

## WSDOT Internal Audit Tolling – *Notice of Infraction Processing* Executive Summary

### Background – Tacoma Narrows Bridge Tolling

The Washington State Department of Transportation Toll Division moved its back-office and customer service center to a new vendor, Electronic Transaction Consultants Corporation (ETCC) in February 2011. The transition occurred in a very complex technological and business environment. Multiple factors combined to produce a situation in which an unexpectedly large number of transactions were processed as NOIs (Notices of Infraction) in May 2011. The unexpected volume at first overwhelmed the existing customer service processes, until WSDOT Tolling Division management and vendor personnel took corrective action. Some customer accounts were charged incorrectly, and in some cases, notices were issued to customers inappropriately. Most incidents were corrected promptly upon notification by customers, but significant resources were expended in the correction process and many customers were inconvenienced.

### Background – Current and Future Internal Audit Work for Tolling

The Office of the Secretary of Transportation requested an internal audit of the financial transactions around TNB tolling. Pursuant to that request and as part of the Internal Audit Work Plan, the Internal Audit Office performed an initial review of the internal controls over the financial transactions from TNB tolling operations, focused solely on *reconciliation processing for traffic and revenue transactions*. That initial review was completed and reported October 21, 2011.

The internal auditor subsequently began a second phase of the audit engagement, in which they analyzed the transactions from the full period that *NOI processing* was in force. This report contains the audit results, focused on the processing of NOI transactions. They have also included within this report recommendations to assist with ongoing tolling for the TNB and on SR520. We anticipate additional reports from our internal auditor. The internal auditor is currently planning future audit work for all tolling facilities that may include several focused audit engagements, to offer guidance in an ongoing manner to assist management as it continues to develop the Tolling Program.

### Internal Audit Scope and Results (November, 16, 2012)

Our internal auditor identified causes for and management actions in response to the initial backlog of NOIs issued in late May 2011. They also categorized the number of NOIs issued, and used the data available to review how those NOIs were resolved. Further, they reviewed management's actions to address vendor compliance with the contract and recover losses incurred to date associated with the NOI transactions.

Our internal auditor has several observations and recommendations in the following areas to help as we move forward with the tolling program. The Department's response, to the internal auditor's report, describes steps taken to address these items.

- **Communicating Changes of Software and Data:** The vendor (ETCC) made many data and software fixes without adequate communication (before and after the fact) and without approval by WSDOT. The Department implemented in August 2011 a change control board that includes key stakeholders and a procedure for WSDOT to review and approve release notes for monthly system fixes.
- **Need to Retain Complete Records for Each Transaction:** Through either the vendor's computer system or paper records, the vendor could not provide information identifying the transactions issued to the Pierce County District Court as NOI's. While the vendor maintained logs of transaction batches forwarded to the Court, showing NOI transaction counts, the set of files containing the transactions themselves was incomplete, so that individual records were not available for audit. The Department's

response addresses actions taken regarding paper documents, as well as how document scanning is required for system acceptance, scheduled for May 2013.

- **Critical System Documentation Required:** Documentation of the ETCC's RITE database application system and its WSDOT-owned content continues to be unavailable to WSDOT, and also not available within the vendor's organization. Without such documentation, especially without active assistance by knowledgeable and experienced support personnel, timely and reliable analysis of processing results for WSDOT tolling data will be put at higher risk. In addition to application documentation, adequate documentation of the RITE system architecture, configuration, and operation is also necessary to establish and maintain the viability of the software being placed in escrow. The Department's response states that system documentation is a requirement of system acceptance. It also discusses ongoing work to determine whether the escrow company holding the RITE system software, pursuant to Change Order 8, may have software testing and evaluation products that would provide value to WSDOT.
- **Complete Critical Standard Reports and Financial Reconciliations:** The auditor noted that controls over reconciliation activities recommended in their earlier audit from October 2011 continue to need improvement, and that standardized RITE system reports and reporting tools for data analysis remain unavailable to WSDOT. New reports were in demonstration and testing status during the audit. The Department's response addresses ongoing work on both the standard reports and reconciliations and that the vendor has been put on notice of the possibility for liquidated damages should progress not occur as required. The Department is also working with Moss Adams, LLP to help develop some of the documents and reconciliation procedures.
- **Resolution of Potential and Actual NOIs:** Our auditor found that over 8.4 million toll transactions were processed during the period reviewed. Of that total approximately 231,000 appeared to have expired and were, therefore, unchargeable to customers, since the 60 day time limit had ran out before ETCC could issue an NOI to the customer and the court. Our auditor also found an additional approximately 54,000 of unpaid toll violations.

Our auditor provided preliminary results earlier this year to assist management during their negotiations with the vendor to recover losses from unpaid and unprocessed tolling transactions. The data assisted the department in negotiations of a \$6.4 million settlement agreement that includes \$920,167 in reduced payments to ETCC to recover losses from unpaid and unprocessed toll transactions.

#### Future External Audits

The Toll Division and its vendors are expecting to receive the following additional audit reports:

- SR 520 Financial Statement Audit – Under the conditions of the Master Bond Resolution an independent audit is being performed by Clifton Larson Allen LLP of the annual financial statements. This report is expected by December, 2012.
- Performance Audit – The State Auditor's Office is currently reviewing the ETCC contract award, as well as WSDOT's contract and related project management. This report is expected in the spring 2013.
- Tolling Vendor Audits – Under the contracts with our tolling program vendors, each vendor is required to receive an audit of its internal controls. These audits are referred to under professional auditing standards as Service Organization Control 1 (SOC 1) reports. We are working with each vendor to obtain these audits on a regular basis.