A loose plan was formed to use federal CRF to reimburse the work.

CRF was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and permitted state governments to receive payments to cover "necessary expenditures incurred due to the public health emergency with respect to COVID-19" between March 1, 2020, and December 31, 2022.[9] Governments were responsible for determining what expenditures were covered and were not required to submit proposed expenditures to the federal government for approval. At DOB, decisions about eligible expenditures were made by the executive team with assistance from a then chief budget examiner, who helped to manage DOB's CARES Act funds.

In internal emails in late August 2020, DOB staff discussed the ability to use CRF to cover the work in question, while noting that it could be difficult to find other funding sources if CRF could not be used. A chief budget examiner who had been designated by DOB as the engagement manager on BCG's projects at DMV (engagement manager), noted in an internal DOB email that, in his view, it was "imperative that costs related to [BCG-DMV] initiatives [be] CRF eligible." If some or all of the costs could not be reimbursed with CRF, the engagement manager wrote, DOB would need to revisit funding options because "DMV may not have enough available appropriation to front all of these costs in the first instance." DOB Deputy Director Williams, while expressing doubts about DMV's ability to cover the high costs proposed by BCG, opined that if CRF could be used, the costs would be acceptable. Beattie indicated that she wanted to green-light the smaller pieces of the proposed work right away and "loop back" on the larger, more expensive pieces.

Notwithstanding these procedural issues, the work done under this first SOW was largely successful at reopening DMV and reducing its backlog. Per the "Project Scope" as documented in the SOW, BCG helped implement a plan to address DMV's transactional backlog by providing "overall program management to achieve plan targets, design of specific interventions (e.g., website enhancements […]), and engineering support as needed." BCG assisted DMV with moving some transactions online, such as permit tests, revising DMV's call system and

[9] See https://home.treasury.gov/policy-issues/coronavirus/assistance-for-state-local-and-tribal-governments/coronavirus-relief-fund

improving call center operations, and enabling MVRs to work remotely. As an example of the success of this project, one DMV deputy commissioner testified that the project improved DMV's appointments system and reduced its backlog to the point that same-day appointments were made possible.

DOB's project engagement manager was responsible for acceptance of deliverables via his written approval. The acceptance criteria were "substantial conformance to the requirements and descriptions" of each task and deliverable as set forth in the SOW. According to the engagement manager, he volunteered to serve in this position during a call between BCG, DMV, and DOB. However, no one on the call explained what the role entailed, and the engagement manager did not ask. In fact, DOB's procurement assistant chief noted, "I didn't have a sense that [the engagement manager] didn't" understand his responsibilities as engagement manager. Although he would ultimately be listed as the engagement manager on each of the later SOWs, the engagement manager testified that he never clearly understood what his role as engagement manager meant. The engagement manager stated that he believed he was the main contact person at DOB, but he did not realize that he would be approving deliverables or invoices. It was also unclear to whom the engagement manager reported in this role, and there did not appear to be internal DOB oversight over whether he performed his engagement manager duties adequately.

After completion of work under the first SOW, BCG provided personnel in DOB's procurement office with a slide deck reflecting its deliverables. The procurement office conducted a preliminary review of the deliverables against the SOW to make sure that everything stipulated in the SOW had been provided. The slide deck was then sent to the engagement manager for his more in-depth review and approval. The engagement manager provided his approval without consulting anyone at DMV about whether they had received the deliverables or if they should be accepted.

According to DOB personnel, a point person at the agency for which the work is being done is typically involved in reviewing deliverables; however, in this case, no DMV employee was assigned this role, and the engagement manager did not attempt to remedy this by contacting DMV. Although the SOW did not require the engagement manager to confirm deliverable acceptance with DMV, DMV's lack of involvement in this process was problematic given that

the engagement manager was not in a position to know the day-to-day specifics of the work being done by BCG at DMV. This would later contribute to confusion and discord when the BCG-DMV relationship deteriorated.

On or about December 28, 2020, BCG invoiced DOB $6,954,880 for its work on the first project. According to the SOW, this was a fixed price based on hourly rates between $239 and $552 for 29 BCG professionals over a four-month engagement. Although evidence and testimony suggest DOB intended for this payment to be reimbursed through CRF, the decision of whether DOB or DMV would pay in the first instance was not made until the invoice was received. Payment was therefore delayed by internal DOB discussions on this issue. DOB eventually decided that it would pay in the first instance for all "COVID-19 related consulting invoices" where DOB was holding a contract being used by another agency. This guidance applied to the BCG-DMV project, as well as BCG's concurrent work at other agencies such as the New York State Department of Health. Following this decision and approval of the invoice by the engagement manager and the head of DOB's Finance Office, DOB paid the invoice on May 13, 2021, and was later reimbursed through CRF.

DMV Cancels an Ongoing Modernization Project Run by Another Contractor

While the first project was underway in fall 2020, conversations began between and among then DOB Director Robert Mujica, Beattie, BCG management, and then DOB Deputy Director Williams about expanding and extending BCG's engagement by replacing an ongoing DMV project run by another contractor with a new effort to be managed by BCG. Since 2016, DMV had been engaged with a different contractor on a project known as "DMV Modernization." The DMV Modernization project was intended to bring DMV's technology and capabilities up to date with customer expectations and DMV's needs.

By late 2020, some consensus had formed within DMV, the Chamber, and DOB that the DMV Modernization project was failing. In mid-September 2020, Beattie, in an email to Mujica and Williams advised that the ongoing DMV Modernization project was over budget by $48 million. She proposed that DMV, the New York State Office of Information Technology Services (ITS), and the Chamber "should reevaluate the DMV Modernization project and identify and scrap portions of the project no longer needed. For example, existing planned phases in DMV Modernization will be accelerated under the BCG work – for less money." She

added that BCG's analysis of DMV's COVID-related needs had "exposed bloat and waste" in the DMV Modernization project. Beattie had a similar conversation with BCG Principal John Rose around the same time.

In early November 2020, DOB, the Chamber, ITS, and DMV convened to discuss the status of the DMV Modernization project. Although not involved in this project, Rose, BCG Managing Director John Coyle, and other BCG employees attended this meeting. At this meeting, DMV outlined its performance concerns regarding the DMV Modernization contractor, including poor documentation, excessive State resource involvement, and "consistent struggles over basic contract terms and deliverables agreed to." DMV also noted that its priorities had changed with the pandemic. In its slideshow presentation at this meeting, DMV outlined "Next Steps," including that DMV "make a determination on the viability of the current contract" and "re-plan Modernization as part of a larger business transformation."

DMV then decided to terminate the ongoing DMV Modernization contract. DOB, the Chamber, and BCG reconvened on November 12, 2020, without DMV, to discuss the next steps. The slideshow presentation from this meeting outlined how DMV would terminate the DMV Modernization vendor contract and partner with BCG to "build on the success" of their earlier pandemic-focused work and engage in "long term DMV transformation planning" over the next six months. On November 30, 2020, DMV advised the Modernization contractor of its intent to terminate the contract, which subsequently occurred.

Planning Begins for a transformation[10] at DMV

Following the November 12, 2020, meeting, planning began for the new BCG-led effort, which BCG dubbed "transformation." The planning phase, which took place from mid-November 2020 through early January 2021, was characterized by several elements that would lead to problems later: lack of DMV input, undetermined costs, and lack of communication regarding funding sources.

Available project records suggest that DMV's participation in the planning phase was limited. Based on email communications between DOB, BCG, and DMV personnel, BCG took the lead by creating slideshows for update meetings with the Chamber and DOB on the topic of

[10] Confusingly, BCG called this planning work "transformation." Although distinct from this "transformation" planning, BCG would later name the work to be undertaken in the fourth and fifth projects "Transformation."

planning transformation. When DMV offered revisions to one such planning slideshow, a BCG team member criticized the revisions privately in a separate email to Beattie. Emails between Beattie and BCG suggest that Beattie, rather than anyone at DMV, was the main point of contact for BCG during the planning phase.

In email conversations, BCG answered Beattie's questions about the planned trajectory of the project and communicated its assessments of DMV's transformation needs directly to Beattie, who then relayed BCG's proposals almost verbatim to DMV Commissioner Mark J.F. Schroeder. For example, in a November 20, 2020, email, then BCG Partner Jacob Luce told Beattie that DMV needed a transformation plan and a technology assessment. Luce wrote:

> Think it would be a good outcome from today's conversation to have Budget establish the expectation that in two weeks you'd like to see what the new transformation plan will address, what the path is over ~8-12 weeks to build that plan, what resources are required, and what the interim check-ins/decision points with [DOB]/Chamber will be . . . We'd think that by 12/30 a high-level [technology] assessment could be completed which would identify the main painpoints [sic] in the current set-up, what the future architecture might look like, and the initial/highest priority steps to take."

Later that same day, Beattie emailed Schroeder, instructing him on the next steps for DMV:

> We need to see a plan in two weeks that specifically addresses what the new transformation plan will address, what the path is over ~8-12 weeks to build that plan, milestones, actions, what resources are required, and what the interim check-ins/decision points with [DOB]/Chamber will be. This should also include a high-level technology assessment to be completed by 12/30 a high-level assessment could be completed [sic] which would identify the main pain points in the current set-up, what future architecture might look like, and the initial/highest priority steps to take."

Schroeder informed the Inspector General that he made no suggestions of his own to Beattie about how to transform DMV. He stated that he was aware of Beattie's opinions about what she saw as DMV's past failures, including the canceled DMV Modernization project, and about how transformation should proceed, and was "certain that she imparted those words and concepts and theories to BCG."

In addition to the lack of DMV input, this planning phase was characterized by vague and uncertain cost estimates—a pattern that would continue and prove problematic in later projects. In late December 2020, DOB meeting materials for a budget-making session mentioned the new

DMV transformation initiative and noted that its costs were undetermined. In mid-January 2021, however, Rose sent Beattie cost estimates for the transformation work, including $3.8 million for "overall transformation planning" and $700,000 for a four-week "technology assessment." Rose's estimated total of $4.5 million for these two proposals accurately reflected what would ultimately be memorialized in the SOW for this work, although, as will be discussed in the next section, that SOW was not finalized until June of 2021.

The Second Project: DMV COVID-19 Remediation (Phase 2)

The second project, DMV COVID-19 Remediation (Phase 2), began on January 21, 2021, according to the SOW that was later drafted and finalized for this work. Per the SOW's Project Scope, BCG was to "build on immediate COVID-19 remediation efforts in Phase 1 to identify additional opportunities for DMV to expand remote service delivery and reduce the need for in-person transactions" and "assess technological challenges hindering current and future ability to address the transaction backlog and shift transaction away from in-person visits." This second project involved two tasks—Technology Assessment and Transformation Planning—under one SOW.

The Technology Assessment task was specifically described in the second SOW and included concrete deliverables. Per the SOW, the assessment would identify "technical pain points" and areas for improvement and develop recommendations over the course of four weeks. BCG conducted the assessment through the month of February 2021 and presented its findings with DMV to DOB and the Chamber on March 3, 2021.

The Transformation Planning task aimed to develop a comprehensive strategy plan for DMV transformation. However, despite discussion during the earlier planning phase about the need for a transformation plan, the second SOW was unclear as to what DMV programs were to be "transformed." Rather, it listed vague and general planned activities including "gather fact base," "establish overall financial and operational goals," "create options and recommendations to achieve goals," and "finalize Transformation plan." This lack of specificity, which served to frustrate subsequent investigative attempts at verification, is particularly inexplicable given that the SOW was executed on June 28, 2021, over a month after the work on this project had been completed on May 13, 2021, making it straightforward for BCG to plainly state what it had accomplished.

Interviews with DMV personnel and review of relevant documents suggest that BCG developed the tasks for this second project based on what it independently identified as DMV's needs. Beattie may have given some input, but she largely followed BCG's lead. DMV staff, meanwhile, were divided over what DMV's actual needs and priorities were and whether the specific items BCG proposed were truly necessary. Some DMV staff were frustrated and felt that BCG was not considering DMV's input. BCG staff, for their part, seemed frustrated by what they perceived to be DMV's unwillingness to change. This dynamic continued to worsen throughout the projects.

Taken together, the second SOW, emails, and other evidence reflect that the second project work was driven by BCG. Like the first SOW, this second SOW was not executed until after the work was completed, this time, more than six weeks later. Contrary to best practices, the contracting parties did not agree in advance about the precise scope of the work to be done and its cost. Thus, the State lacked full transparency into what services were to be provided. And, also like the first project, this SOW was not provided to DMV for its input, review, or consideration.

On or about June 30, 2021, BCG invoiced DOB $4,527,273 for its work under the second SOW. According to the SOW, this fixed price was based on hourly rates between $239 and $552 for 34 BCG professionals. The engagement manager was sent the deliverables along with a copy of the SOW, which he reviewed in conjunction with meetings with BCG. On September 22, 2021, he approved the invoice, again without contacting DMV to confirm that it had in fact received the deliverables. DOB paid the invoice on October 25, 2021, and was later reimbursed through CRF.

As part of its investigation, the Inspector General attempted to independently confirm the receipt of the deliverables related to the second project by comparing the June 30, 2021, slide deck with the June 28, 2021, SOW, and was partially unable to do so. While acknowledging that additional information may have been provided by BCG in contemporaneous meetings with DOB, OIG, utilizing exclusively the documentation provided to DOB, was only able to verify the receipt of approximately two-thirds of the project tasks/sub-tasks listed in the SOW for this project. As for the remaining third of tasks/sub-tasks, the Inspector General was unable to conclude from the records obtained if these tasks/sub-tasks had been completed.

The Third Project: DMV Technology Design

Following the completion of the Technology Assessment in March 2021, BCG began preparing for a third DMV project, the Technology Design Project, that would build on the findings and results of the assessment by developing a plan to further modernize DMV's technology. This was considered to be part of the overarching "transformation planning" effort. In furtherance of this, BCG and DMV began providing weekly updates on technology-related work to DOB and the Chamber. BCG did most of the reporting at these meetings, which continued throughout the duration of BCG's engagement at DMV.

During preparation for this third project, the engagement manager emailed Beattie advising that then DOB Deputy Director Williams had requested that the engagement manager estimate the cost of the planned upcoming technology work. According to the engagement manager's email, Williams was unsure whether the technology work would be eligible for CRF and did not want to approve it unless the total cost and funding source could be established. Beattie responded that "the entire project need[ed] to be green lighted to remain on track" and gave the engagement manager permission to ask BCG for estimated costs for the next phase. While it is unknown whether the engagement manager obtained these estimates, the work nonetheless began—based on the Inspector General's witness interviews and review of emails—without anyone in DOB communicating to DMV that DMV might be required to pay for the work if DOB later determined that it was not CRF-reimbursable.

The SOW for the third project was executed by the DOB procurement assistant chief and Rose on August 23, 2021, four days before the end of the project. According to the SOW, the third project had begun on May 10, 2021, and its scope had been for BCG to build on its previous projects to "design a future state technology platform capable of supporting DMV's transformation into an 'online-first' organization, enabling customers to complete transactions remotely and reduce reliance on in-office transactions." The fixed price for this work was set at $3,616,995, based on hourly rates between $239 and $552 for 26 BCG professionals and an estimated 10,140 total hours of work.

In designing a next generation DMV platform, BCG's tasks included drafting architecture for accelerating DMV's business needs (e.g., providing MVRs with comprehensive views of customers' past transactions); developing plans to integrate legacy systems with new platforms;

inventorying platform tools, technologies, and solutions that would need to be procured; and creating a governance model that delineated the roles of DMV, ITS, and third party partners (e.g., BCG) in overseeing implementation of this new platform, among other tasks.

On or about October 1, 2021, BCG invoiced DOB for this work. DOB then provided the engagement manager with a copy of the invoice and SOW along with a slide deck reflecting the deliverables on November 10, 2021, for his approval. On December 2, 2021, again without him having any conversation with DMV, the engagement manager approved the deliverables and invoice. However, unlike the prior projects, in this instance DMV had an opportunity to review the deliverables, although witnesses could not clarify, and records obtained do not demonstrate who initiated this review or when it occurred. The DMV technology transformation team leader received a copy of the invoice, and she and her team provided DOB feedback on the deliverables BCG had submitted to DOB for approval. The DMV team's feedback noted items that they believed lacked clarity and areas where matters were left undetermined.

The Inspector General's review of records provided by DOB on this third project revealed that BCG submitted documentation supporting the completion of almost all tasks.[11] However, the Inspector General was unable to fully determine from the records obtained whether the deliverables provided by BCG were adequate.

Following the December 2, 2021, approval by the engagement manager, DOB paid the invoice on January 5, 2022, after all required approvals were provided. Unlike the first two projects, however, this work was not ultimately reimbursed with CRF—because DOB determined that the work did not qualify as a necessary expenditure incurred due to the pandemic, as CRF required. Therefore, DMV was required to pay for the work. Per the State's prompt payment law, once an invoice is received and the deliverables are accepted, the payment must be processed within 30 days to avoid interest.[12] DMV was not going to be able to process payment within that timeframe, so DOB processed payment and later completed a general ledger journal entry in the Statewide Financial System to move the expense to DMV. In other words, the Technology Design work was paid for with DMV's existing budgetary resources.

[11] One task, the identification of systems for decommissioning, which was not supported by BCG documentation, had been listed by BCG as "deprioritized."

[12] Per New York State Finance Law §179-f, the State is required to pay eligible vendors promptly (within 30 days for most vendors or 15 days for qualified Small Business vendors). Otherwise, the vendor may be entitled to interest.

DMV and BCG Prepare to Launch "Transformation" – the Fourth and Fifth DMV Projects

According to the SOWs for the fourth and fifth projects, work on implementing "Transformation" would begin in October 2021.[13] However, BCG was by all accounts involved in some Transformation preparation work during summer 2021 although that work was not explicitly reflected in any previous or subsequent SOW that was drafted or executed. Also during this time, BCG, together with DMV, provided bi-weekly progress updates to DOB and Chamber on topics related to implementing Transformation.

When the DOB procurement assistant chief learned that BCG was working "at risk" at DMV without any SOW in place during this time, he raised the issue with Beattie. On September 22, 2021, the procurement assistant chief wrote to Beattie, "BCG is not currently working under any active SOWs," pointing out that their DMV SOWs had "expired." The procurement assistant chief expressed a desire to discuss with her "what, if anything, should continue" regarding BCG's work at DMV. Based on the Inspector General's review of Beattie's emails, Beattie did not respond via email to his concerns, and the matter was left unresolved.

Early discussions around the budget for implementing Transformation were vague and left some key details undetermined. Based on virtual calendar invitations and emails, a few meetings and discussions occurred in September 2021 during which the budget for Transformation was discussed. Available meeting records indicate that the cost of BCG personnel for Transformation was not concretely determined at this stage.

In late September 2021, DMV and BCG presented a slideshow to DOB titled "DMV Transformation DOB Update." The slides contained estimates of personnel costs for the next six months of Transformation, including current DMV staff, ITS staff, and third-party contractors, but no estimate was provided for BCG personnel—those costs were listed as being covered under an "existing Budget contract," presumably referring to the overarching standby contract between BCG and DOB. However, the slides made no reference to the ultimate source of funds for that work, and DOB and DMV did not discuss the specific funding source for Transformation.

[13] Of note, the SOWs for the fourth and fifth projects were drafted only after work began and were never executed.

For his part, Commissioner Schroeder was content to leave budget details up to DOB and BCG. Asked who was "watching the meter" on the projects and monitoring BCG, Schroeder testified, "I felt no responsibility to it, and I still don't." Schroeder stated, "That was done with BCG and John Rose . . . and DOB." Schroeder explained that while he was dealing with the challenges of DMV's COVID-19 response, he was happy to accept all the help he could get: "I'm in the middle of this COVID thing, and we have to kind of reopen. And so anybody who can help me along the way, I'm good with it." The lack of explicit communication between DOB and DMV as to the funding source for Transformation may have fed into an assumption by DMV that DOB would manage the payment for this work as it had done for the earlier CRF-eligible work.

DMV and BCG Establish a Dysfunctional Project Management Structure for Transformation

As part of preparing to implement Transformation, Schroeder along with BCG Principal John Rose and Managing Director John Coyle, the two leads on the project, established a project management structure that set out which DMV and BCG personnel would lead and work on various aspects of the project. Although the project management structure for Transformation reserved a place for DMV leadership, personality conflicts within DMV would ultimately result in ineffective internal DMV oversight of Transformation.

Commissioner Schroeder named then DMV Executive Deputy Commissioner Leslie Brennan and Coyle as the official "co-chairs" of Transformation at the end of May 2021. Schroeder clashed with Brennan, however, and he soon began making escalating attempts to limit her influence and input on the project. Throughout summer 2021, Schroeder attempted to remove Brennan from Transformation. Schroeder repeatedly complained about Brennan via email to members of the Chamber, particularly to the then assistant secretary for transportation, who had previously worked at DMV as a deputy commissioner from October 2020 to March 2021, and the then deputy director of state operations. The then assistant secretary for transportation testified that she and the then deputy director of state operations informed Schroeder on multiple occasions that they would not support his attempts to remove Brennan from Transformation, as they believed it would be "disrespectful" to Brennan and unlikely to benefit DMV or the Transformation project. Schroeder ultimately deferred to the Chamber, so Brennan remained as the DMV co-chair of Transformation. However, Brennan testified that she

did not feel in control of the work and that she had to "fight" to represent DMV. Meanwhile, Schroeder maintained a close working relationship with Coyle and prioritized Coyle's input and perspectives over Brennan's. This dynamic between Brennan, Schroeder, and BCG contributed to a lack of internal DMV influence and oversight of BCG's work on Transformation.

DMV Transformation Begins

While DMV Transformation officially launched on October 4, 2021, once again, no SOW was in place prior to the start of this work. This time, the lack of an executed SOW caused significant problems, because the specifics of BCG's work during this time are disputed. Based on interviews and a review of virtual calendar invitations, DMV and BCG continued to meet with DOB and the Chamber on a regular basis to present on their progress. However, as will be discussed in later sections of this report, DMV ultimately refused to accept or pay for any work BCG claimed it had done on Transformation.

The bulk of available information as to what BCG planned to do during Transformation is contained in a pair of draft SOWs that were never executed, and which DMV had no hand in drafting. Relevant documents, emails, and witness testimony suggest that BCG and Beattie drafted two SOWs to cover the work in progress, without the participation or knowledge of DMV or the rest of DOB. One draft SOW titled "DMV Operational Transformation" purported to cover the business side of Transformation, and a second draft SOW titled "DMV Technology Platform" purported to cover the technology side.

The Operational Transformation draft SOW, dated October 7, 2021, purports to cover work between October 4, 2021, and March 31, 2022. The draft SOW stated, "BCG will build on prior COVID-19 Remediation efforts to implement additional opportunities for DMV to reduce the need for in-person transactions by eliminating touchpoints ('Hiding the headache'), expanding use of partners and remote service delivery ('Going to the customer'), and ensuring reservation availability and 1st time customer success for transactions that do take place in person ('One and done')." The draft outlined three planned "phases" that would cover six months each. For the first phase, the draft included such tasks as redesigning processes and "standing up internal enablers" related to REAL ID and vehicle registration; expanding the role of partners; making more services available through a customer contact and outreach center; launching a DMV "test store"; and improving access and retail experience, among other tasks. The price for

this work was set at $14,717,304. No tasks, deliverables, or price terms were provided for the second or third phases; instead, the draft SOW stated that those items would be decided during or after the first phase.

The parallel draft SOW for the Technology Platform was also dated October 7, 2021, and covered the same period from October 4, 2021, to March 31, 2022. The Project Scope was identical to that in the Operational Transformation draft SOW, with an additional paragraph stating, "BCG will lead a tech platform transformation to build new technology and build new capabilities to enable digital solutions DMV will use to deliver objectives of operations transformation." The draft outlined four "tranches" of work. According to the draft, "tranche 1" would "focus on establishing the foundational pre-requisites to enable the DMV transformation."

The draft listed numerous tasks and deliverables to "support the implementation of foundational pre-requisites to enable the transformation and standing up DMV's future technology platform." These included establishing, inventorying, and assessing business requirements for software tools to improve processes, among other tasks. The price for this work was set at $9,171,000. This pricing was based on hourly rates for BCG personnel of different titles. However, the first page of the draft noted that BCG had not yet identified all of the specific people who would perform the work. Like the Operational Transformation draft, the Technology Platform draft did not list any tasks, deliverables, or price terms for the later tranches and instead stated that these would be decided during or after the first tranche.

In summary, both draft SOWs were unclear as to the specific work BCG was to perform. Additionally, prices were left undetermined for later planned phases and tranches. According to the draft SOWs, the engagement manager would again hold the position of engagement manager for projects four and five. However, the engagement manager may not have been aware that his name was on these drafts until after the DOB procurement assistant chief brought it to his attention in early November 2021, as discussed further below. The procurement assistant chief testified that no one at DOB had been officially assigned the engagement manager role for these projects because the SOWs had not been executed or signed.

DMV's Then Deputy Commissioner/Counsel Voices Concerns About BCG's Work

Around the same time that Transformation began in early October 2021, then DMV Deputy Commissioner and Counsel Timothy Lennon expressed his concerns about BCG's work to Schroeder and the then assistant secretary for transportation. In critical commentary on BCG's work to date with DMV, Lennon wrote, in part:

> In my experience, all state vendors need close oversight to avoid them from taking advantage of the taxpayer.
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> At some point a few months ago, I saw a BCG PowerPoint showing their transformation progress to date at some milestone, perhaps after about a year working with DMV. In my opinion, the presentation boiled down to "improve everything," without detail or a strategic selection of things that we could focus on, but lots of consultant jargon. One page listed 12 things that DMV should improve that ought to have been obvious to anyone. At about that time, I heard that DOB was asking if DMV had $7m on hand to pay BCG.
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> BCG is not overseen by DMV, as DOB holds the contract.
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> DMV does not see what is paid for the transformation project consulting, what the invoices look like, how much is paid. A better internal control would have the entity paying the bills understand exactly what the vendor is or is not doing on a continual basis to live up to contractual obligations and ensure value for what is paid.
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> * * *
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> In my opinion, critical questions of BCG are suppressed and discouraged.
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> In my opinion, BCG is directing DMV, they do not take direction from DMV. They decide how we are transforming.
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> * * *
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> If we stood back and did an objective assessment of what successes have come from the initiative, what was actually accomplished, I am not sure what would be listed.

Some of Lennon's complaints were echoed by Brennan, who complained to the then assistant secretary for transportation around this time that BCG was not adding any value to DMV.

DOB and DMV Learn of Two Draft SOWs for Transformation for the First Time

As the Transformation work officially got up and running in October 2021, based on emails and witness testimony, BCG and Beattie drafted the two Transformation SOWs discussed above (DMV Operational Transformation and DMV Technology Platform) to cover the work in progress. BCG and Beattie did this without the participation or knowledge of DMV staff or others at DOB, who did not see or learn about the draft SOWs until later in the fall. The DOB procurement assistant chief stated that he and his team, whose primary focus was DOB's procurement and contracts management, saw the two draft Transformation SOWs for the first time in early November 2021, about a month after the work started. This was the first time they learned of the Transformation work being performed under these unexecuted SOWs. The procurement assistant chief's team then contacted the engagement manager's unit about their awareness of the Transformation work encompassed in the draft SOWs, but according to the procurement assistant chief, the engagement manager's unit had "limited knowledge." The procurement assistant chief testified that he believed the engagement manager was "just as in the dark as we were."

On or about November 5, 2021, the DOB procurement assistant chief notified DMV that there would be insufficient funds under the contract to cover the work in the two draft SOWs, due to costs approaching the "not-to-exceed" maximum amount of the overall DOB-BCG contract, which other State agencies were also using. At this point, the engagement manager sent the two draft SOWs to DMV. Based on witness interviews and a review of all relevant documents, the Inspector General determined that this was the first time anyone at DMV saw a SOW for *any* of the BCG-DMV projects.

The DOB procurement assistant chief then instructed DMV to review the two draft Transformation SOWs and reduce their scope in order to reduce costs. However, DMV did not know how much the various parts of the Transformation work cost, so it struggled to figure out what to remove to reduce the cost to an acceptable number. Back and forth communications ensued between DMV and DOB, with DMV attempting to obtain more information about the SOWs and DOB responding that DMV should speak to BCG or whoever was managing the project at DMV.

When Brennan and then DMV Deputy Commissioner Gregory Kline asked DOB to share information about any costs incurred since Transformation began on October 6, 2021, the DOB procurement assistant chief advised them to "coordinate with the DMV staff that are currently managing this project. To be clear, this is a DMV project and any work being completed would be overseen by, and at the direction of, DMV staff." Kline responded that DMV did not have any detailed information about costs and asked if DMV could request billing information directly from BCG. The procurement assistant chief reiterated, "Those directing the work and project managing the day-to-day activities should be able to provide you with a sense of what has been done to date. I assume there is someone at DMV who is directly interacting with a BCG lead and has this understanding." These discussions about how to reduce the scopes of the draft SOWs thus revealed confusion at both agencies about who had overseen the work up to that point.

Issues Escalate and DMV Discontinues BCG's Projects

DMV executive staff were dismayed by the revelation of the two draft Transformation SOWs, as they had no role in drafting them and might never have seen them if not for the contract ceiling issue. As a result, DMV executive staff became increasingly vocal in their complaints about BCG. After being provided with the two draft Transformation SOWs, in early November 2021, Kline wrote an internal memorandum, which he shared with Brennan and most of the DMV deputy commissioners. In the memorandum, Kline described what he saw as problems with BCG, which included the lack of DMV involvement in SOW and invoice review, the high costs of BCG's services, a lack of specific and clearly defined deliverables, and overall concerns that BCG's services were not a good value for the State. In pertinent part, Kline wrote:

> The fact that DMV has not been involved in reviewing previous SOWs and has not been involved in reviewing whether performance requirements have been met prior to payments being made for work performed under those SOWs is a highly unconventional approach that is not in alignment with basic internal controls or best practices for managing government resources.
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> * * *
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> When incurring such [high] costs, DMV's management team must evaluate the value proposition to ensure that [the] state is getting its money's worth. That process would normally require getting feedback on the proposal from DMV's senior management team and having our Contracts and Legal units properly evaluate the proposal. That has not happened with previous BCG engagements.

> In fact, BCG has seemingly taken special efforts to cloak the process from inquiring DMV employees, putting off previous requests to see the SOWs they have developed with Budget.

On November 9, 2021, a then senior DMV official alleged to the Inspector General vendor improprieties and irregularities on BCG's projects for DMV. Shortly thereafter, DMV's deputy commissioners and the DMV technology transformation lead completed a memorandum entitled "Value Proposition for Current Transformation Support," which reported on the group's discussions about the value of continuing BCG's support of Transformation efforts. On November 19, 2021, the deputy commissioners presented their memorandum to the Chamber, arguing that the BCG-DMV relationship was not working and proposing how DMV could take over the work being done by BCG. The memorandum stated, in part:

> It is the consensus opinion of [a group of senior DMV leaders] that BCG does not offer sufficient value to either DMV or New York State to warrant continuing forward and [the group of DMV leaders] recommends discontinuing use of their services.

Their reasons for this position included the high costs of BCG's services (approximately $1 million per week based on the hourly rates of BCG staff as listed in the draft Transformation SOWs), ineffective project management by BCG, and an unwillingness by BCG to listen to DMV input. In the memo, the deputy commissioners proposed that DMV take over and lead Transformation rather than continue forward with BCG.

By early December 2021, DMV began scaling back BCG's involvement. During a meeting on December 4, 2021, between Beattie, Schroeder, Rose, Coyle, and other BCG personnel, BCG was informed that DMV was revisiting BCG's role at DMV. Soon after, all BCG-DMV work was paused for a two-week holiday break beginning December 17.

On December 29, 2021, the DOB procurement assistant chief, in an effort to understand the Transformation work BCG had performed for DMV over the previous three months, contacted DMV and requested an assessment of deliverables provided by BCG. DMV responded that it did not believe BCG had provided any services of value. Further, DMV decided to cancel any further BCG work. DOB instructed DMV that it should tell BCG not to return after the two-week holiday leave. On December 30, 2021, DMV officially notified DOB and the Chamber in an email that DMV would discontinue further use of BCG. DMV then

called BCG and directed that all BCG work on DMV Transformation would be paused for the foreseeable future.

Events After Discontinuation of BCG's Work on DMV Transformation

In mid-January 2022, BCG had its final meeting with DMV and handed over all documentation pertaining to Transformation. BCG and DMV worked to narrow the scope of the two Transformation draft SOWs in order to document work that BCG had already completed. As part of this process, BCG provided DMV with slide decks reflecting deliverables it produced for both Transformation SOWs, which DMV teams then began reviewing. However, this process broke down by early March 2022, when DMV decided that it did not want to execute the draft Transformation SOWs or accept any deliverables. Currently, DMV is proceeding on its own with the projects and initiatives contemplated by Transformation. According to Schroeder, as of June 2023, DMV had a $106 million budget item for this effort, and these funds are DMV's responsibility to manage.

THE INSPECTOR GENERAL'S DETERMINATIONS

The Inspector General's investigation determined that the breakdown of the BCG-DMV engagement reflected a project management design failure, and insufficient communication and contract oversight. Additionally, the fact that SOWs were not established and possible funding sources were not discussed with the client agency at the outset of projects resulted in conflict and confusion between DOB, DMV, and BCG.

Insufficient Contract Oversight

The investigation found deficiencies in the oversight of BCG's work at DMV, largely due to a lack of formal procedures and unclear practices for oversight of DOB-held contracts utilized by other State agencies. In such cases, it is important to have clear processes for "watching the meter," defining project objectives, ensuring the receipt of deliverables, and avoiding disconnects between the various parties performing, receiving, and paying for the work. According to DOB, it was common for DOB to allow other agencies to use DOB's contracts. Given this, the lack of sufficient oversight structures is even more concerning.

The Inspector General's investigation also found that decision-making power was largely in the hands of one person, then DOB Deputy Director Sandra Beattie, without sufficient checks,

which enabled oversight breakdowns. As discussed, BCG drafted the SOWs in consultation with Beattie. It was unclear if anyone at DOB, in addition to Beattie, had any actual responsibility for substantive oversight of the work, deliverables, and costs. In terms of oversight over SOWs, DOB's director of procurement reviewed the SOWs strictly to ensure they were within the scope of DOB's base contract with BCG, were within budget, and contained reasonable terms. A substantive review of the SOWs, looking at the projects and work more specifically, was supposed to have been performed by the engagement manager, whom other DOB personnel believed would act as a liaison between DOB and DMV and work with DMV to direct the SOWs. On the invoices and payment side of the process, the DOB Procurement unit, under the assistant chief and director of procurement, conducted a preliminary review of the deliverables and reviewed them against the SOWs to ensure BCG had provided everything stipulated in the SOWs. The engagement manager was then supposed to have conducted an additional review to confirm that the deliverables were acceptable, usually by confirming with the agency for which the work was done—in this case, DMV.

Within this decision-making and review structure, the Inspector General's investigation revealed oversight breakdowns at three main points. First, the engagement manager, the person primarily responsible for substantive oversight and ensuring that the project deliverables had been received, did not meaningfully monitor the projects in any way. According to the engagement manager, he was not involved in SOW drafting. The engagement manager never contacted DMV to confirm that it had seen any SOWs, nor did he confirm through DMV that deliverables had been received and deemed acceptable.[14] Moreover, the engagement manager was unable to explain the billing or invoice process to the Inspector General, and he could not recall if he saw any invoices, despite having been the person who approved them. As for his project responsibilities, the engagement manager testified, "I didn't realize it would be approving statements of work and/or invoices, so . . . that was just ignorance." The engagement manager noted that when he volunteered for the role, no one explained what it entailed, and he did not ask. Additionally, the Inspector General did not identify any internal DOB oversight over whether the engagement manager was performing his role adequately. This failure is a

[14] Because the fourth and fifth projects (DMV Transformation) never came to fruition, the engagement manager may not have even known that he had also been designated as the engagement manager for those projects.

consequence of the lack of procedures, training, and communication within DOB on the DMV projects.

Second, and relatedly, the fact that DMV was not included in the review of SOWs and invoices represents a further oversight failure. DMV, the ultimate client and primary stakeholder with the most institutional knowledge, was not involved in drafting SOWs or approving invoices, with the single exception of reviewing the Technology Design deliverables. Instead, evidence and witness testimony suggest that BCG drafted the SOWs with some input from Beattie. On the payment side of the process, with the exception of the third project (Technology Design), no one verified with DMV that it had received the deliverables outlined in the SOW. At a minimum, DMV should have been involved in setting the scope of each project and verifying the receipt of deliverables.

Finally, BCG and DOB limited DMV's influence on projects. DMV executive staff repeatedly complained that DMV's "voice" was not being heard, and that BCG did not consider its suggestions or input. Moreover, when Brennan questioned elements of BCG's proposals or work, Schroeder attempted to limit her influence on the Transformation project. Despite being named the DMV co-chair of Transformation, Brennan felt that she was not in control of the work and that she had to "fight" to represent DMV. Meanwhile, Schroeder maintained a close working relationship with the BCG co-chair of Transformation, John Coyle. However, Schroeder never sought information regarding costs, funding, or SOWs because he felt that it was not his responsibility, and he trusted that DOB would handle the financial aspects of the projects. Input from DMV's executive staff, had it been sought, may have improved the monitoring of project goals and costs and caught potential issues sooner.

SOWs Were Not Developed or Finalized Until the End of Projects

The Inspector General's investigation found that SOWs were not developed until after the work was substantially underway and were not finalized until near or after the conclusion of the work. This is a significant deviation from standard practices, which dictate that SOWs be completed before work commences. It is important to acknowledge that the work on the first and second projects, at least, occurred during the COVID-19 public health emergency. During this period, regular procedures were often suspended in favor of prioritizing urgency and responsiveness to shifting conditions and challenges. It was reasonable to conclude that the

urgent need to reopen DMV offices and address the backlog necessitated an expedited contracting process, but did not warrant bypassing critical contracting safeguards such as the need for fully executed SOWs prior to the commencement of work.

The greater issue lies with BCG's subsequent projects at DMV, particularly Transformation and the third project for Technology Design. This work was not directly connected to the pandemic—by DOB's own determination—and envisioned much broader, longer-term goals. Therefore, SOWs for this work should have been developed and finalized before any work began. The fact that some early planning for the Transformation projects had already been done under prior SOWs suggests that it should have been feasible to finalize SOWs for Transformation ahead of the projects' start. Instead, BCG worked "at-risk" on Transformation, which ultimately led to a dispute with the State regarding the amount due to BCG for its work on the projects.

Insufficient Communication as to Funding Sources Exacerbated Oversight Problems

The Inspector General's investigation found that, while DOB exercises control over agency budgets and is in the best position to understand available funding sources, its failure to communicate to DMV that its budget might be tapped to pay for the BCG-DMV work exacerbated oversight problems. Despite the high rates of BCG's services, total project costs were not concretely determined until the work was already underway, and because of the lack of communication between DOB and DMV, DMV was left ill-prepared to properly review costs.

Per internal emails, DOB's intention was to use CRF to cover at least the first two projects (DMV COVID-19 Remediation Phase 1 and 2), and possibly the third project (DMV Technology Design), although it later determined that CRF could not be tapped for the third project. As for the fourth and fifth projects (Transformation), which were reflected in draft SOWs, DOB determined that at least some of this work would not be CRF-eligible and that DMV would need to pay. While the Inspector General's investigation found no evidence of any misuse of CRF funds, the fact that CRF funds would not be able to be used for some of the later projects came as a surprise to DMV, as it was apparently under the impression that DOB would manage the payment for the Transformation work the same as it had done for the earlier COVID-19 Remediation work. Thus, DMV's lack of clarity as to the funding source for Transformation

left it ill-prepared to properly review costs and may have been a contributing factor that led to the dispute between BCG and DMV over the payment for this work.

COST OF BCG PROJECTS AT DMV

Project	Start Date	End Date	Amount Billed (Fixed Price)
1. DMV COVID-19 Remediation (Phase 1)	8/24/2020	12/30/2020	$6,954,880
2. DMV COVID-19 Remediation (Phase 2)	1/21/2021	5/13/2021	$4,527,273
3. DMV Technology Design	5/10/2021	8/27/2021	$3,616,995
4. DMV Operational Transformation (Phase 1)	10/4/2021	3/31/2022 (projected)	$14,717,304 (projected)
5. DMV Technology Platform (Tranche 1)	10/4/2021	3/31/2022 (projected)	$9,171,000 (projected)

RECOMMENDATIONS

The Inspector General makes the following recommendations to DOB to ensure sufficient and effective contract oversight in future instances where another state agency utilizes a contract held by DOB:

- Designate a staff member to serve as the liaison between DOB and the agency having work performed under DOB's contract and ensure that this person is aware of and properly trained on their responsibilities, including the expectation that they will include the agency in the development of SOWs and review of deliverables.
- Develop and execute SOWs at the outset of projects, before any work begins.
- Communicate to the agency ahead of time if the agency may ultimately be responsible for financing the work from its own budget.