

## Cabinet Agencies' Performance Audit Action Item(s) & Status

### Washington State Ferries: Vessel Construction Costs

(See also [cabinet agency response](#) for full context to Washington State Auditor's Office (SAO) [report](#), January 2013)

Agencies included in the performance audit: Department of Transportation

SAO Issues Summary:

1. We recommend that the Legislature address the regulatory barriers currently in place that limit competition on WSF vessel procurements.
2. We recommend that WSF continue to improve its vessel construction program by determining whether adopting the leading practices and suggestions for improvement provided in this report would result in program improvements and/or cost savings, and implementing those with the greatest potential for benefit to the program.

The table below shows the current status of action items the agency initiated to address issues identified in the performance audit report. Please see the [cabinet agency response](#) for additional context and any additional steps already taken.

For an explanation of the columns below, [see the legend](#).

Issue	Status	Action Steps	Lead Agency	Due Date	Current Resources?	Budget Impact?	Legislation Required?	Notes
1- 1	Deferred	This recommendation was directed to the Washington State Legislature. As directed by the Legislature, WSDOT will participate in any discussions regarding review or modification of the Build in Washington Law, which could include options to invite out-of-state shipyards to bid on new vessel construction.	Legislature	N/A	N/A	Potential	Yes	This Issue was not listed on the SAO request for status update, since the recommendations was directed to the Legislature; however, we listed it here as an Action Step was developed for the recommendation.
1- 2	Deferred	This recommendation was directed to the Washington State Legislature. As directed by the Legislature, WSDOT will participate in discussions regarding review or modification of the Apprenticeship Act, which could include options to	Legislature	N/A	N/A	Potential	Yes	This Issue was not listed on the SAO request for status update, since the recommendations was directed to the Legislature; however, we listed it here as an Action Step was developed for the recommendation.

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		recognize shipyards apprenticeship training programs.						
2A	Completed	<p>WSDOT views performance audits as a valuable tool to help ensure that WSDOT is the best it can be at providing a sustainable and integrated multimodal transportation system, providing safe, reliable, and cost-effective transportation options to improve livable communities and economic vitality for people and businesses in Washington. This was evident when Secretary Peterson incorporated recommendations to improve ferry vessel construction from the 2013 Ferry Vessel Construction performance audit into WSDOT's 10 reforms to support Governor Inslee's promise to build a leaner, more effective state government. As indicated in the Department's response included in the audit report and in Reform VIII, WSDOT had already incorporated 3 of the 4 leading practices (Fixed Price Contracts, Beginning construction after design is complete, and Shifting responsibility to the shipyard) as identified by the Technical Panel as having the greatest potential for cost savings into the</p>	WSDOT	N/A	Yes	No	No	

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		<p>construction of the Olympic class vessels and any future vessels. Also, WSDOT did further analysis of the 4th leading practice, use of an independent owner's representative, which showed this approach would likely add \$.9 million to \$1.6 million to the project. The WSDOT project team overseeing vessel construction has over 150 years' experience.</p> <p>On the leading practice of shifting all responsibility for project delivery and quality to the shipyard, WSDOT continues its practice to purchase items such as engines, generators, and propulsion systems. This practice does leave minor risk with WSDOT, but eliminates the shipyard markup on these items and makes it possible to receive federal funding toward them, thus reducing overall costs.</p> <p>As indicated previously, many of these practices and the suggested practices below in Issue 2B, had been suspended for the construction of the Kwaditab Class vessels in order to accelerate the construction schedule so ferry services to the</p>						

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		communities served by the Steel Electric class vessels suddenly retired could be restored.						
2B	Completed	As outlined in the Department's audit response (and in Reform VIII), these additional leading practices had or have been implemented. 1) Lessons learned from the build of the three Kwa-di Tabil class vessels were applied to the construction of the first vessel of the Olympic Class, the Tokitae. The Tokitae's lessons learned were documented and applied to the SAMISH, the second Olympic Class vessel, and now these lessons learned will be applied to the construction of the third Olympic Class vessel, which has not yet been named. During the construction of the Olympic Class vessel the "lessons learned" are reviewed between the shipyard and WSDOT in monthly progress meetings. 2) WSDOT's strengthened financial management has consisted of working to improve estimating construction costs that would reduce the use of large contingency amounts. The contingency for the Tokitae was reduced from the initial 17.9 percent to 7.8 percent and the SAMISH contingency has been	WSDOT	N/A	Yes	No	No	

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		<p>reduced from 7.8 percent to 4.6 percent. Contingencies on the Tokitae ended at less than 1 percent, with a credit due, as mentioned below, to even lower the contingency amount. 3) The contract for the construction of the Olympic Class vessels included the contracting best practices outlined in the audit such as utilizing a single contractor for both vessel design and construction.</p> <p>WSDOT happily reported that change orders on the first Olympic Class vessel, the Tokitae, amounted to approximately \$831,000; however, WSDOT has a pending change order credit of approximately \$400,000, which will reduce the overall change orders to just over \$431,000 or less than 1 percent. The majority of the change order funds were expended because security equipment slated for use during planning were no longer available, resulting in the purchase of higher priced equipment. The 2nd Olympic Class vessel is approximately 70% complete and change orders to date total just under \$400,000, which includes</p>						

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		<p>change order costs from vessel one.</p> <p>As indicated above, WSDOT received funding for a third Olympic Class vessel and will continue to seek methods to strengthen and improve its vessel construction program.</p>						