



# Legislative Post Audit Performance Audit Report Highlights

## Department of Revenue: Examining Issues Related to the DMV Modernization Project

### Report Highlights

October 2014 • R-14-010

#### **Background Information**

*In 2008, the Kansas Department of Revenue (KDOR) began work on the Division of Motor Vehicles (DMV) Modernization Project to replace three separate older systems.*

*The DMV Modernization Project will be rolled out in two phases:*

- *The motor vehicle registration and titling system (Phase One) was deployed May 2012*
- *The driver's license system (Phase Two) has not been deployed yet.*

*The budget for the entire DMV Modernization Project is about \$40 million, which includes:*

- *contractual costs to implement the new DMV information system – about \$23 million.*
- *staffing costs and other miscellaneous costs – about \$18 million.*

*A \$4 fee on each vehicle transaction processed by county treasurers helped fund the DMV Modernization Project.*

#### **QUESTION 1: What is the current status of the DMV Modernization Project?**

- As of October 2014, the DMV Modernization Project is not complete and has fallen significantly behind schedule.
  - The new motor vehicle system (Phase One) was deployed in May 2012, about 10 months behind schedule.
  - The new driver's license system (Phase Two) has not been implemented and is nearly three years behind schedule.
- In May 2014, KDOR terminated its contract with 3M and plans to complete the driver's license system (Phase Two) internally.
  - In May 2014, with Phase Two of the project more than two years behind schedule, KDOR ended the contract with 3M.
  - KDOR kept about \$2 million in retainage fees because 3M failed to perform.
  - Even after holding back some of the fees, KDOR still paid 3M nearly \$20 million for the system (about 90% of the fees agreed to under contract).
  - KDOR officials told us that Phase Two is 87% complete based on total budgeted hours set in planning documents.
  - However, KDOR has not received key features that were originally included in the contract.
  - Under the termination agreement, KDOR took custody of the software code for the unfinished driver's license system (Phase Two) and plans to complete it with internal resources.
  - During the project, KDOR and 3M mutually agreed that certain milestones were too aggressive and should be moved, which essentially eliminated about \$2 million in potential penalties.
- Several factors appear to have contributed to delays in the DMV Modernization Project.
  - An after-action review by the Kansas Adjutant General found that KDOR did a poor job of managing the project.
  - As a result of the after-action review, KDOR officials report they made several changes to try to avoid the same mistakes when implementing Phase Two.
  - However, our review showed the DMV Modernization Project has not had a dedicated project director since July 2013.
  - According to KDOR officials, the project was delayed because 3M's deliverables were often late or of unacceptable quality.
  - Independent external risk assessments of the project identified similar concerns early on.
  - Finally, KDOR officials noted that unanticipated legislative changes had to be incorporated which somewhat contributed to the delays in the driver's license system (Phase Two).

- Because it has not been completed, the total cost of the DMV Modernization Project is unknown.
  - As of July 2014, KDOR officials estimated the DMV project had cost about \$34 million.
  - But the estimate did not include county treasurers' costs to implement Phase One (discussed in Question 2).
  - Future undetermined costs will also need to be included when calculating the total cost of the DMV Modernization Project.
  - KDOR officials told us they plan to implement Phase Two by November 2015 and estimate it will cost about an additional \$2.1 million to implement.

#### **Other Findings:**

- External independent risk assessments, which are required for the duration of all large IT projects, were discontinued before Phase One of the project was completed.
  - The state's information technology policies require external independent verification and validation on all large IT projects.
  - KDOR contracted with an external firm to conduct the risk assessments on the Project, but the contract ended before Phase One was completed.
  - The external reviewer reported concerns about management of the DMV Modernization Project from the start.
- Project monitoring reports used by the state's top IT officials and the legislature did not always provide an accurate or timely picture of the project.
  - The Joint Committee on Information Technology was provided only with summary reports for the DMV Modernization Project and not the full quarterly reports required by policy.
  - Summary quarterly reports prepared by the Kansas Information Technology Office did not always include timely or accurate information on the status of the DMV Modernization Project.
- County Treasurers identified several important lessons learned from Phase One that should be addressed before Phase Two is implemented, including having the system ready before deployment.

#### ***QUESTION 2: How much has the implementation of the DMV Modernization Project cost local government?***

- We estimate county treasurers incurred about \$2.0 million to \$2.5 million in additional costs to implement Phase One of the DMV Modernization Project.
  - In planning for Phase One, KDOR officials did not expect county treasurers to incur additional costs to implement the new motor vehicle registration system.
  - However, some county treasurers incurred significant staffing costs to implement the system.

- KDOR paid a total of \$560,000 to counties to help offset overtime costs and also provided temporary staffing assistance to two counties.
  - In September 2012, KDOR provided one-time payments totaling \$562,000 to counties to help offset overtime costs.
  - KDOR also provided temporary staff assistance to Johnson County and Shawnee County, but other counties incurring similar costs received no assistance.
- KDOR officials told us they do not expect any stakeholders to incur additional costs to implement the new driver's license system (Phase Two).

**Other Findings:**

- Counties have also incurred about \$1 million in additional costs related to new title approval duties. In May 2012, title approval duties were moved from KDOR to the counties.
- Even though vehicle title duties have changed, the state law dictating how the title fee is split between the state and counties has not changed.
  - State law dictates how the \$10 title fee is split between the state and counties.
  - KDOR officials said there are no plans to pursue a change in this law.
  - KDOR officials suggested counties could collect a facility fee to help cover any increase in operating costs.

***QUESTION 3: What current problems are county treasurers having using the new system and what are the causes of those problems?***

- County treasurers reported a number of current problems with the new motor vehicle titling and registration system (Phase One).
- In response to our May 2014 survey, nearly three-quarters of county treasurers told us the new system is often or always slow at processing transactions.
  - In all, 72% of county treasurers responding to our survey told us the new system is often or always slow.
  - County treasurers' responses appear to be driven by both their personal perception and actual system speed issues.
  - In all, 54% of county treasurers responding said the new system is worse at meeting customer needs than the old system.
- County treasurers expressed concerns about inaccurate, duplicate, or missing data in the new system.
  - Data problems exist in the new system and are viewed as a moderate to significant problem for many county treasurers.
- County treasurers continue to experience problems with the new system's equipment, including document scanners and signature pads.
  - In all 30% of responding county treasurers said they often or always have a problem with document scanners not working properly.
  - A little less than 20% of responding county treasurers said they often have problems with signature pads.

- County treasurers also expressed concerns about KDOR's ability to communicate and provide assistance.
  - About half the county treasurers responding to our survey were dissatisfied with the responsiveness of KDOR's help desk.
  - Our review confirmed there are problems with KDOR's help desk.
  - About 26% of county treasurers responding to our survey are dissatisfied with KDOR's guidance on approving titles.

## **SUMMARY OF RECOMMENDATIONS**

### **Question 1 Recommendations:**

- We recommended that KDOR officials follow ITEC policy and contract with an independent external oversight entity to complete risk assessments for the remaining duration of the DMV Modernization Project.
- We recommended that KDOR officials review and implement various lessons learned from Phase One.

### **Question 3 Recommendations:**

- We recommended that KDOR officials continue to work with county treasurers to identify and resolve ongoing problems with Phase One and follow up with county treasurers on a periodic basis to ensure that any problems have been addressed.
- We recommended that KDOR consider increasing help desk staffing to better meet the needs of county treasurers who call and ask for assistance.

## **AGENCY RESPONSE**

- KDOR generally agreed with the report's findings and recommendations. However, the agency does not plan to implement our recommendation to pilot the driver's license system (Phase Two) using real transactions and then deploy the system in stages rather than to all counties at once.

### **HOW DO I REQUEST AN AUDIT?**

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

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