

PERFORMANCE AUDIT

Report Highlights



Office of the
Washington
State Auditor
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WSDOT Toll Collection System Replacement Project:

Assessing the Toll Division's project planning, vendor procurement, contract management and project oversight

The Washington State Department of Transportation (WSDOT) Toll Division is responsible for the state's toll collection system, which helps fund transportation projects. The Toll Division works in coordination with other divisions and external agencies for the procurement, development, operation and strategic financial planning of the state's toll collection system. In 2017, with its first electronic tolling contract due to end, WSDOT moved to replace the tolling system and the customer service center under separate contracts. The Legislature approved \$30 million in 2017 for the replacement project. As delays to the rollout of the replacement tolling system mounted, legislators voiced concerns about their causes and costs. To address these concerns, the Legislature required the Toll Division to contract with the Office of the Washington State Auditor for a performance audit designed to evaluate the department's project planning, vendor procurement, contract management and project oversight.

WSDOT's Toll Division followed state requirements and leading practices throughout the project, including those designed to mitigate risks

The Toll Division followed state requirements and many leading practices to replace the first-generation tolling system. The Department of Enterprise Services (DES) guidelines and project management literature recommend identifying business needs early in the planning process by defining the problem or opportunity to be addressed. During the planning and procurement phases, managers in the Tolling Division established the project needs. As a result, WSDOT decided to split the system vendor and customer service into two contracts, which was intended to attract better quality bidders and improve the Toll Division's visibility of system issues. DES guidelines and project management literature also recommend that project managers identify and track risks throughout a project. The Toll Division also considered risks starting early in project planning and continued risk mitigation during contract management.

Despite the Toll Division's efforts to minimize risks, vendor performance delayed the project by more than two years

The back-office system vendor repeatedly missed deadlines and needed numerous extensions. The many missed deadlines meant the launch date was delayed at least eight times. We found two main contributing factors to the delays. First, the vendor struggled to follow the WSDOT's documentation requirements. WSDOT also required the vendor to follow a linear software development approach that the vendor was less familiar with. This approach required approvals at each step before the vendor was allowed to move to the next step of the development process. The vendor's unfamiliarity resulted in deliverables that did not meet WSDOT's standards. Second, the vendor struggled to hire and retain staff in critical positions. Specifically, the vendor found it difficult to comply with WSDOT's requirement that its technology project manager be located in Washington for the duration of the project. Additionally, frequent turnover in other key positions staffed by the vendor caused further delays. While Phase 1 delivered core functions along with some new functions upon launch, the Toll Division deferred other features to Phase 2.

Toll Division estimates for total project costs exceeded the budget by \$13 million, and relied on a reporting method that did not include total project costs

Phase 1 was not completed until July 2021, and WSDOT estimated that the cost of the entire project increased from \$30 million to \$43 million. Much of the \$13 million in cost overruns were driven by extending other contracts while waiting for the back-office system to be ready. A liquidated damages clause in the contract with the back-office system vendor will help the state recoup most losses. While the original contract clause had a maximum cap of about a half-million dollars, Toll Division managers negotiated additional liquidated damages, which exceeded the amount in the contract by \$10 million. However, because some components were deferred to Phase 2, the true cost of the project will not be known until it has been completed. Furthermore, WSDOT relied on a reporting method that did not include total project costs.

State Auditor's Conclusions

Tolls collected by WSDOT from Washington drivers help pay for specific highway lanes, bridges and other transportation infrastructure. Concerns about recent cost overruns and delays in the implementation of WSDOT's new tolling system led legislators to require this performance audit as an independent review of the project.

We found the department's Toll Division followed state requirements and many leading practices in its project to replace the first-generation tolling system, reflecting positive improvement in project management since our previous performance audits. WSDOT did take steps to hold its vendor accountable, including negotiating for damages, when the vendor's struggles with documentation and staffing requirements led to significant delays in the project. WSDOT plans a future phase of implementation for the new tolling system, and we identified areas in which the agency can further improve its management of such large projects. Importantly, those recommendations include being more transparent about the full costs of large projects.

Recommendations

We made a series of recommendations to WSDOT to reduce the risk of delays on future information technology projects and maintain continuity in the management and oversight of the project. We also recommended that WSDOT address the need for complete reporting of total project costs and develop a public cost reporting method that reflects all project costs for the Toll Division's projects.