STATE OF WASHINGTON

April 29, 2016

Honorable Troy Kelley
Washington State Auditor
P.O. Box 40021
Olympia, WA 98504-0021

Dear Auditor Kelley:

We appreciate the opportunity to review and respond to the State Auditor's Office (SAO) performance audit report, "Washington State Department of Transportation: Improving the Toll Collection System." Our agencies worked together to provide this joint response.

The Washington State Department of Transportation's Toll Division oversees a complex system of roadways that served more than 37.6 million travelers last fiscal year. Since tolling began in 2007, we have implemented tolling systems on four major highways and generated $616.5 million in revenues for critical system improvements. These improvements help goods and people move more efficiently across our region.

Toll systems are complex both to create and operate. We are aware there are areas where the Toll Division's performance must improve. We welcome many of the recommendations offered by the SAO. However, we believe additional context provides a more accurate assessment of Toll Division performance:

- WSDOT collects 94 percent of tolls generated — a level of performance that prompted the independent Tolling Expert Review Panel to conclude that "…Washington's toll systems are among the nation's best performers." Understanding how other toll systems perform and comparing WSDOT's performance to benchmarks of our peer agencies is vital to evaluating not only WSDOT's collection record, but other duties as well.

- The Toll Division's leadership team initially focused on building a robust toll system, as directed by the Legislature, putting in place the skills and experience to meet that goal. The Toll Division is now focusing on improving operations, customer service and traffic management.

- Understanding the importance of safeguarding customer information, WSDOT has diligently pressed the toll vendor to comply with information technology security requirements in its contract. As issues were identified, WSDOT directly addressed them. As we communicated to the audit team, the toll vendor was in the process of obtaining its Report on Compliance with Payment Card Industry standards. That third-party validation was received on April 22, 2016.

WSDOT's Toll Division regularly reports to Governor Inslee and to the Legislature, the latter of which establishes tolling policy for our state. The SAO report references the roles of both the Legislature and the Transportation Commission. Tolling authority is shared in this way:

- The Legislature provides tolling authority and establishes which roadways can be tolled.

- Once the Legislature provides that direction, the Transportation Commission establishes toll rates.

- The WSDOT Toll Division implements legislative policy and operates the system.

WSDOT Assistant Secretary Patty Rubstello meets regularly with members of the Legislature and their staff at their request. She also participates in multiple monthly meetings with the Transportation Commission to ensure collaboration and to assist it in its toll-setting role.

While this performance audit focused on toll system functionality and efficiency, it is important to recognize that WSDOT produces accurate toll financial reports for the public. The vendor's toll system allows us to complete those reports. WSDOT has received clean annual audits on its Washington State System of Eligible Toll Facilities (520 Bridge) financial statements. In addition, the toll vendor receives annual audits of its internal controls. This tool enables WSDOT to monitor the vendor's internal controls over transaction processing, accounting and security.

We believe your report will assist us in our efforts to continually improve. Several of the SAO's recommendations, such as implementing stricter information security protocols and establishing a long-term business plan, have been under way since 2014. Others we will undertake. We have enclosed our response and steps to address each recommendation.

Sincerely,

Roger Millar, PE, AICP
Acting Secretary
Washington State Department of Transportation

David Schumacher
Director
Office of Financial Management

Enclosure

cc: David Postman, Chief of Staff, Office of the Governor
       Kelly Wicker, Deputy Chief of Staff, Office of the Governor
       Miguel Pérez-Gibson, Executive Director of Legislative Affairs, Office of the Governor
       Matt Steuerwalt, Executive Director of Policy, Office of the Governor
       Tracy Guerin, Deputy Director, Office of Financial Management
       Wendy Korthuis-Smith, Director, Results Washington, Office of the Governor
       Tammy Firkins, Performance Audit Liaison, Results Washington, Office of the Governor
       Patty Rubstello, Assistant Secretary, Toll Division, Department of Transportation

This coordinated management response to the State Auditor's Office (SAO) performance audit report received on April 8, 2016, is provided by the Washington State Department of Transportation (WSDOT) and the Office of Financial Management (OFM).

SAO PERFORMANCE AUDIT OBJECTIVES:

The purpose of SAO's audit was two-fold:

1. To assess how well WSDOT's statewide electronic toll system processes, collects and reports toll transactions, and if issues exist, why.

2. To assess whether the toll system complies with state and industry information security standards, and if not, why not.

SAO FINDINGS:

1. Toll system lacks key functions and has other operational limitations that affect toll processing, collection and reporting.

2. WSDOT has not been successful in enforcing toll system vendor compliance with information security requirements.

3. WSDOT's limited attention to adding necessary expertise, establishing functions and processes, and completing toll system develop led to system issues.

4. Enhancing leadership and management activities is needed to ensure similar issues do not occur while developing and implementing the next generation toll system.

SAO Recommendation 1: To the Secretary of Transportation, we recommend: Require the Assistant Secretary of the Toll Division to develop a long-term business strategy to support and improve current operations as well as the next generation toll system. Items to address include:

a) Obtain input from stakeholders in the Legislature and the Washington State Transportation Commission, as appropriate to their roles in tolling operations, to develop a long-term business strategy and plan.

b) Obtain appropriate technical and project management expertise, either from within WSDOT or by hiring qualified technical experts.

c) Ask the Tolling Expert Review Panel to evaluate the strategic plan and to provide feedback to the Legislature and a progress update to the Transportation Commission.

d) Provide a progress update on the strategic plan to the Legislature and Transportation Commission.

e) Conduct an annual review of the strategic plan with the Review Panel and provide a progress update on any changes to the Legislature and Transportation Commission.

STATE RESPONSE:

WSDOT supports the recommendation to develop a more comprehensive long-term business plan for the toll program. The plan will incorporate the items highlighted in the recommendation and map out the performance requirements and the budget needed to improve near- and long-term operations. In fact, in 2013, we began planning efforts to obtain a new vendor.

In addition to ongoing business planning efforts, in 2014, WSDOT began providing quarterly reports to the Legislature on planning efforts to issue a request for proposal (RFP) for a new toll vendor. Prior to those reports, Toll Division staff, recognizing the need for an improved toll system contract for both back office and customer service systems, had begun budget discussions with OFM.

We worked with the Legislature to include language in the 2016 supplemental transportation budget that requires OFM and the Office of the Chief Information Officer (OCIO) to review the new toll vendor RFP for mitigating risk to the state and ensuring the vendor meets all applicable security standards.

Toll policy is established by the Legislature. WSDOT reports regularly to legislative leadership about Toll Division activities, and agrees that legislators and Governor Inslee play a vital role in the development of the long-term business plan. While WSDOT values its partnership with the Transportation Commission as the body that establishes toll rates, it does not have a governance role for WSDOT as a whole or the Toll Division in particular. Nonetheless, WSDOT will continue coordination with the Transportation Commission, as appropriate.

Action Steps and Time Frame:

➢ Formalize the Toll Division business model. It will include identifying needs for additional expertise and approving a cohesive, long-term business plan prior to the 2017 legislative session. *By December 31, 2016.*

The plan will include**:**

  o Further engaging with the Legislature and Transportation Commission to develop a shared vision for the Toll Division, prioritize division activities and clarify how legislative policy actions will affect Toll Division growth and operations.

  o Engaging the Tolling Expert Review Panel to evaluate and annually update the Toll Division's long-term business plan and strategy, and incorporate its feedback.

SAO Recommendation 2: To the Secretary of Transportation, we recommend: Address the leadership and management weaknesses identified in this report:

  a) Develop appropriate processes and functions within the Toll Division to oversee all aspects of new initiatives and projects, including working with other state agencies to identify and resolve concerns, coordinating schedules and resources, and ensuring contract compliance.

  b) Establish effective two-way communication protocols with key stakeholders in the Legislature and Transportation Commission, which include frequent interactions and outreach to assess whether the level of engagement and information provided meets their needs.

  c) Ensure the toll system vendor completes the required independent reviews and assessments to comply with security standards, and seek remediation of any identified issues.

STATE RESPONSE:

While there is always room for improvement, the Toll Division has effective project management policies in place and works continually with other agencies to provide the best possible service to taxpayers. One of WSDOT's strategic goals concerns workforce development. This is a focus area for the Toll Division and the rest of the department.

A key element of this goal includes providing employee training to develop skills — training that requires financial and staff resources to be completed. Budget constraints related to the approved use of toll revenues have limited funds for employee training. These limitations also have led to cancelling membership in appropriate trade and industry organizations, such as the International Bridge, Turnpike and Tunnel Association. WSDOT will be seeking support for training resources.

In addition to skills and best practices training, the Toll Division business plan will ensure Toll Division staff members have the expertise to adapt to changing technologies and trends.

As noted earlier in this response, WSDOT executives and staff members communicate regularly with members of the Legislature and other key stakeholders. These communications include requested briefings, regular reports provided to members, and regular meetings with legislative leadership to address questions or inform them about upcoming milestones. Toll Division staff members also work with legislative staff to provide information and answer questions.

We agree that as part of our outreach work, we should assess how effective these communication efforts are and determine how they can be improved.

The department has worked with the toll vendor to comply with information technology security requirements in its contract. These include requirements established by the OCIO, as well as Payment Card Industry (PCI) standards. The vendor received an external PCI report on compliance on April 22, 2016. The vendor anticipates receiving the final report from its external OCIO security standards audit by May 31, 2016.

Action Steps and Time Frame:

➢ Incorporate in the Toll Division business plan the training and budget needed to support this recommendation. *By December 31, 2016*

➢ Ensure the business plan addresses stakeholder involvement in the Toll Division's work program. *By December 31, 2016*

➢ Ensure the vendor receives the final report from its external OCIO security standards audit. *By May 31, 2016*

SAO Recommendation 3: To the Secretary of Transportation, we recommend: Address the current toll collection system limitations and operational challenges we identified in this report:

a) Implement processes and functionality that focus on toll collection before penalties are added, to maximize toll revenue collections and to give customers every opportunity to pay their bill before civil penalties are imposed.

b) Implement processes and functionality to facilitate write-offs of tolls, fees and penalties WSDOT no longer expects to collect.

c) Include functions that facilitate analysis and evaluation of toll transaction and financial data in the next generation system procurement.

d) Evaluate the costs versus the benefits of the 25-cent photo fee for image based tolls, and seek elimination of the fee if appropriate.

e) Work with the Department of Licensing to improve the accuracy of registered vehicle owner information and consider the benefits of using software to verify the validity of customer addresses.

f) Consider further reductions in the frequency and number of reconciliation reports manually prepared by the toll system vendor.

g) Conduct customer outreach to provide added information on how to properly register, install and maintain *Good to Go!* accounts, passes and license plates.

h) Resolve transaction processing flaws that complicate creation of toll bills.

STATE RESPONSE:

WSDOT is committed to continued improvements in toll collection, including collection of tolls as early as possible in the process. The Customer Program for Resolution, as well as the Advocate for the Customer program, are examples of these improvements. The department will continue to look at both short-term and long-term improvements in this area that provide the most cost-effective and customer-friendly approaches.

We believe the audit report does not accurately characterize WSDOT's toll collection rate. We suggest that it is beneficial to compare it with other industry benchmarks. At WSDOT's request, the Tolling Expert Review Panel (ERP) provided feedback on the following question: "What is the view of the ERP on the overall collection rates for Washington State Tolls based upon the experiences elsewhere?" Its response was:

> "At 94% of all transactions resulting in a paid toll within the period when tolls were incurred, Washington's toll systems are among the nation's best performers. This is particularly true when considering that nearly 50% of the tolls were collected in an All Electronic Tolling environment (SR 520) and that billed tolls would still have been in process during this time. Billed revenues would normally come in late and it is reasonable to expect a 9-12 month collection period to achieve a 65-70% collection rate."

The Toll Division is working with the back-office system vendor to design, implement and install the write-off module, including a cost benefits analysis.

WSDOT also agrees that the next generation back-office system should better analyze and monitor system performance and offer more efficient managerial reporting.

Moreover, WSDOT continues to help customers resolve outstanding penalties for unpaid tolls. In July 2015, WSDOT implemented its Customer's Program for Resolution, which has benefited 50,000 customers, including I-405 express toll lane drivers, by waiving $20 million in fees and penalties.

The Toll Division will review its business practices to find other opportunities to increase the toll program's efficiency without sacrificing customer service.

Action Steps and Time Frame:

- ➤ Work with the vendor to design, implement and install the write-off module for its back-office toll system. *By December 31, 2016.*

- ➤ Review current business practices to find other opportunities to increase the toll program's efficiency without sacrificing customer service, and incorporate lessons learned in the procurement process for the next generation system. *By December 31, 2016.*

  This review will include at a minimum the following:

  - o Increase the collection efforts for outstanding tolls as early as possible in the collection process.

  - o Determine cost effectiveness and efficiency of applying the 25-cent fee for Pay By Plate toll transactions.

  - o Increase accuracy of registered owner information between WSDOT and the Department of Licensing to reduce the volume of return mail and research other methods of ensuring accurate owner information.

  - o Provide further refinements to the financial reconciliation process.

  - o Determine additional methods for customer outreach to improve customer service.

  - o Provide further refinements in toll transaction processing.