

PERFORMANCE AUDIT

Pennsylvania Turnpike Commission

September 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

September 2, 2016

The Honorable Sean Logan, Chairman
Mr. Mark P. Compton, CEO
Pennsylvania Turnpike Commission
P.O. Box 67676
Harrisburg, Pennsylvania 17106-7676

Dear Messrs. Logan and Compton:

Enclosed is our report that presents the results of a performance audit of the Pennsylvania Turnpike Commission ("Commission"). This audit is mandated per 71 P.S. § 246(b) which states that "the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities" of the Commission. Also, in accordance with 74 Pa. C.S. § 8204(b)(1), we reviewed the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.

To fulfill our financial-related mandates, we did not conduct our own multi-year financial audit and instead, we continued our past practice of reviewing the financial audit reports and working papers of the independent CPA firm that audits the Commission's financial statements. Accordingly, we reviewed the financial audit reports and working papers for the five fiscal years ending May 31, 2011, through May 31, 2015. This review was also completed to determine if the above mentioned mandates requirement(s) pertaining to the financial audit and review (of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission) have been fulfilled or whether additional procedures need to be performed in order to fulfill these mandated responsibilities. As such, we performed additional procedures related to the Commission's operating and capital budgets. Further, we reviewed the Commission's debt as part of our performance audit discussed below.

Our performance audit covered the period June 1, 2014 through July 11, 2016, unless otherwise noted, with updates through the report's release. The audit was conducted in accordance with applicable generally accepted government auditing standards, as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence

obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our performance audit had two objectives, from which we report three findings and eight recommendations. Specifically, our objectives included the following: (1) determine the sustainability of the Commission's ability to continue to raise tolls sufficient to repay its bonded debt including the Act 44 of 2007, as amended, payments to the Pennsylvania Department of Transportation (PennDOT); and (2) determine if Commission contracts were awarded in compliance with applicable procurement policies and procedures.

We found that the Commission's ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects is potentially unsustainable. We discuss the potential effects on consumers relating to the Commission's plan to continue to raise tolls annually in order to raise sufficient revenues.

We also found that rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Commission. Specifically, for the 11-month period June 1, 2015 through April 30, 2016, the Commission had invoiced violation tolls and fees totaling more than \$61 million which is almost double from the \$32 million invoiced during the fiscal year ended May 31, 2013. We recommend that the Commission seek action by the legislature to enact more significant deterrents for individuals who fail to pay their Turnpike tolls.

On a positive note, we found that the Commission's contracts were awarded in compliance with applicable policies and procedures. We focused on three areas: supplies and materials, services, and construction.

In addition to our current audit objectives, we conducted procedures to determine the status of the implementation of our six prior audit findings and recommendations as presented in the audit report released on January 8, 2013. We found that two findings remain unresolved because none of our prior recommendations related to employee toll-free travel on the Turnpike (Finding One) and limiting toll-free travel for consultants, contractors and other state government officials (Finding Two) have been implemented. We also found that two findings are partially resolved because the Commission has implemented some of our prior recommendations regarding tunnel safety (Finding Four) and limiting Commissioners' expenses (Finding Five). Finally, we found that two findings, pertaining to monitoring the accuracy of the E-ZPass system (Finding Three), and the use of interest rate swaps as an investment tool (Finding Six), are considered resolved as all prior audit recommendations have been addressed by the Commission. We also commend the Commission for having procedures in place to track the progress of implementing findings and recommendations resulting from our audits.

The Honorable Sean Logan and Mr. Mark P. Compton

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I would like to thank the Commission's management and staff for its cooperation and assistance during the audit. We encourage the Commission to implement all of the recommendations contained in this report. We will evaluate the status of any corrective actions taken by the Commission as a result of our findings and recommendations during our next audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Eugene A. DePasquale
Auditor General

Pennsylvania Turnpike Commission

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Pennsylvania Turnpike Commission**Introduction
and
Background**

This report by the Department of the Auditor General presents the results of a performance audit of the Pennsylvania Turnpike Commission (Commission). This audit is mandated by state law¹ which states that “the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities” of the Commission. Also, per Act 44 of 2007, as amended by Act 89 of 2013,² the audit now includes a review of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.

In lieu of conducting a financial audit to fulfill the mandate mentioned above, we reviewed the reports and supporting audit documentation of an independent firm who annually audits the Commission’s financial statements. We reviewed the independent firm’s financial audits for the five fiscal years ending May 31, 2015, which included a review of the procedures, debt, and the accounts of the Commission. We also evaluated debt as part of our performance audit and obtained and reviewed budget information directly from the Commission to fully satisfy the requirements in Act 44.

Our performance audit had two objectives and included the period from June 1, 2014, through July 11, 2016, unless otherwise noted, with updates through the report’s release. See *Appendix A – Objectives, Scope, and Methodology* for more information. In the sections that follow, we present background information about the Commission. Additional information can be found at its website, <https://www.paturndpike.com/>.

Background Information on the Pennsylvania Turnpike Commission

The Pennsylvania Turnpike Commission was created in 1937 by the General Assembly as an instrumentality of the Commonwealth³ to build a 160-mile turnpike system and aid in work-relief projects during the Great Depression. The turnpike system opened on October 1, 1940. Seventy five years later, the Turnpike has evolved from “America’s First Superhighway” to a 553-mile

¹ 71 P.S. § 246(b).

² 74 Pa. C. S. § 8204(b)(1).

³ 36 P.S. § 652d.

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system with five tunnels, serving as a connector between Ohio and New Jersey (the Mainline Turnpike) and with a Northeast Extension and a Southwestern Expansion.

The Commission currently operates 68 toll interchanges, 17 service plazas, 22 maintenance facilities, two regional offices, and a main headquarters/administrative building located in Middletown, Pennsylvania (at the Harrisburg-East exit).

Commission Organization and Structure

The Turnpike is governed by a Commission which consists of five members, one of whom is the Pennsylvania Secretary of Transportation serving as an ex-officio member. The Secretary of Transportation may authorize the Deputy Secretary for Highway Administration to act and vote on his/her behalf. The other four commissioners are appointed by the Governor with the advice and consent of two-thirds of the members of the Senate.

The Commission chairman is paid an annual salary of \$28,500 while the three other voting commissioners are paid annual salaries of \$26,000. Members of the Commission are also reimbursed for necessary expenses incurred in the performance of their duties. The Commission employed about 2,060 individuals as of May 31, 2015.

Mission and Vision

According to the Commission, its mission is “to operate a safe, reliable, customer-valued toll road system that supports national mobility and commerce.”⁴

The Commission further states:

In serving our customers, we will reaffirm ourselves as the world’s finest superhighway by: (1) Fulfilling our public responsibility to provide a safe, sustainable, uninterrupted travel experience. (2) Becoming an industry leader, a valued business partner and a trusted employer.

⁴ https://www.paturndpike.com/pdfs/about/PTC_Executive_Summary.pdf

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Funding

The Commission generally receives all of its operating revenue from customer tolls and fees (known as the Mainline Fund), which represents more than 80% of the Commission's total revenue. The Commission also receives funding from the Commonwealth's oil company franchise tax revenues and the Commonwealth's motor license registration fee revenues in the form of annual capital contributions. These capital contributions are kept in separate funds as required by their respective bond indentures. Non-operating revenues represent approximately 5% of total revenues and consists mostly of investment earnings. The breakout of these revenues over the past five years is as follows:

2011 to 2015 Schedule of Commission Revenues (in thousands)						
FYE May 31	Operating vs Non- operating Revenue	Mainline	Oil Franchise	Motor License	Total Revenue	Percent of Total Revenue
2015	Operating Revenue:	\$949,735	-	-	\$949,735	81.2%
	Non-operating Revenue:	\$28,738	\$44,164	\$592	\$73,494	6.3%
	Capital Contributions	\$20,300	\$98,172	\$28,000	\$146,472	12.5%
	TOTAL:	\$998,773	\$142,336	\$28,592	\$1,169,701	
2014	Operating Revenue:	\$880,755	-	-	\$880,755	84.6%
	Non-operating Revenue:	\$49,060	\$9,156	-\$7,485	\$50,731	4.9%
	Capital Contributions	\$13,759	\$68,277	\$28,000	\$110,036	10.5%
	TOTAL:	\$943,574	\$77,433	\$20,515	\$1,041,522	
2013	Operating Revenue:	\$831,636	-	-	\$831,636	84.9%
	Non-operating Revenue:	\$45,055	\$4,552	\$318	\$49,925	5.1%
	Capital Contributions	\$10,274	\$59,562	\$28,000	\$97,836	10.0%
	TOTAL:	\$886,965	\$64,114	\$28,318	\$979,397	
2012	Operating Revenue:	\$803,888	\$51	-	\$803,939	83.0%
	Non-operating Revenue:	\$26,887	\$21,714	\$647	\$49,248	5.0%
	Capital Contributions	\$24,580	\$63,235	\$28,000	\$115,815	12.0%
	TOTAL:	\$855,355	\$85,000	\$28,647	\$969,002	
2011	Operating Revenue:	\$758,648	-	-	\$758,648	84.2%
	Non-operating Revenue:	\$27,578	\$15,728	\$969	\$44,275	4.9%
	Capital Contributions	\$9,476	\$60,966	\$28,000	\$98,442	10.9%
	TOTAL:	\$795,702	\$76,694	\$28,969	\$901,365	

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For fiscal year ended May 31, 2015, a total of 192 million vehicles traveled on the Turnpike: 166 million vehicles (86.5%) were Class 1 (Passenger) vehicles and 26 million vehicles (13.5%) were Classes 2-9 (Commercial). Total fare revenue amounted to approximately \$934 million for the fiscal year ended May 31, 2015. The breakout of the number of vehicles and the gross fare revenue over the past ten years is as follows:

Number of Vehicles and Gross Fare Revenue						
(000's Omitted)						
FYE May 31	Class 1 (Passenger) Vehicles	Gross Fare Revenue	Class 2-9 (Commercial) Vehicles	Gross Fare Revenue	Total Vehicles	Gross Fare Revenue
2006	160,590	\$328,807	25,311	\$278,600	185,901	\$607,407
2007	160,107	\$322,780	25,316	\$294,836	185,423	\$617,616
2008	164,096	\$329,072	25,455	\$290,078	189,551	\$619,150
2009	162,638	\$353,885	23,582	\$284,359	186,220	\$638,244
2010	163,599	\$407,368	22,933	\$310,670	186,532	\$718,038
2011	165,230	\$435,751	23,812	\$328,105	189,042	\$763,856
2012	164,960	\$455,133	24,127	\$342,646	189,087	\$797,779
2013	163,690	\$471,514	24,207	\$350,226	187,897	\$821,740
2014	163,788	\$497,671	24,891	\$368,395	188,679	\$866,066
2015	166,192	\$533,054	26,144	\$401,198	192,336	\$934,252

Source: 2015 Turnpike Commission CAFR, page 141.

Tolls are collected three primary ways as outlined below:

Cash

Customers obtain a ticket upon entrance to the turnpike system and pay cash to a Commission tollbooth operator upon exiting based on a table of the current cash rates and distance traveled.

E-ZPass

Customers obtain an E-ZPass transponder, register their vehicles, and set up an account with a credit or debit card. Customers' transponders are electronically read when entering and exiting the Turnpike through designated tollbooths and are charged accordingly. E-ZPass customers do not have to stop at the tollbooth like cash customers, and E-ZPass customers currently receive a discounted rate compared to cash customers.

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With the ease of use and lower toll rates, E-ZPass is popular among Turnpike customers. According to the statistical section of the Commission's Comprehensive Annual Financial report (CAFR), approximately 75 percent of all customers utilized E-ZPass in 2015.

Cashless Tolling

In January 2016, the Commission began a pilot program at the bridge over the Delaware River in Bucks County where vehicles pass under an overhead gantry at highway speed and there are no tollbooths so no tickets or cash is exchanged. Instead, customers are either charged via their E-ZPass account or by TOLL BY PLATE for customers who do not have an E-ZPass account. With TOLL BY PLATE, customers will have their license plate photographed by cameras mounted on the overhead gantry and an invoice will then be sent through the mail, using the current cash rate, to the registered owner of the vehicle.⁵

Partnership with PennDOT

On July 18, 2007, Act 44 was signed into law. Act 44 created a "public-public partnership" between the Commission and the Pennsylvania Department of Transportation ("PennDOT") to provide funding for roads, bridges, and transit throughout the Commonwealth. Act 44 required the Commission to make substantial annual payments to PennDOT and a Lease and Funding Agreement was entered into between the Commission and PennDOT on October 14, 2007, for a period of 50 years to effectuate this. See Finding 1 for more information.

⁵ Because the pilot program was just implemented in January 2016, it was not possible to obtain any data on its success. More information can be found on the Commission's website: <https://www.paturndpike.com/cashlesstolling/cashlesstolling.asp>.

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Executive Summary

This audit report presents the results of a performance audit of the Pennsylvania Turnpike Commission (“Commission”). This audit is mandated per 71 P.S. § 246(b) which states that “the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities” of the Commission. Also, in accordance with 74 Pa. C.S. § 8204(b)(1), we reviewed the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.

To fulfill our financial-related mandates, we reviewed the financial audit reports of the Commission and related working papers of the independent CPA firm for the five fiscal years ending May 31, 2011, through May 31, 2015. We also performed additional procedures related to the Commission’s operating and capital budgets. Further, we reviewed the Commission’s debt as part of our performance audit discussed below. See the Financial Results section of this report.

Our performance audit covers the period June 1, 2014 through July 11, 2016, unless otherwise noted, with updates through the report’s release. Specifically, our objectives included the following: (1) determine the sustainability of the Commission’s ability to continue to raise tolls sufficient to repay its bonded debt including the Act 44 of 2007, as amended, payments to the Pennsylvania Department of Transportation (PennDOT); and (2) determine if Commission contracts were awarded in compliance with applicable procurement policies and procedures. In this report we present three findings and eight recommendations to address these audit objectives.

Finding 1: The Turnpike Commission’s ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects is potentially unsustainable.

With the enactment of Act 44 of 2007, as amended by Act 89 of 2013, the Commission is required to pay PennDOT a total of \$9.65 billion through 2057. As of May 31, 2016, the Commission has paid PennDOT \$5.2 billion. As a result, the Commission has issued approximately \$5.6 billion in new debt since the inception of Act 44 in order to meet its mandated payments to PennDOT. In order to meet its debt payments, the Commission is expected to increase tolls each year through 2044, which is burdensome for travelers. In addition, it is necessary for traffic volume on the Turnpike to also continue to increase. However, if enough motorists decide that tolls are too high and utilize alternate toll-free routes, the Commission’s revenue will not increase as projected. Therefore, the Commission risks being unable to raise sufficient revenue to cover its debt payments.

Our recommendations include seeking immediate relief from the legislature to further reduce or eliminate Act 44/89 required payments to PennDOT and continuing to re-evaluate its ten-year

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capital plan and prioritize only capital projects requiring immediate attention to reduce debt load.

Finding 2: Rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Pennsylvania Turnpike Commission.

Toll violations occur a number of different ways, including situations such as a cash customer taking a ticket upon entry to the Turnpike but exiting through an E-ZPass lane or an E-ZPass customer's account having an insufficient prepaid balance to cover the toll charged. The number of violation notices have increased in an alarming rate from 455,000 during the fiscal year ended May 31, 2011 to 726,000 during the fiscal year ended May 31, 2015. Currently, Pennsylvania law only authorizes the Commission to collect tolls from the owners of vehicles in-state or out-of-state, when operators fail to pay the prescribed tolls, but does not give the Commission the authority to suspend the registration of Pennsylvania motorists' vehicles or otherwise impose a penalty on vehicle owners who fail to pay their tolls on the Turnpike.

Our recommendations include seeking action by the legislature to enact more significant deterrents for individuals who drive on the Pennsylvania Turnpike and fail to pay tolls and once legislation has been enacted, if appropriate, reaching out to other states, especially adjacent states, to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations.

Finding 3: Commission services and supplies contracts were awarded in compliance with Commission policies and procedures while construction contracts followed the Commonwealth's Procurement Code.

The Commission has three separate procurement areas: supplies and materials, professional services, and construction. We conducted a walkthrough of one procurement in each area as well as tested 25 contracts (10 supplies and materials, 10 professional services, and 5 construction contracts) from a population of 603 contracts entered into by the Commission during the period June 1, 2014 through October 31, 2015. We found that the procurement process for each area was adequate to ensure that the procurements were performed in compliance with respective policies and procedures. We also found that the 25 contracts were procured in compliance with applicable policies and procedures.

Status of Prior Year Findings

We followed up on six prior year findings from our performance audit report released on January 8, 2013. We found that two findings are resolved, two findings are partially resolved, and two findings are unresolved.

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Finding

1

The Turnpike Commission's ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects is potentially unsustainable.

Act 44 of 2007 was passed by the General Assembly in an attempt to find revenues for public transit agencies and road and bridge repairs for the commonwealth by requiring the Pennsylvania Turnpike Commission (Commission) to pay the Pennsylvania Department of Transportation (PennDOT) \$900 million per year over the course of 50 years. The original plan included tolling Interstate 80 (I-80) and transferring control of I-80 as well as tolls collected on that interstate, from PennDOT to the Commission. The Federal Highway Administration ultimately denied Pennsylvania permission to toll I-80 and the \$900 million annual payment provided for in Act 44 was reduced to \$450 million.

Act 89 of 2013, which amended Act 44, included a provision to lower the Commission's payments to PennDOT to \$50 million annually beginning June 1, 2022, continuing through 2057. While Act 89 alleviated some of the future debt burden, the Commission's financial situation continues to decline with the increased issuance of debt coupled with the Commission's capital spending plan for maintenance and improvements to the Turnpike. The following table shows both the actual payments already made to date and projected future payments, totaling \$9.65 billion in payments to PennDOT:

Annual Act 44/89 Commission Payments to PennDOT	
Actual payments made to date: Fiscal Year Ended May 31:	
2008	\$ 750,000,000
2009	850,000,000
2010	900,000,000
2011	450,000,000
2012	450,000,000
2013	450,000,000
2014	450,000,000
2015	450,000,000
2016	450,000,000
Total payments to date:	\$5,200,000,000
Future payments due annually:	
2017 – 2022 (\$450,000,000 per year)	2,700,000,000
2023 – 2057 (\$50,000,000 per year)	1,750,000,000
Total Actual and Future Payments⁶	\$9,650,000,000

⁶ Source: Commission Act 44 Financial Plan Fiscal Year 2017.

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Act 44/89 payments along with billions of dollars in debt-financed capital improvement projects create a heavy debt burden for the Commission.

As the Commission celebrates the 75th anniversary of the turnpike system, the Commission has undertaken major capital projects to improve the condition of the roadway. Since 2000, the Turnpike has completed over 116 miles of total reconstruction and hopes to complete over 140 miles of additional total reconstruction projects over the next ten years. This includes the expansion of the roadway from two lanes to three lanes in each direction for the entire length of the turnpike system.

At a Senate Transportation Committee meeting on May 10, 2016, a Commission official noted that, due to Act 44/89 payments, the Commission is struggling with its own operating and capital budgets. The official stated:

[The system is a] 75 year roadway... with the oldest roadbed of its kind, in the nation. So we have two things we have to look towards. One, meeting our continued obligation under Act 89, which we follow the law and will do. Second, is still providing our customers a premium that they deserve because as you know, they pay a premium to ride our roadway.

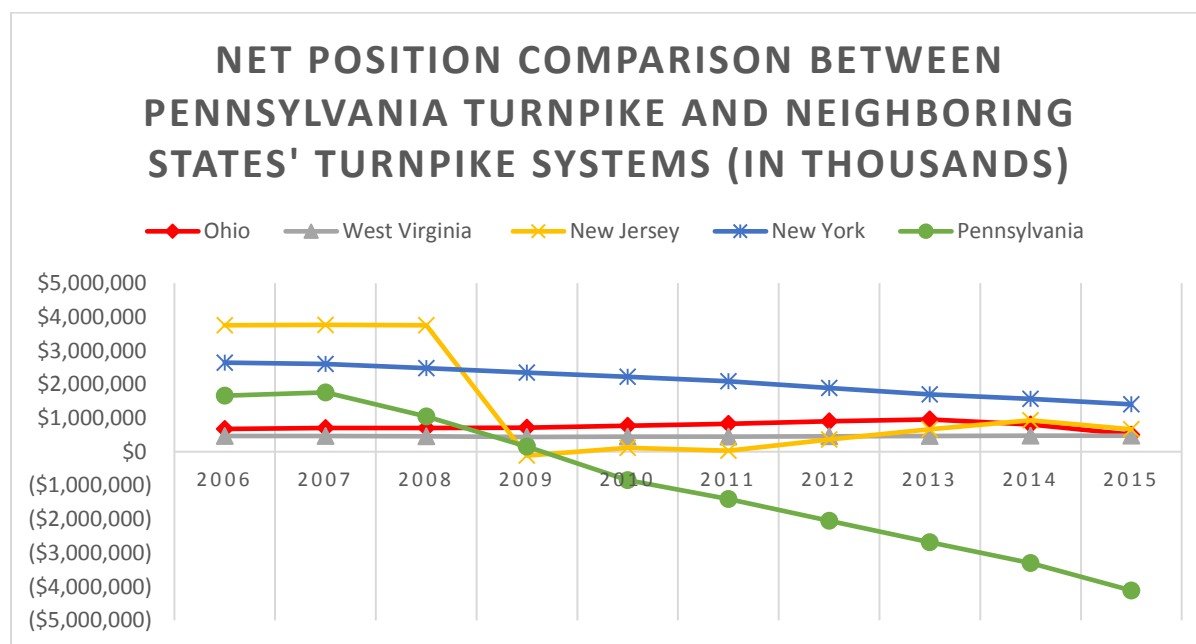
At the same meeting, officials told legislators that the Commission is “underinvesting in [the] roadway.” On May 17, 2016, the Commission approved a fiscal year 2016/2017 ten-year capital plan that significantly reduced capital spending levels for the near future. According to the Commission’s Act 44 Financial Plan for Fiscal Year 2016, total ten year projected capital expenses were approximately \$6.7 billion. In the 2017 Act 44 Financial Plan, these capital expense projections were reduced to \$5.8 billion. The Commission, in lowering its capital budget, acknowledges the stress that Act 44 payments are having upon its own capital budget capabilities.

A good indicator of the financial condition of any entity is its net position (total assets minus total liabilities). The higher the net position, the better the financial condition. In 2007, just prior to Act 44 being enacted, the Commission reached its highest net position value at \$1.76 billion. Since the Act 44 payments began, the Commission’s net position has spiraled into a deficit. The

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Commission's 2015 comprehensive annual financial report reported a net position of negative \$4.11 billion, a decrease of \$5.87 billion in eight years. At that time, the Commission had paid PennDOT \$4.75 billion, which represents 81 percent of the eight year change in net position. Additionally, since the passage of Act 44/89, the Commission has recorded interest expense of approximately \$1.28 billion through fiscal year ended May 31, 2015 on debt used to fund the Act 44/89 payments to PennDOT. Adding this interest expense to the \$4.75 billion more than accounts for the \$5.87 billion decrease in net position, indicating the magnitude of the negative effect Act 44/89 has had on the Commission's net position.

We compared the Commission's net position to neighboring state turnpike systems' net positions over a ten-year period. While other states had changes in net position, most have remained fairly steady. Additionally, all states in our analysis currently have positive net positions except for Pennsylvania's as shown in the graph below:



Source: Developed by Department of the Auditor General from information in the states turnpike systems' comprehensive annual financial reports.

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The Commission's heavy debt obligation does not compare favorably to optimistic revenue projections.

Through its fiscal year ended May 31, 2016, the Commission has issued approximately \$5.6 billion in new debt since the inception of Act 44 in 2008 in order to meet the mandated payments to PennDOT. The following table shows future projected toll revenue (under the assumption that tolls will increase as discussed in the next section), total outstanding debt, and projected future debt through 2035 per Commission-provided information:

Table 1

Turnpike Revenue vs. Debt Forecast FYE 2015 through 2035 (Amounts in 000's)						
Fiscal Year Ending May 31	Projected Toll Revenue ⁷	Funds Remaining after Operating Expenses	Total Scheduled Debt Payments	Projected Total Outstanding Debt	Amount of Act 44 Debt Payable	% of Debt Attributable to Act 44
2015	\$925,096	\$487,326	\$422,345	\$9,183,625	\$5,166,560	56.26%
2016	\$1,022,289	\$613,988	\$479,797	\$9,967,377	\$5,643,158	56.62%
2017	\$1,112,611	\$622,620	\$573,666	\$11,493,371	\$6,091,680	53.00%
2018	\$1,195,848	\$689,153	\$663,059	\$12,462,029	\$6,513,554	52.27%
2019	\$1,287,891	\$802,109	\$744,274	\$13,303,088	\$6,904,653	51.90%
2020	\$1,380,972	\$877,358	\$801,041	\$14,135,616	\$7,287,843	51.56%
2021	\$1,475,606	\$896,882	\$848,581	\$14,630,184	\$7,646,314	52.26%
2022	\$1,567,634	\$944,350	\$926,078	\$15,393,650	\$7,965,601	51.75%
2023	\$1,665,475	\$1,013,101	\$969,351	\$15,231,432	\$7,476,401	49.09%
2024	\$1,769,559	\$1,045,668	\$1,000,648	\$15,428,216	\$7,345,509	47.61%
2025	\$1,879,504	\$1,074,751	\$1,029,510	\$15,563,043	\$7,206,097	46.30%
2026	\$1,988,758	\$1,167,245	\$1,057,047	\$15,530,632	\$7,059,017	45.45%
2027	\$2,088,604	\$1,233,943	\$1,086,600	\$15,472,824	\$6,891,329	44.54%
2028	\$2,183,472	\$1,294,754	\$1,072,267	\$15,408,346	\$6,701,715	43.49%
2029	\$2,276,275	\$1,352,840	\$1,113,186	\$15,292,559	\$6,493,250	42.46%
2030	\$2,372,314	\$1,340,288	\$1,164,672	\$15,068,963	\$6,272,707	41.63%
2031	\$2,471,927	\$1,398,822	\$1,194,617	\$14,764,250	\$6,052,544	40.99%
2032	\$2,575,585	\$1,459,986	\$1,256,096	\$14,451,221	\$5,803,534	40.16%
2033	\$2,683,889	\$1,442,379	\$1,285,794	\$14,054,151	\$5,532,344	39.36%
2034	\$2,796,877	\$1,505,521	\$1,315,595	\$13,591,577	\$5,229,431	38.48%
2035	\$2,913,858	\$1,570,945	\$1,342,811	\$13,212,681	\$4,889,684	37.01%

Source: The Commission's 2017 Act 44 Financial Plan and other information provided by the Commission. The reliability of this data has not been determined as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

⁷ Projected by the Commission's traffic consultant's assessment of economic conditions and the long term impact on traffic demand. Projections include future traffic and toll rate increases as shown in Tables 2 and 3.

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While Table 1 above projects that the Turnpike can sustain its debt payments over the next 20 years, these projections are based on toll revenue increasing by 215 percent during that time period while at the same time reducing its capital spending levels per the Commission's Act 44 Financial Plan for Fiscal Year 2017.⁸ These projections of toll revenues appear highly optimistic in that they are based on both Turnpike traffic and toll rates increasing every year through 2044, which is not a certainty.

Commission officials represented to us that based on the consulting study, they believe they can meet the Act 44/89 payment obligations through their fiscal year 2022. Beginning in fiscal year 2023 the payments are scheduled to decrease to \$50 million per year. For this reduction to occur, the legislature must find alternative funding sources to replace the PTC payments. However, if these projections (traffic count and toll increases) are not realized through 2022, and or if the PTC payments are not allowed to decrease to \$50 million in 2023, the Commission will be in jeopardy of defaulting on its scheduled debt payments and/or needing to further reduce its capital spending levels in the future. (PTC had to decrease its 10 year projected Capital Budget program by \$1 billion this year.) Additionally, two credit rating agencies have noted concerns with the Commission's projections.

Moody's Investors Services noted in October 2015:

The ratings incorporate a degree of expected traffic and revenue (T & R) underperformance, albeit not material given recent traffic and revenue increases. We expect traffic forecasts to continue to be revised downward in the future. In addition, traffic diversion to alternative free routes by price sensitive commercial users coupled with shifting residential demographics including an aging population, weak population growth, urbanization and out migration of native residents lead us to believe that minimal traffic growth can be expected over the long-term.⁹

Fitch Ratings Inc. noted in November 2015 that there is political risk associated with implementing toll rates above inflation for multiple years. Additionally, it noted that if traffic growth stagnates after multiple years of toll increases, the Turnpike may

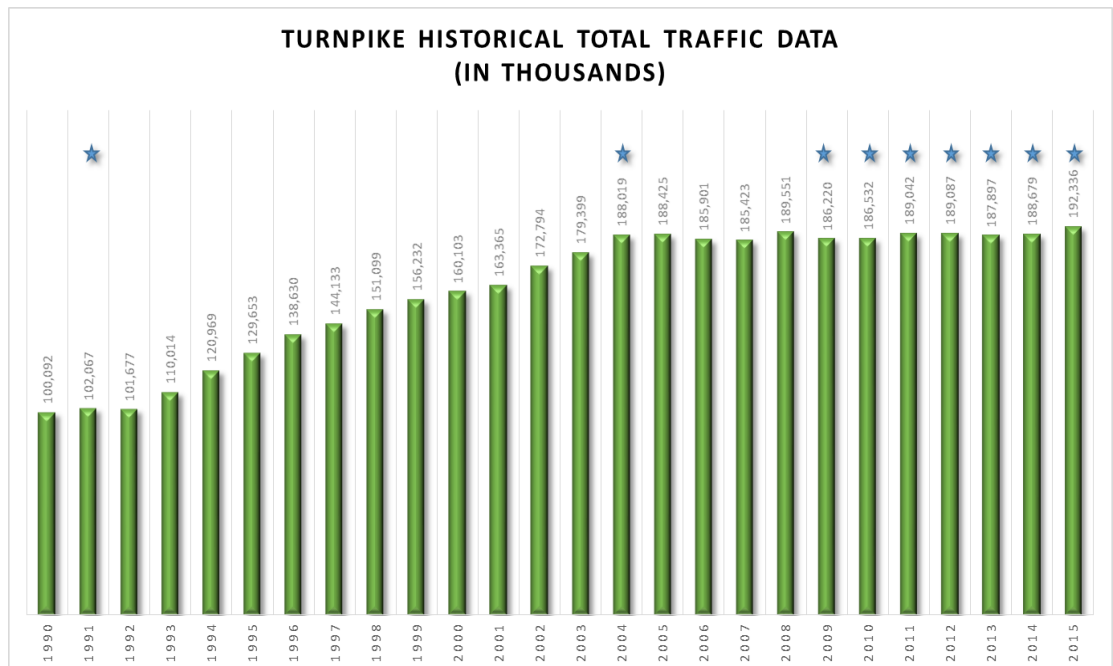
⁸ https://www.paturndpike.com/pdfs/business/finance/PTC_Fiscal_2017_Act_44_Financial_Plan.pdf

⁹ Moody's Investors Service rating action dated October 5, 2015 per Moody's.com website.

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need to increase tolls even higher than already forecasted which also could face political opposition.¹⁰

Although we found that 2015 was a record year for the Commission in terms of the number of vehicles that traveled the Turnpike, over the last decade traffic volume has remained relatively flat. The following graph shows the number of vehicles traveling the Pennsylvania Turnpike per year over the last 25 years and when toll increases were instituted:



Source: Developed by Department of the Auditor General staff from the Commission's 2000, 2008, and 2015 Comprehensive Annual Financial Reports.

In other words, if enough motorists decide that tolls are too high and utilize alternate toll-free routes, the Commission's revenue will not increase as projected. The Commission risks being unable to raise sufficient revenue to cover its debt payments, and potentially defaulting on those payments.

Turnpike Commissioners recently ordered a system-wide reassessment of its capital improvement projects on July 19, 2016. The Commission chairman stated:

¹⁰ Fitch Ratings Inc. action dated November 11, 2015 per Fitch Ratings website <https://www.fitchratings.com/site/pr/99385/>

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[The Commission is] obliged to reassess capital spending today because of concerns that more than half of our revenues go to pay down our debt service each year. Toll revenues are forecast to reach \$1.1 billion in Fiscal Year 2017, while debt service is \$573 million. And that debt service obligation will grow as long as we are required to continue borrowing.¹¹

The Chairman further stated:

Without guarantees from the General Assembly that relief is on its way, this is the most judicious step for the Commission's economic viability. [The Commission] simply cannot continue to burden customers each year because of the obligation the general assembly has imposed upon the Turnpike Commission and our customers.¹²

To provide a comparison, a summary of the projected annual traffic data as prepared by a contracted consultant for the Commission is provided below:

¹¹ "PA Turnpike Commission Approves Six Percent Toll Increase for 2017," Pennsylvania Turnpike Commission News Release, July 19, 2016.

¹² Ibid.

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Table 2

Turnpike Projected Annual Total Traffic		
Fiscal Year Ended May 31	Estimated Total Vehicle Transactions (in 000's)	Percent Change
2016	197,128 ¹³	2.49% ¹⁴
2017	199,656	1.28%
2018	204,228	2.29%
2019	209,665	2.66%
2020	212,569	1.39%
2021	215,502	1.38%
2022	218,465	1.37%
2023	221,450	1.37%
2024	224,471	1.36%
2025	227,523	1.36%
2026	230,597	1.35%
2027	233,701	1.35%
2028	236,836	1.34%
2029	240,000	1.34%
2030	243,133	1.31%
2031	246,119	1.23%
2032	249,015	1.18%
2033	251,941	1.18%
2034	254,895	1.17%
2035	257,878	1.17%
2036	260,874	1.16%
2037	263,742	1.10%
2038	266,423	1.02%
2039	269,130	1.02%
2040	271,852	1.01%
2041	274,590	1.01%
2042	277,359	1.01%
2043	280,160	1.01%
2044	282,993	1.01%

Source: The Traffic and Toll Revenue Forecast Study performed by a Commission consultant. This data is of undetermined reliability as noted in Appendix A. However, this data appears to be the best data available. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

Before Act 44, the Commission only increased tolls five times in 64 years. With the passage of Act 44 and the Commission's increasing debt load, the Commission has been forced to increase tolls each year since January 1, 2009, with each increase being greater than the rate of inflation for that respective year. The Commission plans to increase tolls each year through 2044 in order

¹³ Includes actual transactions through January 2016.

¹⁴ Calculated based on actual transactions from fiscal year ended May 31, 2015 (not shown here).

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to meet its Act 44/89 obligations. Table 3 below depicts the actual and projected toll increases resulting from Act 44/89:

Table 3

**Actual (through 2016) and Expected Toll Increase Resulting from Act 44/89
Calendar Year 2009 through 2044**

Year	Cash	E-ZPass		Cash	E-Zpass
2009 ¹⁵	25.0%	25.0%		2027	3.5%
2010	3.0%	3.0%		2028	3.0%
2011	10.0%	3.0%		2029	3.0%
2012	10.0%	-		2030	3.0%
2013	10.0%	2.0%		2031	3.0%
2014	12.0%	2.0%		2032	3.0%
2015	5.0%	5.0%		2033	3.0%
2016	6.0%	6.0%		2034	3.0%
2017	6.0%	6.0%		2035	3.0%
2018	6.0%	6.0%		2036	3.0%
2019	6.0%	6.0%		2037	3.0%
2020	6.0%	6.0%		2038	3.0%
2021	5.0%	5.0%		2039	3.0%
2022	5.0%	5.0%		2040	3.0%
2023	5.0%	5.0%		2041	3.0%
2024	5.0%	5.0%		2042	3.0%
2025	5.0%	5.0%		2043	3.0%
2026	4.0%	4.0%		2044	3.0%

Source: The Turnpike 2015 Traffic and Revenue study. This data is of undetermined reliability as noted in Appendix A. However, this data appears to be the best available data. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

Note: 2009 through 2016 are actual increases. 2017 through 2044 are expected increases according to the Commission. Increases typically take effect the first week in January.

The Commission did note in its 2017 Act 44 Plan that “it is important to recognize that there are inherent uncertainties in projecting resources and obligations over a 40 year time period.” We agree with this statement, and the Commission increasing tolls annually and expecting traffic volume to grow simultaneously is highly optimistic.

In order to better understand the effects of these toll increases, we calculated toll rates for traveling between Philadelphia and Pittsburgh, entering the Turnpike system at Valley Forge (Exit 326) and exiting at Pittsburgh (Exit 57). We calculated future toll rates using the projected percent increases above. We scheduled

¹⁵ By comparison the U.S. inflation rate for years 2009 through 2015 per the USDOL were as follows: 2009: -0.4%; 2010: 1.6%; 2011: 3.2%; 2012: 2.1%; 2013: 1.5%; 2014: 1.6%; 2015: 0.1%.

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the toll rates for a passenger vehicle (Class 1, with 2-axes), and a commercial vehicle (Class 6 – 50,000 lbs., with 5-axes). The results are presented as follows:

Projected Toll Rates from Valley Forge (Exit 326) to Pittsburgh (Exit 57) – 2016 through 2044 270.18 miles

	Passenger Vehicle < 7,000 lbs., 2-Axle		Commerical Vehicle 50,000 lbs., 5-Axle	
	Cash	EZ-Pass	Cash	EZ-Pass
2016	\$32.90	\$23.40	\$124.10	\$89.07
2017	\$34.87	\$24.80	\$131.55	\$94.41
2018	\$36.97	\$26.29	\$139.44	\$100.08
2019	\$39.18	\$27.87	\$147.81	\$106.08
2020	\$41.54	\$29.54	\$156.67	\$112.45
2021	\$43.61	\$31.02	\$164.51	\$118.07
2022	\$45.79	\$32.57	\$172.73	\$123.97
2023	\$48.08	\$34.20	\$181.37	\$130.17
2024	\$50.49	\$35.91	\$190.44	\$136.68
2025	\$53.01	\$37.70	\$199.96	\$143.52
2026	\$55.13	\$39.21	\$207.96	\$149.26
2027	\$57.06	\$40.58	\$215.24	\$154.48
2028	\$58.77	\$41.80	\$221.69	\$159.12
2029	\$60.54	\$43.06	\$228.34	\$163.89
2030	\$62.35	\$44.35	\$235.19	\$168.81
2031	\$64.22	\$45.68	\$242.25	\$173.87
2032	\$66.15	\$47.05	\$249.52	\$179.09
2033	\$68.13	\$48.46	\$257.00	\$184.46
2034	\$70.18	\$49.91	\$264.71	\$189.99
2035	\$72.28	\$51.41	\$272.65	\$195.69
2036	\$74.45	\$52.95	\$280.83	\$201.56
2037	\$76.69	\$54.54	\$289.26	\$207.61
2038	\$78.99	\$56.18	\$297.94	\$213.84
2039	\$81.36	\$57.86	\$306.88	\$220.25
2040	\$83.80	\$59.60	\$316.08	\$226.86
2041	\$86.31	\$61.39	\$325.56	\$233.67
2042	\$88.90	\$63.23	\$335.33	\$240.68
2043	\$91.57	\$65.13	\$345.39	\$247.90
2044	\$94.31	\$67.08	\$355.75	\$255.33



CASH

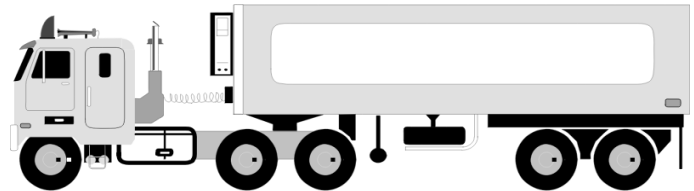
2016: \$32.90 (about 12.1¢ per mile)

2044: \$94.31 (about 34.9¢ per mile)

E-ZPASS

2016: \$23.40 (about 8.7¢ per mile)

2044: \$67.08 (about 24.8¢ per mile)



CASH

2016: \$124.10 (about 45.9¢ per mile)

2044: \$355.75 (about \$1.32 per mile)

E-ZPASS

2016: \$89.07 (about 33.0¢ per mile)

2044: \$255.33 (about 94.5¢ per mile)

Source: Developed and calculated by Department of the Auditor General using the 2016 current toll rates and the assumed toll rate increase.

Note: 2016 is the actual toll rate according to the Commission's toll calculator.

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Annual costly toll increases place an undue burden on Pennsylvanians.

The one-way ticket prices between Philadelphia and Pittsburgh shown above will increase at the same rates for traveling other distances on the Turnpike. Considering that toll rates for Turnpike travel are projected to triple by 2044, we believe that at some point, the average Turnpike traveler will be deterred by the increased cost and seek alternate toll-free routes. This would obviously impact Commission revenues negatively. The stagnant traffic growth from 2004 through 2014, shown in the historical traffic data graph above, may already demonstrate that this situation is occurring.

The contracted consultant for the Commission noted in its 2015 Traffic and Revenue Forecast Study that, while the primary reason for stagnant traffic growth from 2004 to 2014 was a slow recovery from the economic recession, a secondary reason was that toll increases took place in 2004 and each year from 2009 through 2014.

It should also be noted that every annual toll increase has the potential to be a burden for consumers as companies that transport goods by commercial vehicles on the Turnpike could pass the additional costs onto consumers.

Effects on Credit Rating

The Commission's credit ratings have decreased slightly since the passage of Act 44. Concerns over the Commission's revenue projections and toll increases were noted earlier in the finding from two credit agencies. Additionally, one of these credit agencies also noted that the Commission's rating could be downgraded further if traffic and revenues fall short of projections or if there are "higher than anticipated" financing costs for Act 44/89 payments/debt and/or capital improvements. Credit rating decreases can lead to an increase in debt financing costs on new bond issues, and therefore, higher future interest rates which equate to higher debt payments.

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Toll price increases directly impact the very consumers who provide the Commission with the majority of its revenue. The toll prices potentially are already nearing the point where certain consumers will find it too costly and avoid using the Pennsylvania Turnpike. As such, the Commission's plan to annually increase toll rates through 2044 as shown in table 3 above may be an unsustainable practice for the Commission to meet its Act 44/89 and capital improvement expenses over the long-term.

Recommendations

We recommend that the Commission:

1. Continue to re-evaluate its ten-year capital plan and prioritize only capital projects requiring immediate attention in order to reduce its overall heavy debt load.
2. Seek immediate relief from the legislature to further reduce or eliminate Act 44/89 required payments to PennDOT.
3. Ensure that traffic projections used to project toll revenue are conservative and realistic.
4. Evaluate and scrutinize operating expenses to find ways to reduce costs. Several immediate recommendations are made in our follow-up to the status of Prior Year Finding numbers 1, 2, and 5 to eliminate toll-free use of the Turnpike by employees and non-employees and to eliminate excessive expenditures by the Commissioners.
5. Evaluate ways to increase passenger car and commercial use of the Turnpike.

Pennsylvania Turnpike Commission

Finding**2**

Rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Pennsylvania Turnpike Commission.

Toll collection options offered by the Turnpike Commission.

The Commission collects tolls from customers in one of three ways: cash, E-ZPass, and TOLL BY PLATE. Customers paying by cash simply take a ticket upon entering the Turnpike and then pay cash to a collection agent at a toll booth when exiting the system. E-ZPass works by having a small transponder mounted in the vehicle (usually by the rear-view mirror) that is linked to an account that draws against an associated prepaid balance. When a driver enters and exits the Turnpike, an antenna at the toll booth reads a signal from the transponder and automatically deducts the toll amount from his/her prepaid account.

The TOLL BY PLATE procedure is currently utilized only at a new cashless tolling point on the Pennsylvania Turnpike Bridge over the Delaware River. The use of this procedure by the Commission is expected to be expanded in April 2017 to the Beaver Valley Expressway (tolled portion of I-376) in western Pennsylvania. In total, the Commission plans on spending \$384 million on cashless tolling through 2026 as per its 2017 10-year Capital Plan. Currently with TOLL BY PLATE, cameras mounted on overhead gantries record images of vehicle license plates travelling at highway speed as they exit the Delaware River Bridge. If the license plate numbers match with corresponding E-ZPass accounts, the tolls will be deducted from those E-ZPass accounts. Should an E-ZPass account not exist, an invoice is processed by the Commission and sent to the registered owner of the vehicle based on the license plate image.

Pennsylvania Turnpike Commission

Toll Violations

Toll violations occur a number of different ways. Below is a list of the most common types of violations that occur either purposely or accidentally:

- A vehicle exits through an E-ZPass lane without a valid E-ZPass transponder.
- Transponder identification fails (possibly due to a low battery in the transponder) and the vehicle license plate was not associated with an E-ZPass account.
- The E-ZPass account was in insufficient fund status (lack of an adequate prepaid balance).
- A cash customer takes a ticket upon entry to the Turnpike but exits through an E-ZPass lane.

Collection Process for Violations

For all types of violations that occur, the Commission initiates the same process to attempt to make collection for the toll that is due. First, the Commission's Violations Processing Center (VPC) sends the registered owner of the vehicle a violation notice containing an amount due for the toll, calculated from the furthest possible point of entry (because the actual point of entry cannot be determined) to the actual point of exit plus a \$25 administrative fee. The first notice is sent out within two weeks of the violation for Pennsylvania and New Jersey-registered vehicles and in 3 to 4 weeks for vehicles from all other states. If the customer does not respond by the first notice due date (30 days from issue date of the notice), a second notice is sent by the VPC and an additional \$15 administrative fee is added.

If the customer has not remitted the tolls and fees after the second notice, the Commission sends the account information to a collection agency. The agency is given six months to attempt to collect on the accounts and receives 13% of actual collections made. After the six month period, any remaining uncollected accounts are sent by the Commission to a second collection agency that is given one year to attempt to collect on the accounts. This collection agency receives 21% of actual collections made.

Pennsylvania Turnpike Commission

Toll Violations Increasing at an Alarming Rate

As shown in Table 1 below, the number of vehicles using the Turnpike has increased by less than two percent for each of the years presented, but the number and amount of violation notices invoiced has increased by more than 15% per year with the exception of 2013. This is a major concern for the Commission because it lacks the legal authority to further penalize toll violators regardless of whether violations were intentional or not and regardless of how many times individuals have failed to pay their tolls and fees.

Table 1

Fiscal Year Ended May 31	Number of Violation Notices Invoiced	Percent Change in Number of Violations	Total Number of Vehicles Using the Turnpike¹⁶	Percent Change in Total Vehicles Using Turnpike
2011	455,000	-	189,042,000	-
2012	524,000	15.2%	189,087,000	0.02%
2013	546,000	4.2%	187,897,000	-0.63%
2014	631,000	15.6%	188,679,000	0.42%
2015	726,000	15.1%	192,336,000	1.94%

Note: The number of violation notices invoiced were provided by the Commission. This data is of undetermined reliability as noted in Appendix A. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

Currently, Pennsylvania law only authorizes the Commission to collect tolls from the owners of vehicles, whether in-state or out-of-state, when the operators fail to pay the prescribed tolls,¹⁷ but does not give the Commission the authority to suspend the registration of Pennsylvania motorist's vehicles or in any way impose a penalty on vehicle owners who fail to pay their tolls on the Turnpike.

Several other states including Maine, Massachusetts, and New Hampshire have laws which allow for the suspension of a toll

¹⁶ Information taken from the statistical section of the Turnpike Commission's 2015 Comprehensive Annual Financial Report

¹⁷ 74 Pa. C. S. § 8117.

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violator's vehicle registration. In addition, these three states also have reciprocity agreements in place that allow for the suspension of the toll violator's vehicle registration, by their state of residency, if the vehicle is involved in a toll violation in any of these three states. Pennsylvania lacks such a law, which makes it difficult to collect from toll violators and prevents Pennsylvania from entering into any such reciprocity agreements with other states.

Based on a Commission list of violations receivable as of November 24, 2015, \$15.6 million of the \$37.7 million, or 41.4%, of violations receivable at that point in time were from out-of-state registered vehicle owners. Commission officials stated in their March 2015 Transition Report to Governor Wolf that they identified toll evasion enforcement/toll collection methods and broadening tolling authority/reciprocity as a key legislative initiative. With the eventual move to TOLL BY PLATE as explained above, it is imperative that the Commission be given the legal authority to effectively enforce the collection of unpaid toll amounts by being able to utilize other more meaningful deterrents to non-payment.

Costs of Processing and Pursuing Collection of Toll Violations

Consistent with the increases in the number of violations noted in Table 1 above, we found increases in the amount of tolls and fees invoiced and the amount of violations accounts receivable outstanding. Specifically, as shown in Table 2 below the amount of tolls and fees (column 2) as well as the amount of violations accounts receivable outstanding (column 5) have grown between 16 to 33 percent per annum as noted in column 3 and column 6, respectively. Between June 1, 2012 and April 30, 2016, the total dollar amount of invoiced toll violations and fees increased by 90 percent, and the total dollar amount of accounts receivable increased approximately 104 percent (more than doubled). Further, the toll violation and fee amounts invoiced were 4.0 percent of gross annual toll revenue for the fiscal year ending May 31, 2013, and will have grown to an estimated 6.5 percent of gross annual toll revenue for the fiscal year ending May 31, 2016.

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Table 2

Fiscal Year Ended May 31	Total Invoiced Violation Tolls and Fees Originating in FY	Percent Change in Annual Tolls and Fees Invoiced	Violation Tolls and Fees as Percent of Gross Annual Tolls	Total Violations Accounts Receivable per Commission Aging Report at FYE	Percent Change in Violations Accounts Receivable at FYE	Annual Gross Toll Revenue Collected	Percent Change in Annual Gross Toll Revenue Collected
2013	\$32,342,090	-	4.0%	\$21,193,627	-	\$811,542,000	-
2014	\$37,569,368	16.2%	4.4%	\$24,954,237	17.7%	\$860,373,000	6.0%
2015	\$47,166,178	25.5%	5.1%	\$33,257,885	33.3%	\$925,096,000	7.5%
2016	\$61,340,131 ¹⁸	30.0%	6.5%	\$43,193,636 ¹⁹	29.9%	\$1,022,289,000 ²⁰	10.5%

Note: The total invoiced violation tolls and fees amounts and the accounts receivable amounts were provided by the Commission. This data is of undetermined reliability as noted in Appendix A. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

We also reviewed the Commission's accounts related to the amount of toll violation and fee amounts it was unable to collect for the fiscal years ending May 31, 2013 through 2016 (2016 amounts were only available through March 31). For fiscal year 2013 the Commission wrote off \$11,894,489 of tolls and fees as being uncollectible. By fiscal year 2016 (through March 31) the amount written off as uncollectible has grown to \$19,963,342, a 68% increase. By comparison, as noted in table 2, total gross Turnpike toll revenue increased from \$811,542,000 in the fiscal year ended May 31, 2013 to an estimated \$1,022,289,000 at the fiscal year ending May 31, 2016, a 26% increase. This is further evidence that the Commission needs to increase its efforts to prevent toll violations from becoming an even larger financial problem.

Recommendations

We recommend that the Commission:

1. Seek action by the legislature to enact more significant deterrents for individuals who drive on the Pennsylvania Turnpike and fail to pay tolls, such as:

¹⁸ Actual through April 30, 2016 (11 months of fiscal year).

¹⁹ Estimated, unaudited preliminary amount at May 31, 2016.

²⁰ Unaudited preliminary estimate provided by the Commission.

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- a. The authority to suspend vehicle registrations.
 - b. The authority to impose graduated fines for multiple toll violations.
 - c. The authority to publish lists of egregious toll violators.
2. Once legislation has been enacted, if appropriate reach out to other states, especially adjacent states, to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations.
3. Consider the acceptance of credit cards and debit cards at toll booths, which may help individuals who accidentally enter the Turnpike, but do not have cash with them to pay tolls.

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Finding**3**

Commission services and supplies contracts were awarded in compliance with Commission policies and procedures while construction contracts followed the Commonwealth's Procurement Code.

Applying the Procurement Code to State-Affiliated Agencies, including the Turnpike Commission

The Commonwealth's Procurement Handbook regulates procedures for the procurement of supplies and materials, services, and construction under the authority of the Procurement Code.²¹ The Procurement Code classifies the Pennsylvania Turnpike Commission as a Commonwealth authority or entity, also known as a "state-affiliated entity"²² The Procurement Code under Part 1, Chapter 3, Subchapter A, Section 301(d) states that as a state-affiliated entity the Turnpike:

may formulate their own procurement policy governing the procurement, management, control and disposal of supplies, services and construction and may act as their own purchasing agency for the procurement of supplies, services and construction but they are required to use the procedures provided in this part for such procurement.²³

One of our audit objectives was to determine if Commission contracts were awarded in compliance with applicable procurement policies and procedures. As part of our audit procedures relating to Commission contracts, we reviewed the Commission's three separate procurement areas: supplies and materials, professional services, and construction. We found that the Commission follows its own internal policies and procedures for procuring supplies, materials, and professional services. For construction contracts, the Commission was in the process of revising internal policies and procedures during our audit period and in the meantime deferred to following the Commonwealth's Procurement Code.

²¹ 62 Pa. C.S. § 101 *et seq.*

²² 62 Pa. C.S. § 103. Definitions.

²³ 62 Pa. C.S. § 301(d).

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Commission procurement policies and procedures

We reviewed the Commission's policies and procedures relating to each of the three procurement areas. We performed a detailed walkthrough of one procurement in each of these three areas in order to determine if the procurement process was adequate to ensure compliance with Commission policies and procedures. The results of our walkthroughs are detailed below.

Purchasing

The Commission's Purchasing Procedures Manual (Purchasing Manual) is the instruction manual for the Strategic Sourcing and Asset Management department, and serves as the written policies and procedures for procuring supplies and materials for the maintenance, repair and operation of the PA Turnpike. The Purchasing Manual's most recent revision was effective July 15, 2014.

We reviewed all pertinent documentation including the internal requests for goods and services, informal quotations, bid documents (including those of bidders not selected), bid tabulations and evaluations, contract agreements, purchase order(s) (and change orders if applicable), and Commission approval documentation. Our walkthrough of the contracting/procurement process related to purchasing supplies and materials found that the procurement process in place appears to be functioning as designed to ensure policies and procedures are being followed.

Engineering/ Other Professional Services

During our audit period, the Commission used the Contracting Policies and Procedures Manual dated 1999, as amended April 2012, for the procurement of engineering/other professional services. As part of our walkthrough, we reviewed documentation from the request for proposals, statements of interest (SOI) submitted by vendors (including those of vendors not selected), Technical Evaluation Team (TET) selection and their evaluation of the SOI's, Professional Services Procurement Committee and their approval of the TET evaluations, contract agreements, and Commissioner review and approval.

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Our walkthrough of the contracting/procurement process related to procuring engineering/other professional services found that the procurement process in place appears to be functioning as designed to ensure policies and procedures are being followed.

Competitively bid construction contracts

Commission officials responsible for the oversight of construction contracts, indicated that the Commission is in the process of revising and updating their construction contracting procurement procedures for competitively bid construction contracts. As a result, Commission officials stated that it has been using the Commonwealth Procurement Code when competitively bidding construction projects.

According to the Pennsylvania Procurement Handbook:

Competitive sealed bidding is the traditional and usual method of contractor selection. It is normally used when the supply, service, or construction can be satisfactorily described and price is the only factor to be considered in the award, after bidder responsibility is determined. There are no technical scores and/or calculating of total scores for proposals when issuing this bidding method.²⁴

As part of our walkthrough we reviewed documentation relating to the competitive sealed bidding procedures and documents (including those of bidders not selected), pre-qualification of contractors, bid opening procedures, and commission approval. We noted that procedures were in compliance with the Procurement Code and appear to be functioning as designed.

Review of Commission contract files for compliance

As part of our audit, we selected a total of 25 contracts from a total population of 603 contracts entered into by the Commission during the period of June 1, 2014 through October 31, 2015. To make

²⁴ Part I, Chapter 6, Methods of Awarding Contracts, A. 1. b. Accessed from <http://www.dgs.pa.gov/State%20Government/Materials-and-Services-Procurement/Procurement-Handbook/Pages/default.aspx>

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that determination, we reviewed each of the 25 contract files for sufficient and appropriate documentation to demonstrate adherence to the corresponding policies and procedures. We selected contracts from each of the three procurement areas as follows:

- 10 purchasing contracts
- 10 engineering/other professional services contracts
- 5 construction contracts

Our review of the 25 contract files found that the purchasing and engineering/other professional service contracts were procured in compliance with Commission policies and procedures as detailed in our walkthrough procedures noted above. We also found that the construction contracts were procured in accordance with the Commonwealth Procurement Code.

Pennsylvania Turnpike Commission

**Financial
Results****Financial-Related Mandates, Procedures, and
Results**

The following are the financial-related mandates addressed in this report:

- Section 706(b) of the Administrative Code of 1929, amended by Act 22 of 1998,²⁵ provides that “the Auditor General shall, on a quadrennial basis, conduct a financial audit and a compliance audit of the affairs and activities” of the Commission.
- Section 8204(b)(1) of Part IV, Title 74 (Transportation), Act 44 of 2007, as amended by Act 89 of 2013²⁶ requires the Auditor General to review the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.

The Pennsylvania Turnpike Commission (Commission) contracts with an independent CPA firm for an annual audit of the Commission’s financial statements. The Department of the Auditor General reviews the CPA firm’s working papers and financial audit reports to determine if the above mentioned mandated requirement(s) pertaining to the financial audit and review (of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission) have been fulfilled or whether additional procedures need to be performed in order to fulfill these mandated responsibilities.

During the audit, we performed the following procedures related to the work of the CPA firm and determined that the scope, quality, and timing of the audit work performed by the CPA firm adequately addressed the mandated requirement(s) pertaining to the financial audit and review of the performance, procedures, and accounts of the Commission:

- Verified that the external auditors were independent to conduct the financial audits of the Commission.

²⁵ 71 P.S. § 246(b).

²⁶ 74 Pa. C. S. § 8204(b)(1).

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- Obtained copies of peer review results and found the CPA firm received a rating of pass during each of the years they performed the financial audits of the Commission.
- Reviewed the independent auditor's working papers for the five fiscal years ending May 31, 2015 (June 1, 2010 through May 31, 2015).²⁷
- Noted that the independent auditor presented an unqualified opinion on the Commission's financial statements for each of the five years stated above.

In addition to reviewing the CPA firm's working papers and financial audit reports, we also obtained the related operating and capital budgets for these fiscal years and performed analytical review procedures. We did not identify any unusual items that warrant further review.

Finally, we reviewed the Commission's debt as part of our performance audit. Specifically, we evaluated the Commission's current and future expected debt load based on Act 44 of 2007 as amended by Act 89 of 2013 mandated annual payments to PennDOT to determine whether the Commission can sustain the related debt payments. Please see Finding 1 for more information.

Conclusion:

Based on the procedures performed, nothing came to our attention that would warrant the extension of our audit procedures to encompass additional coverage of the aforementioned mandated areas. As a result, we are able to conclude that the procedures performed collectively satisfy our mandated responsibilities prescribed in Section 706(b) of the Administrative Code of 1929, added by Act 22 of 1998 and Section 8204(b)(1) of Part IV, Title 74 (Transportation), Act 44 of 2007, as amended by Act 89 of 2013.

²⁷ https://www.paturnpike.com/business/annual_financial_reports.aspx. Only the most recent audit report is presented.

Pennsylvania Turnpike Commission

Status of Prior Audit Findings



Our prior audit of the Pennsylvania Turnpike Commission covered the period January 1, 2007 to August 31, 2011 and contained six findings and 20 recommendations. On the pages that follow, we provide the status of these findings and offer additional recommendations to eliminate the deficiencies identified.

Pennsylvania Turnpike Commission

**Prior Finding
One**

The Turnpike Commission let its employees ride the Turnpike toll-free, even for personal travel, costing the Turnpike millions of dollars in lost revenue. This generous perk continued with little oversight at a time when the Turnpike raises tolls for other travelers in its struggle with mounting debt. (Unresolved)

During the prior audit, we reported that the Turnpike Commission's (Commission) policies granted its employees toll-free access to the Turnpike, whether the employee was on business or personal travel status, by use of their employee identification cards or use of a special E-ZPass transponder. We found that if these policies did not exist, the Commission would be violating the Trust Indenture²⁸ by granting employees free passage for personal travel.

The Commission conceded that it made no distinction between personal or business toll-free travel, and therefore, did not track employee personal toll-free usage. According to the Commission however, the cost of all toll-free travel credited to employee identification cards totaled \$1,433,420. The Commission was unable to provide the cost of toll-free travel by employees using special E-ZPass transponders. Additionally, we noted that the Commission had little control over the devices used for granting toll-free travel, which could lead to abuse.

We recommended that the Commission: (1) immediately stop granting personal toll-free travel to its employees, adhere to its Trust Indenture provision that allows toll-free travel to employees in the "discharge of official duties" only, and rescind the policies that violate the spirit of the Trust Indenture by decreeing that employees are on duty anytime they travel the Turnpike; and (2) aggressively and accurately monitor employee toll-free business travel to verify it indeed occurs in the actual "discharge of official duties" as per the Trust Indenture.

²⁸ The Trust Indenture is between the Turnpike Commission and First Union National Bank. A trust indenture is an agreement in a bond contract that represents the bondholders' interest by highlighting the rules and responsibilities to which both parties must adhere.

Pennsylvania Turnpike Commission

Status as of this audit

Our current year procedures revealed that the Commission has not implemented our prior recommendations and continues to provide unlimited toll-free usage of the Turnpike to all of their employees, including temporary employees and summer interns. Permanent employees use their official employee badge to obtain toll-free access. In addition to this, permanent employees can apply for and obtain a non-revenue²⁹ transponder. Over the 21-month period of our review from June 2014 through February 2016, Commission officials represented that employee non-revenue Turnpike use amounted to over \$1.2 million as shown in the tables below:

Number of Employees with Non-revenue Employee Badges	Amount of Employee Toll-free Travel Incurred with Badges
2,063 ³⁰	\$ 430,386
Number of Permanent Employees with Non-revenue Transponders	Amount of Employee Toll-free Travel Incurred with Transponders
893	\$ 777,846
Total Employee Toll-free Travel	\$1,208,232

Note: The figures noted in this table were supplied to us by Commission officials with no supporting evidence. This data is of undetermined reliability as noted in Appendix. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

Since all permanent employees have badges, the 893 employees with transponders noted above represents those employees with more than one device to access toll-free travel on the Turnpike. This obviously creates an avenue for employees to easily abuse toll-free travel by simply lending the transponder to another person. Although the Commission does have the technology to be able to track whether an employee's non-revenue card and transponder are being used simultaneously, they are not currently utilizing this technology to monitor on a routine basis for this potential abuse. Therefore, the Commission has allowed an

²⁹ The term "non-revenue" refers to toll charges that have been incurred but will not result in generating revenue for the Commission.

³⁰ This number represents the total permanent employees of the Commission as of February 29, 2016.

Pennsylvania Turnpike Commission

environment in which there is a higher risk that abuse could occur and not be detected to remain unchanged.

We also reviewed an audit performed by the Commission's internal audit department of permanent employee use of non-revenue badges. The results of the internal audit for the period February 1, 2015 through July 31, 2015, covering all Commission permanent employees, noted the following:

- 1) Seven instances where retired or otherwise separated permanent employees still had active toll-free access in the Commission's Card Control System. Although these employees' cards would have been returned prior to leaving employment, the possibility exists that these cards could still be improperly used because they were still eligible to be used per the card control system.
- 2) Fifteen instances where employees' toll-free cards were showing as active in the Commission's Card Control System but the cards were not entered into the Objects on Loan System (i.e. the employees' personal inventory of Commission-owned property) for the respective employee.

The Commission was not aware of these exceptions until after the internal auditors brought these matters to Commission's attention.

A good system of internal control would ensure that retired or otherwise separated employees' cards are immediately removed from the card control system. Obviously, the Commission's procedures are not effective in ensuring that this happens. It is imperative that the Commission make every effort to increase its revenue and decrease expenses and potential for abuse.

Recommendations

We recommend that the Commission:

1. Rescind previous policies implemented that considers all employees' responsibilities as "round the clock" in order to allow for their toll-free travel. Toll-free access should be limited to only those employees needing access in the discharge of their official duties in compliance with the toll covenants set forth in the Commission's Trust Indenture.

Pennsylvania Turnpike Commission

2. Monitor activity of toll-free travel by employees using their identification cards and transponders on a routine basis to ensure that employees are not abusing this privilege. For example, if the Commission identifies that an employee's identification card and transponder were used simultaneously, follow-up to evaluate whether potential abuse has occurred.
3. Strengthen existing procedures to ensure not only that identification cards have been turned in by retired or otherwise separated employees, but also that their identification cards have been timely removed from the Commission's Card Control System.
4. Strengthen existing procedures to ensure that all identification cards active in the Commission's Card Control System are included on the employee's inventory in the Commission's Objects on Loan System.

Pennsylvania Turnpike Commission

**Prior Finding
Two**

The Turnpike Commission provided more than \$4.1 million of toll-free travel to nearly 5,000 consultants, contractors, and other state government officials. With little supervision over toll-free travel usage, the Turnpike could not ensure taxpayers that toll-free travel was limited to authorized use only. (Partially resolved)

During our prior audit, we reported that the Turnpike Commission (Commission) issued an unlimited number of toll-free cards to contractors, consultants, the Pennsylvania State Police, and certain other state government officials. The Commission also issued “hybrid” E-ZPass transponders to the Pennsylvania State Police and other state officials for toll-free travel and relied on those agencies to ensure the usage was appropriate. These toll-free cards and transponders are referred to as “non-revenue” cards and transponders.

We recommended that the Commission: 1) reexamine its practice of distributing toll-free travel privileges to an unlimited number of non-employees and take steps to reduce the number of persons given that privilege as soon as possible, 2) improve its oversight of non-employee toll-free usage by, at a minimum, including a photo on its non-revenue cards and requiring Turnpike staff to monitor non-employee toll-free travel, and 3) be transparent about the toll-free travel it grants to all parties, including its own employees, state officials, and other non-employees, by posting monthly usage reports on its website.

Status as of this audit

We found that although the Commission did not fully implement any of our recommendations for this finding, the Commission did take steps to require Commission staff to monitor non-employee toll-free travel. However, its own internal audit team found that the monitoring performed was not adequate at times. We also compared the number of non-revenue cards and transponders issued and outstanding on November 9, 2011 (during our prior audit) to the non-revenue cards and transponders issued and outstanding on February 29, 2016, (during the current audit) and found that the number of both devices have increased. Non-

Pennsylvania Turnpike Commission

revenue cards increased from 3,828 to 4,217, (10%) and non-revenue transponders increased from 954 to 1,115 (17%).

We also inquired of the Commission's status regarding the implementation of a photo on non-revenue cards issued to non-employees. Commission officials responded that it is highly impractical to implement the procedures necessary to issue a photo non-revenue card for all non-employees because a particular vendor may utilize many different employees, including different employees from day to day, to complete the contracted work. We agree with the Commission's explanation regarding the impracticality of placing of a photo on non-revenue cards for construction contractors. Further, we reviewed the Commission's website and noted that they have not implemented procedures to be transparent about the toll-free travel it grants to all parties by posting monthly toll-free usage reports on its website.

Non-Employee Toll-Free Card Travel

The Commission issues non-revenue cards to designated contractors, consultants, etc. who perform specific services for the Commission. These cards permit toll-free passage on the turnpike system when performing official Turnpike business. The table below shows by group the total number of non-turnpike employees with non-revenue cards that were issued and outstanding as of February 29, 2016, and the corresponding toll-free travel amount from June 1, 2014 through February 29, 2016, for each.

Non-Turnpike Employees' Toll-free Travel Using Commission-issued Cards on the PA Turnpike as of February 29, 2016 (unaudited)		
Non-Employees with Non-Revenue Cards by Group	Number of Non-Revenue Cards³¹	Toll-Free Travel Fare June 1, 2014 – February 29, 2016
Authorized Service Providers	353	\$ 205,169
Consultants & Concessionaires	414	279,131
Construction Companies	2,940	2,398,858
HMS Host & Sunoco	195	92,906
PA State Police	246	47,542
TransCore	69	27,892
TOTAL	4,217	\$3,051,498

Note: The figures noted in this table were supplied to us by Commission officials with no supporting evidence. This data is of undetermined reliability as noted in Appendix A. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

³¹ Represents the number of cards issued and outstanding as of February 29, 2016.

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Non-Employee Toll-Free Transponder Travel³²

The table below shows, by group, the total number of non-turnpike employees with non-revenue transponders that were issued and outstanding as of February 29, 2016, and the corresponding toll-free travel amount from June 1, 2014 through February 29, 2016, for each.

Non-Turnpike Employee's Toll-free Travel Using Commission-issued Transponders on the PA Turnpike as of February 29, 2016		
Non-Employees with Non-Revenue Transponders by Group	Number of Non-Revenue Transponders ³³	Toll-Free Travel Fare June 1, 2014 – February 29, 2016
PSP- Off Pike (not Troop T)	800	\$ 61,185.07
PTC Rentals	20	3,274.72
PSP Troop T Employees	188	137,645.62
Governor	1	208.91
Governor's Office	8	4,076.36
Governor's Detail	13	10,754.81
PennDOT	1	2,677.04
TransCore	84	210,285.49
TOTAL	1,115	\$430,108.02

Note: The figures noted in this table were supplied to us by Commission officials with no supporting evidence and therefore are unaudited. This data is of undetermined reliability as noted in Appendix A. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our finding, conclusions, and recommendations.

As noted in the tables above, non-turnpike employees incurred more than \$3.4 million in toll-free travel during our audit period (June 1, 2014 through February 29, 2016) via the use of both non-revenue cards and non-revenue transponders.

We have determined that the Commission has taken some steps to further regulate its practice of authorizing toll-free travel privileges to non-employees. Since our last audit report, the Commission implemented a revised policy effective October 23, 2014, requiring that non-employee non-revenue cards issued by the Commission display the recipient company or individual's name, an ID number, and interchange restrictions. The new policy also contains language stating that the non-revenue cardholder shall be responsible for any and all costs and expenses incurred by the

³² During our prior audit dated January 2013, the Turnpike Commission was not able to provide a total dollar amount for non-employee non-revenue transponder travel.

³³ Represents the number of transponders issued and outstanding as of February 29, 2016.

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Commission as a result of unauthorized use and that unauthorized use may result in loss of non-revenue privileges and possible fare evasion criminal charges. However, these policy revisions have not resulted in fewer non-employees with toll-free access to the Turnpike.

The revised policy also states that requests for non-revenue cards must be approved by the immediate Commission point of contact and the department head for the department in charge of the work or project. This point of contact is also to be responsible for monitoring the non-revenue card usage and return of the card upon completion of the project.

We reviewed a Commission internal audit department audit of non-employee non-revenue card transactions covering the period of February 1, 2015 through July 30, 2015. The audit tested 94 non-employee non-revenue cards having 3,619 transactions and found 41 instances (dollar amounts were not documented) where the non-revenue cards were used beyond the designated allowable interchanges. The internal audit also found 10 instances where separated Commission employees were still listed as responsible for monitoring contractor/consultant non-revenue cards in the Commission's Card Control System (a total of 260 cards were affected). These findings indicate that the procedures surrounding this new policy appear to not be functioning as designed.

Recommendations

We recommend that the Commission:

1. Implement procedures to limit the number of non-employees with non-revenue cards and transponders to reduce the number of individuals with toll-free access to the Turnpike.
2. As a result of the findings noted by its internal audit department, ensure that the monitoring of non-employee toll-free travel using these new procedures is functioning effectively.

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3. Be transparent about the toll-free travel it grants to all parties by posting monthly amounts of toll-free usage on its website.

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**Prior Finding
Three**

The Turnpike Commission actively monitors the E-ZPass system to ensure correct fares are charged. Additionally, the Turnpike Commission conducts its own audits of the E-ZPass vendor. (Resolved)

During the prior audit we reported that the Turnpike Commission actively monitors the E-ZPass system by utilizing their own internal audit department to perform testing to ensure the proper operation of the E-ZPass system. Their testing included conducting audits of TransCore (the E-ZPass system vendor), testing the accuracy of the E-ZPass system's electronically calculated fares, testing of new technologies at the Turnpike's test lanes, and reviewing the Turnpike's alert monitoring system. The Turnpike internal auditors' testing of the E-ZPass system showed a high incidence of compliance; however, we noted that the testing of the electronically calculated fares only tested passenger vehicles (class 1). Additionally, we noted that the customer service center for the E-ZPass is only available during Monday through Friday 8:30AM to 5:00PM which may be too limited for certain customers.

We recommended that the Turnpike Commission: (1) consider testing vehicles that exceed passenger vehicle specifications when conducting its random testing of the E-ZPass system; and (2) require TransCore to extend its E-ZPass customer service center phone hours beyond normal work hours.

Status as of this audit

We determined that the Turnpike's internal auditors have implemented our recommendation to test vehicles that exceed passenger vehicle specifications when conducting testing of the E-ZPass system. We reviewed monthly E-ZPass monitoring logs for May 2015, July 2015, and September 2015, which detailed the random testing performed by the Turnpike's internal auditors on the E-ZPass system. This monitoring included testing of vehicle classes 1 through 5.

Our recommendation to extend E-ZPass customer service center phone hours beyond normal work hours was also implemented.

Pennsylvania Turnpike Commission

We reviewed the Turnpike Commission's E-ZPass website and noted the telephone hours have been extended. Effective March 2016, the customer service center phone hours are now 8:00AM to 7:00PM Monday through Thursday, and 8:30AM to 5:00PM on Friday. In addition, walk-in hours were added at the customer service center from Monday through Friday 8:00AM to 5:00PM.

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**Prior Finding
Four**

While the Turnpike Commission has monitored, maintained, and inspected its tunnels, it has not implemented critical project management practices that would ensure recommendations resulting from tunnel inspections are not overlooked. (Partially resolved)

During our prior audit, we reported that the Turnpike Commission lacked safety-related devices including video cameras and an automated fire detection system at two of its five tunnels. We also found that between January 1, 2000 and December 31, 2011, the tunnels were not undergoing routine inspections at least once every two years in accordance with the Commission's own guidelines. The Commission lacks an inspection database system that tracks tunnel inspection activities, a key project management component. The Commission also lacked other key project management components including not having a single administrator who is solely charged with overseeing all aspects of tunnel management (currently performed by a tunnel management committee).

We recommended that the Commission: (1) install video cameras in tunnels that do not already have video monitoring capability; (2) install fire detection systems in the tunnels that do not already have such detection systems; (3) ensure that each tunnel undergoes a routine inspection at least once every two years in accordance with its own guidelines; (4) immediately expand the development and deployment of the OneDOT tunnel management tracking system; (5) assign a person to be solely responsible for tunnel management including coordinating all engineering, maintenance, inspection, and safety issues; and, (6) if the Commission is going to continue to use the tunnel management committee as a monitoring tool, the committee must maintain their schedule to ensure tunnel issues are addressed timely.

Status as of this audit

Our current audit procedures included reviewing a Commission-provided list of completed tunnel inspections from 2012 through 2015. We noted that the tunnels have been inspected at least once every two years during this time period. We also reviewed two inspection reports to verify the accuracy of the listing provided to

Pennsylvania Turnpike Commission

us. Accordingly, this recommendation is considered to be resolved.

We also found that the Commission, in spring 2011, began using the OneDOT tunnel management tracking system in accordance with our prior recommendation; however, Commission officials represented to us that the software is designed to record existing tunnel conditions but does not have a feature to track repairs, such as those noted during tunnel inspections. The Commission has chosen to continue to utilize its Tunnel Management Committee to coordinate all engineering, maintenance, inspection, and safety issues associated with the tunnels. This is also in accordance with our prior recommendation as long as the committee meetings were held on a regular basis. We verified that the Tunnel Management Committee has been meeting two to three times per year by reviewing the committee meeting minutes during our audit period. As such, this prior recommendation is considered to be resolved.

We confirmed with Commission officials that video camera installation was completed at a fourth tunnel; however, the Commission has not had a video monitoring system installed at one remaining tunnel. Commission officials represented to us that they will include video monitoring at one remaining tunnel as part of an upcoming rehabilitation project in April 2017.

Finally, with regard to automated fire detection systems, Commission officials stated that they had developed a project to install a fire detection system at a fourth tunnel but have not received an acceptable bid to complete the project. At the remaining tunnel, Commission officials are still in the process of developing a project to be put out for bid.

Recommendations

We recommend that the Commission:

1. Continue to pursue the installation of video cameras in the one remaining tunnel without video cameras in order to have video monitoring capability.
2. Continue its efforts to complete the installation of automated fire detection systems at the remaining two tunnels which have yet to have those systems installed.

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**Prior Finding
Five**

The Turnpike Commission is overly generous and permissive when reimbursing commissioners for expenses. Further, the Turnpike lacks transparency and accountability with regard to these expenses. (Partially resolved)

During the prior audit, we reported that substantial expenses were incurred by the Commission, most notably Commission-owned vehicle expenses for commissioners' business and personal use. The Commission also placed no monetary limitations on commissioners' travel expenses and reimbursed them for all claimed expenses without requiring or reviewing adequate supporting documentation.

We recommended that the Commission: 1) place monetary limits on the commissioners' travel expenses; 2) require the commissioners to submit itemized receipts and provide justification for any expenses that exceed monetary limits and not reimburse travel expenses that lack appropriate receipts; 3) discontinue the practice of providing personal vehicles for the commissioners and instead reimburse commissioners for vehicle mileage incurred for business use at current Internal Revenue Service (IRS) rates; 4) discontinue use of the travel expense voucher process to pay for commissioner-purchased cellular devices and other electronic equipment; and 5) post monthly expenses paid to the commissioners on its website in order to provide more accountability and transparency.

Status as of this audit

In order to assess the current status of the commissioners' expenses, we obtained from the Commission a summary of the commissioners' expenses for the period June 1, 2014 through April 30, 2016. After a review of the provided documentation we found that the Commission has taken some steps to address our prior concerns regarding commissioner expenses.

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Recommendations

We recommend that the Commission:

1. Continue to monitor and improve upon the commissioners' expense reporting to create an environment of transparency.
2. Continue with improvements to ensure that the commissioners' expenses are reasonable and economical.

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**Prior Finding
Six**

The Turnpike Commission’s use of interest rate “swaps” has cost the taxpayers and its toll-paying customers at least \$108.9 million more than if the Turnpike had instead financed with conventional fixed rate bonds. (Resolved)

During the prior audit, we reported problems related to the Turnpike’s use of interest rate “swap” agreements. It was our opinion that these highly complicated financial instruments are too risky and should not be used to finance public debt. We calculated that the Commission incurred costs of \$108.9 million in excess of what they would have incurred if they had not invested in swaps.

We recommended that the Turnpike: (1) terminate all remaining swaps as soon as it is fiscally responsible to do so and refinance, if necessary, with conventional fixed-rate bonds; and (2) promptly adopt a resolution prohibiting the use of swaps in the future.

Status as of this audit***Termination of Swaps***

The Commission refuted the calculation in our prior audit finding that they had paid \$108.9 million more than it would have if they had not invested in interest rate swaps. This amount consisted of an approximate \$59 million related to the terminated interest rate swaps, and an approximate \$49.9 million related to active swaps. Instead the Commission claimed to have an overall “present value savings” of \$10.8 million on three of the five terminated swaps discussed in the finding. The other terminated payments for two swaps combined totaled \$250,000 and, as a result, we did not pursue these further.

We reviewed the Commission’s calculations and found that the Commission paid approximately \$52.7 million to terminate three swaps. However, this amount was financed into a new bond issuance without a swap and with a lower interest rate so therefore, the Commission did realize an approximate \$10.8 million net present value savings on this transaction as officials represented. The Commission

Pennsylvania Turnpike Commission

provided detailed calculations and supporting reports from their swaps advisor to support this claim.

As for the Commission refuting the \$49.9 million excess costs, we agree with the Commission that the interest payments on active swaps are not an accurate indicator of “gain” or “loss” on the interest rate swap until the swap is actually terminated. We obtained the Commission’s 2016 Annual Swap Report, dated May 31, 2016, produced by the Commission’s swap advisor. We noted the Commission’s current swap portfolio mark-to-market value on that date was negative \$283.6 million. In other words, if the Commission terminated all 21 interest rate swaps in their portfolio, it would cost the Commission \$283.6 million to do so.

Commission officials represented to us that it was their intent to remain in these interest rate swaps until a more opportune time arises to terminate the swaps or until their maturity (most of which are 15 to 25 years from now), at which time they expect the value of the swaps portfolio to be much more favorable. As such we did not pursue this issue further.

Swaps Policy

We found that the Commission did not implement our prior recommendation to promptly adopt a resolution to prohibit the use of swaps in the future. However, Commission officials noted that since interest rates have been very low for a long period of time, the market conditions are not advantageous for entering into swap agreements and therefore they have not entered into any new swap agreements since 2009. The Commission stated they would continue the use of swaps in the future if market conditions became favorable again for such transactions and also because of the following:

- The Commission manages its swap portfolio via swap policy and detailed reports and analyses performed by the Commission’s swap advisor on a regular basis. These reports provide timely information on mark-to-market value, counterparty exposure, termination events, collateral posting requirements and other key parameters.

Pennsylvania Turnpike Commission

- Swaps are one of the many tools allowing the Commission to manage its fixed/floating debt mix and assets/liabilities.
- The Commission's policy and risk management practices ensure responsible use of swaps. All transactions would be entered into after comprehensive benefit/risk analysis and review of alternatives.

We do acknowledge that swaps are a commonly utilized investment instrument in governments and their component units (i.e. PA Turnpike Commission). In addition, the independent external auditors that audit the Commission's financial statements have not reported concerns related to the Commission's value, transactions, or use of swaps. We support the Commission's decision to terminate their current swaps when it is most advantageous to do so. We also believe that the Commission is proceeding in a prudent and conservative manner regarding its swaps.

Based on the results of our follow-up procedures we do not deem it necessary to reissue this finding.

Pennsylvania Turnpike Commission

Agency's Response and Auditors' Conclusions

We provided draft copies of our audit findings and status of prior findings and related recommendations to the Pennsylvania Turnpike Commission for its review. On the pages that follow, we included the Commission's response in its entirety. Following the agency's response is our auditors' conclusions.

Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission



MARK P. COMPTON
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Pennsylvania Turnpike Commission
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August 18, 2016

The Honorable Eugene DePasquale
Auditor General
229 Finance Building
Harrisburg, PA 17120

Dear General DePasquale:

On behalf of Chairman Sean Logan and our Commissioners, I provide to you the Pennsylvania Turnpike Commission's response to your draft audit report issued August 17, 2016. We appreciate the opportunity offered to the Commission to provide our comments to this report.

In general terms, we believe that the findings in the audit suggest that the Commission is meeting its mission statement and serving the public well as a steward of the responsibility for improving, operating and maintaining the nation's first superhighway. The topic areas of the audit findings and recommendations, while important to consider, suggest that the Turnpike is a well-run operation given our areas of responsibility, breadth of geographic coverage and age of the system. For example, your Finding #3 stated: "Commission services and supplies contracts were awarded in compliance with Commission policies and procedures while construction contracts followed the Commonwealth's Procurement Code."

This roadway is operated by a dedicated staff of professionals who understand both the need to be responsive, as well as operate safely and efficiently in order to meet the needs and expectations of our traveling customers. As we believe you have correctly pointed out, the Commission must implement new ways to raise revenue and reduce our debt load. We will continue to work with the state legislature to further reduce or eliminate Act 44/89 required payments to PennDOT and look for ways to deter those who drive on the PA Turnpike but fail to pay the required tolls.

In any organization, the setting of priorities requires an understanding of the levels of risk associated with each challenge. Under the leadership of our Commissioners, the Turnpike continues to engage in multiple internal reform efforts aimed at reducing our fiscal footprint, increasing our effective utilization of technology, improving roadway maintenance, rebuilding the roadway and enhancing our internal control processes. We believe that these areas have already and will continue to net the Commission with the greatest operational cost reductions and long-term system benefits.

Having said this, your review of our performance has given us additional areas to consider and confirmed some of our ongoing initiatives as a part of our long-term strategy to position the organization for future challenges. As such, each will be given the appropriate level of attention as we continue to modernize our operations and readjust our priorities.



Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission

The Honorable Eugene DePasquale
August 18, 2016
Page 2

In closing, we believe you will find our comments useful to your final audit report. Should you have questions regarding any statements included in our response, please contact me directly so that the issues can be addressed without delay.

Sincerely,



Mark P. Compton
Chief Executive Officer

Enclosure

cc: The Honorable Sean Logan, Chairman
The Honorable William K. Lieberman, Vice Chairman
The Honorable Pasquale T. Deon, Sr., Secretary Treasurer
The Honorable Barry T. Drew, Commissioner
The Honorable Leslie S. Richards, Commissioner
Doreen A. McCall, Chief Counsel
Ray A. Morrow, Chief Compliance Officer
Bradley J. Heigel, P.E., Chief Engineer
Nikolaus H. Grieshaber, Chief Financial Officer
Carl E. DeFebo, Director of Public Relations & Marketing

Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission

Pennsylvania Turnpike Commission
Performance Audit Response Document
August 18, 2016

Finding One – Commission Response

The draft report states: The Turnpike Commission's ability to raise toll revenue to cover Act 44/89 to PennDOT and expenditures for capital projects is potentially unsustainable.

Recommendation 1 – The Turnpike Commission should continue to re-evaluate its ten-year capital plan and prioritize only capital projects requiring immediate attention in order to reduce its overall heavy debt load.

Recommendation 2 – The Turnpike Commission should seek immediate relief from the legislature to further reduce or eliminate Act 44/89 required payments.

Recommendation 3 – The Turnpike Commission should ensure that traffic projections used to project toll revenue are conservative and realistic.

Recommendation 4 – The Turnpike Commission should evaluate and scrutinize operating expenses to find ways to reduce costs. Several immediate recommendations are made in our follow-up to the status of Prior Year Findings, numbers 1, 2 and 5, to eliminate toll-free use of the Turnpike by employees and non-employees and to eliminate excessive expenditures by the Commissioners.

Recommendation 5 – The Turnpike Commission should evaluate ways to increase passenger car and commercial use of the Turnpike.

The Commission's approved FY17 Capital Plan was derived from the results of our long range plan which moved toward a protection (asset management) driven plan in lieu of performance (expansion) objectives. As a result, less total reconstruction is planned through the next ten years and a number of projects have been deferred. Obviously, we remain concerned with the age of our pavement, bridges and tunnels and that increased investments into short-term preventative maintenance will be necessary to maintain a safe and reliable transportation system.

There is no question that the financial obligation related to Act 44 has had a transformational impact upon the operation of the Pennsylvania Turnpike Commission. From our capital planning to our ability to plan for and adapt to changing operational needs on the roadway, every facet of our operation has been impacted as a result of the need to balance the debt load that has resulted from our payment to the Commonwealth.

Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission

The Turnpike Commission is already working along lines similar to those recommended in your report regarding evaluation of our plans to rebuild and enhance the Turnpike system through our ten-year capital improvement program, and annually through our strategic-plan-based budgeting program, we seek to minimize our operating expense. Further, we are working on mechanisms to attract additional traffic through strategic enhancements of our traffic operations, services and infrastructure quality. Access to the system through additional entry and exit points is also part of our long range plan; however, this initiative is impacted by the uncertainty created under the current status of the funding obligation. The Turnpike Commission has and will continue to work with the legislature on the future of that obligation and seek amendments that will be beneficial to the Turnpike toll payer.

Should the General Assembly agree to advance legislation aimed at ensuring penalties be assessed against habitual toll payment evaders, we will be ready to work with neighboring states to obtain the necessary agreements to enforce penalties for toll violations that occur in other jurisdictions. In fact, we have been holding preliminary discussions with several neighboring states to prepare for such options.

We will support any reasonable legislative options that appropriately incentivize fair payment of toll road use obligations. We do not believe it is fair for the vast majority of our customers to pay for the few who do not comply with payment requirements.

The Commission utilizes a consultant, CDM Smith, to provide an annual traffic and revenue report. As a result, the Commission's traffic and revenue projections are consistently updated based on actual experience and input from various external economic models. The information from CDM Smith's report is incorporated into the Commission's Act 44 Financial Plan. We believe that this data is realistic based on the information known at the time the projections are constructed.

The Commission approves an operating budget on an annual basis and has set a 4% target for expense growth which is reflected in the Act 44 Financial Plan. The Commission has engaged in aggressive cost containment measures since 2008 and constantly reviews all of its operating expenses in order to minimize expense growth in spite of significant cost increases in pension, health care, state police, etc.

The Commission has also taken into consideration recommendations made in prior findings and made changes to its current practices where feasible. For example, with respect to prior finding number five, the current Auditor General report "acknowledged that the Commission has made progress in reducing the number of excessive lodging and meal reimbursements made to Commissioners since our prior audit."

The Commission continuously evaluates ways to increase passenger car and commercial usage of the Turnpike. Through our marketing efforts, we continue to build on increasing Turnpike usage. Those efforts include, but are not limited to: continuing to offer the E-ZPass customer discount, community outreach efforts that offer customers a chance to ask questions and receive information, and the Turnpike Advisory Program (TAP) which allows customers to participate in regular surveys and offer input on how improvements can be made.

Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission

Finding Two – Commission Response

The draft report states: Rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Pennsylvania Turnpike Commission.

Recommendation 1 – The Turnpike Commission should seek action by the legislature to enact more significant deterrents for individuals who drive on the Pennsylvania Turnpike and fail to pay tolls, such as:

- a. The authority to suspend vehicle registrations.*
- b. The authority to impose graduated fines for multiple toll violations.*
- c. The authority to publish lists of egregious toll violators.*

Recommendation 2 – Once legislation has been enacted, the Turnpike should, if appropriate, reach out to other states, especially adjacent states, to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations.

Recommendation 3 – The Turnpike Commission should consider the acceptance of credit cards and debit cards at toll booths, which may help individuals who accidentally enter the Turnpike but do not have cash with them to pay tolls.

The Commission is committed to the collection of all toll revenue due from customers. As both you and your predecessor in his 2008 report have stated, current state law does not allow for the penalties suggested in your report. For several legislative sessions, the Commission has supported legislation introduced in the General Assembly to authorize the suggested and other penalties and will continue to do so in the future.

Finding Three – Commission Response

The draft report states: Commission services and supplies contracts were awarded in compliance with Commission policies and procedures while construction contracts followed the Commonwealth's Procurement Code.

Prior Finding One – Commission Response

The draft report states: The Turnpike Commission lets its employees ride the Turnpike toll-free, even for personal travel, costing the Turnpike millions of dollars in lost revenue. This generous perk continued with little oversight at a time when the Turnpike raises tolls for other travelers in its struggle with mounting debt.

Recommendation 1 – The Turnpike Commission should rescind policies implemented that consider all employees' responsibilities as "round the clock" in order to allow for their toll-free travel. Toll-free access

Pennsylvania Turnpike Commission**Audit Response from the PA Turnpike Commission**

should be limited to only those employees needing access in the discharge of their official duties in compliance with the toll covenants set forth in the Commission's Trust Indenture.

Recommendation 2 – The Turnpike Commission should monitor activity of toll-free travel by employees using their identification cards and transponders on a routine basis to ensure that employees are not abusing this privilege. For example, if the Commission identifies that an employee's identification card and transponder were used simultaneously, follow-up to evaluate whether potential abuse has occurred.

Recommendation 3 – The Turnpike Commission should strengthen existing procedures to ensure not only that identification cards have been turned in by retired or otherwise separated employees, but also that their identification cards have been timely removed from the Commission's card control system.

Recommendation 4 – The Turnpike Commission should strengthen existing procedures to ensure that all identification cards active in the Commission's card control system are included on the employee's inventory in the Commission's objects on loan system.

Since the Turnpike Commission is a 24/7 operation and the majority of our employees (maintenance operators, toll collectors, emergency responders) are subject to working any day at any time, the issue becomes very difficult and potentially labor-intensive to manually distinguish between business and personal usage.

The Turnpike Commission is ever mindful of its contractual obligations under the Amended and Restated Trust Indenture dated March 1, 2001, and believes it is in full compliance with the toll covenants set forth therein. The Commission's long-standing road safety policies underscore the genuine "round-the-clock" responsibility that Turnpike employees bear when traveling on the Turnpike. The Turnpike Commission respectfully disagrees with the Auditor General's characterization of the existing employee non-revenue usage policies as being a "generous perk" and the assertion that the Commission is losing millions of dollars of revenue due to personal travel. The Commission recognizes its obligations to take all reasonable measures to reduce fraud and abuse and will, therefore, research the feasibility and cost-effectiveness of developing queries and techniques to monitor usage and identify potential misuse. The Commission will also consider modifying its existing employee non-revenue usage policies, as considered appropriate, to reduce the possibility of abuse.

The linkage between this long-standing Commission policy and the yearly toll increases is a wholly unfair characterization. As is clearly understood by the Auditor General, evidenced by numerous letters, news conferences and two public hearings, the toll increase planned for 2017 is necessary to finance the cumulative impact of the annual payments made by the Commission beginning in 2008, which assist the Department of Transportation in meeting transportation funding needs Commonwealth-wide as required by Act 44 of 2007. Annual payment amounts made to the Commonwealth by the Commission have ranged from \$900 million in 2010 to the current \$450 million. Clearly, whether or not the policy remains in place will have absolutely no bearing on whether or not the toll increase is required.

Pennsylvania Turnpike Commission**Audit Response from the PA Turnpike Commission**

The Commission does, however, agree that more must be done to ensure that the privilege is not being abused, and we have been working on establishing an effective means of auditing this area of our operations. The Compliance Department has instituted a comprehensive series of business practice reviews and has made recommendations establishing tighter controls over this privilege and possesses the capability to determine whether an employee's identification card and transponder were used simultaneously.

Currently, the Human Resources Department (HR) generates batch emails when employees are hired. Upon receipt of the batch email, the security unit creates the ID access card in the Card Management System (CMS). When a card is created in Card Management System for new employees, it is also entered by the security unit in SAP on the employee's objects on loan record.

When a separation action is entered in SAP by Human Resources, a batch email is sent for all company property listed in objects on loan to be collected and delimited in SAP. In the case of ID access cards, the termination date is entered by the security unit in the Card Management System to expire or be disabled on the termination date. The card is then delimited in SAP when it is physically received by the security unit. (The Turnpike Commission's Access Control Policy 5.03 addresses the process.) Within a week from the end of the employee's last pay period, payroll sends out a follow-up to the batch email reminding the applicable departments that all company property listed (which is not yet delimited) needs to be returned to the company property maintainer. If the company property is not delimited for whatever reason when payroll is run, HR delimits with an explanation listed in SAP. Only in extenuating circumstances would HR not delimit at that time. Regardless, all company property is always delimited. HR runs a report quarterly as an extra safeguard. HR has yet to notice in SAP that anyone was ever missing an identification card being listed in SAP.

To enhance and strengthen this process, the Commission is currently working on a project to eliminate the need to enter and delimit ID access cards in two systems. Once the project is completed, when an ID access card is created in CMS, it will automatically enter the card on the employee's SAP objects on loan. When the card is returned and the return date is entered in CMS, it will automatically delimit the ID access card from SAP objects on loan.

Prior Finding Two – Commission Response

The draft report states: The Turnpike Commission provided more than \$4.1 million of toll-free travel to nearly 5,000 consultants, contractors and other state government officials. With little supervision over toll-free travel usage, the Turnpike could not ensure taxpayers that toll-free travel was limited to authorized use only.

Recommendation 1 – The Turnpike Commission should implement procedures to limit the number of non-employees with non-revenue cards and transponders to reduce the number of individuals with toll-free access to the Turnpike.

Pennsylvania Turnpike Commission**Audit Response from the PA Turnpike Commission**

Recommendation 2 – The Turnpike Commission, as a result of the findings noted by its Internal Audit Department, should ensure that the monitoring of non-employee toll-free travel using these new procedures is functioning effectively.

Recommendation 3 – The Turnpike Commission should be transparent about the toll-free travel it grants to all parties by posting monthly amounts of toll-free usage on its website.

The Turnpike Commission has developed and implemented policies and electronic-reporting capabilities to improve the review and management of non-employee/non-revenue privileges. Specifically, the Turnpike Commission on October 23, 2014, issued new policies (PTC Policy 7.13 – Non-Revenue Cards for Non-PTC Employees and PTC Policy 7.14 – Non-Revenue Cards for PTC Employees) and procedures requiring management review and approval of the individuals having valid non-revenue privileges, as well as their non-revenue activity. The Turnpike Commission also requires the Toll Revenue Audit Department to periodically audit non-revenue approvals and usage to ensure compliance with policy/procedural requirements. All of these measures were put into effect to reduce the possibility of abuse.

The Turnpike Commission's Internal Audit Department monitors the effectiveness of these policies and procedures concerning non-employee free travel usage. However, the Turnpike Commission has not yet made a determination as to whether we are in agreement regarding the posting of monthly amounts of toll-free usage on the Commission's website.

Prior Finding Three – (Resolved)

Prior Finding Four – Commission Response

The draft report states: While the Turnpike Commission has monitored, maintained and inspected its tunnels, it has not implemented critical project management practices that would ensure recommendations resulting from tunnel inspections are not overlooked.

Recommendation 1 – The Turnpike Commission should continue to pursue the installation of video cameras in the one remaining tunnel without video cameras in order to have video-monitoring capability.

Recommendation 2 – The Turnpike Commission should continue its efforts to complete the installation of automated fire detection systems at the remaining two tunnels, which have yet to have those systems installed.

Video cameras are included in the upcoming rehabilitation of the Tuscarora Tunnel. It is anticipated that the rehabilitation project will be bid in 2018.

The Lehigh Tunnel has had an automated fire detection system installed. The automated detection system for the Tuscarora Tunnel is included in the upcoming rehabilitation project.

Pennsylvania Turnpike Commission

Audit Response from the PA Turnpike Commission

Prior Finding Five – Commission Response

The draft report states: The Turnpike Commission is overly generous and permissive when reimbursing Commissioners for expenses. Further, the Turnpike lacks transparency and accountability with regard to these expenses. (Partially Resolved)

Recommendation 1 – The Turnpike Commission should continue to monitor and improve upon the Commissioners' expense reporting to create an environment of transparency.

Recommendation 2 – The Turnpike Commission should continue with improvements to ensure that the Commissioners' expenses are reasonable and economical.

The Turnpike Commission's Travel Procedures Manual allows senior staff to exceed limits on occasion in addition to Commissioners in the performance of their official duties. Per the manual, "the Commissioners, Chief Executive Officer and Chief Executive Officer direct reports (if approved by the Chief Executive Officer), in fulfilling their duties, may exceed the monetary limitations of this procedure." The Turnpike Commission will ensure transparency by continuing with its efforts to monitor and look for ways to improve upon the Commissioners' expense reporting.

The Travel Procedures Manual also states that "The Chief Executive Officer or Chief Operating Officer may approve specific exemptions from these regulations at their discretion. Common sense shall prevail for all expenses, as PTC employees should be aware of public scrutiny. Receipts are required and all exemptions are subject to audit by the Compliance Department." One of the roles of the Compliance Department is to audit travel expenses and determine whether procedures are being followed. To the extent that any unusual occurrences are found, the Compliance Department's mandate is to bring these issues to the attention of senior management.

Prior Finding Six – (Resolved)

Pennsylvania Turnpike Commission

Auditors' Conclusions to the PA Turnpike Commission's Response

We provide the following comments to the Commission's response.**Findings 1 and 2**

By and large the Commission agrees with the findings and recommendations presented. We are encouraged that the Commission recognizes the seriousness of these issues and acknowledges that it is "already working along lines similar to those recommended", as stated in its response. In this regard, the Commission should be commended for being proactive in its approach to the issues at hand.

Finding 1 - With regard to this finding concerning traffic and revenue projections, we caution the Commission to not blindly accept its consultant's projections and to ensure that the projections are conservative enough to avoid serious consequences. We believe that expecting toll revenues to double by 2025 and triple by 2035 compared to 2015 levels is highly optimistic. To achieve these levels, the Commission is expecting traffic volume to increase 34 percent from 2015 to 2035 while simultaneously projecting that toll prices will more than double.

The Commission also states that it "constantly reviews all of its operating expenses in order to minimize expense growth." The Commission, however, continues to allow all employees to have unlimited toll-free access to the Turnpike (see follow-up to prior finding 1), non-employee toll-free access to the Turnpike continues to increase (see follow-up to prior finding 2), and continues to allow commissioners to exceed expense limits (see follow-up to prior finding 5). These are additional steps noted in recommendation 4 to this finding that should be seriously considered by the Commission to tighten its own fiscal belt if it is going to ask consumers to pay large increases in tolls that are charged to use its roadway.

Finding 2 - With regard to this finding concerning uncollected tolls, the Commission acknowledges the existence of toll violators and the need to have a law in place that allows for penalties to deter toll violations from occurring since the issuance of our June 2008 audit report and continued in our January 2013 audit report. With the large increases in toll violations noted in this finding, the Commission needs to step up its efforts to seek legislative changes to reduce the negative revenue effect of these toll violations.

Prior Findings 1, 2, and 5

Prior Finding 1 – The Commission generally disagrees with the finding, but agrees that more should be done to ensure that the privilege of employee toll-free travel is not abused. Additionally, the Commission indicates that it would be very difficult

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and potentially labor-intensive to manually distinguish between business and personal usage. We disagree with this statement. If the Commission would establish boundaries as to what is considered business versus personal travel, there should not be any difficulty.

Additionally, consideration should be given to eliminate the Commission from supplying employees with toll-free transponders when employees can use their identification cards to use the Turnpike toll-free. This would eliminate the need to monitor this process to ensure that an employee's identification card and transponder were not used simultaneously. If the Commission continues to use the transponders, we implore the Commission to routinely monitor toll-free travel to ensure that the toll-free travel is not being abused by employees.

As for the Commission's statement concerning the linkage between the Commission's policy to allow employee toll-free turnpike access and the yearly toll increases, we realize that the total dollar amount of employee toll-free access is not significant; however, since the Commission is expecting its toll-paying customers to pay these increased tolls, it would be advantageous from a public relations standpoint to eliminate employee toll-free access for personal use to show that the Commission is tightening its belt in these times of carrying a heavy debt load.

Prior Finding 2 – Although the Commission has developed and implemented policies to improve the review and management of non-employee non-revenue toll-free travel, its own internal audit department has concluded that this process has not been functioning as designed.

Prior Finding 5 – We acknowledge the need for exemptions from the Travel Procedures Manual for certain employees, at certain times, and recommend that the Commission continue to utilize the Compliance Department to audit travel expenses as Commission employees operate under public scrutiny. In a time of increasing tolls we encourage the Commission to continue to operate in a manner reflecting fiscal responsibility.

Pennsylvania Turnpike Commission**Appendix A****Objectives, Scope, and Methodology**

The Department of the Auditor General conducted this performance audit in order to satisfy the legal mandates required by state law. Specifically, 71 P.S. § 246(b) which states that “the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities of the Pennsylvania Turnpike Commission [Commission].” In addition, 74 Pa. C.S. § 8204(b)(1), requires that “At least once every four years, the Department of the Auditor General shall review the performance, procedures, operating budget, capital budget and debt of the commission and shall audit the accounts of the commission.”

Our performance audit was conducted in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our performance audit objectives were as follows:

- Determine the sustainability of the Commission’s ability to continue to raise tolls sufficient to repay its bonded debt including the Act 44 of 2007, as amended, payments to the Pennsylvania Department of Transportation (PennDOT). (See Findings 1 and 2)
- Determine if Commission contracts were awarded in compliance with applicable procurement policies and procedures. (See Finding 3)

With regard to our financial related mandates, we did not conduct our own multi-year financial audit and instead, we continued our past practice of reviewing the financial audit reports and working papers of the independent CPA firm that audits the Commission’s financial statements. This review was also completed to determine if the above mentioned mandates

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pertaining to the financial audit and review (of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission) have been fulfilled or whether additional procedures need to be performed in order to fulfill these mandated responsibilities.

Scope

For the performance audit, this audit report presents information for the period of June 1, 2014 through July 11, 2016, unless otherwise noted, with updates to the reports' release. With regard to the financial-related mandated, we reviewed the financial audit reports, related working papers and other documentation for the five fiscal years ending May 31, 2011, through May 31, 2015.

Commission management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Commission is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures.

In conducting our audit, we obtained an understanding of the Commission's internal controls, including any information system controls, if applicable, that we considered to be significant within the context of our audit objectives.

For those internal controls that we determined to be significant within the context of our audit objectives, we also assessed the effectiveness of the design and implementation of those controls as discussed in the *Methodology* section that follows. Any deficiencies in internal controls that were identified during the conduct of our audit, and determined to be significant within the context of our audit objectives, are included in this report.

Methodology

To address our audit objectives, we performed the following procedures:

- Interviewed and corresponded with Commission management and staff responsible for administering areas related to our audit objectives, including the

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Chief Compliance Officer, Chief Financial Officer, Director of Procurement, and Internal Audit Manager.

- Obtained and reviewed the applicable Commission policies and procedures pertaining to our sustainability objective.
- Obtained and reviewed five years of the Commission's audited Comprehensive Annual Financial Reports as well as the related working papers of the independent external CPA firm contracted to audit these financial statements.
- Obtained copies of peer review results of the Commission's independent external CPA firm that performed the Commission's annual financial statement audits for the five fiscal years we reviewed.
- Obtained and reviewed the Commission's procurement policies and procedures for construction, professional services, and purchasing (supplies and materials) contracts.
- Obtained a list of every construction, professional service, and purchasing contract awarded by the Commission during period June 1, 2014 through October 31, 2015.
- Haphazardly selected and reviewed five construction contracts and all supporting documentation for required approvals and compliance with the Commission's policies and procedures.
- Haphazardly selected and reviewed ten professional service (engineering and other professional services) contracts and all supporting documentation for required approvals and compliance with the Commission's policies and procedures.
- Haphazardly selected and reviewed ten purchasing contracts and all supporting documentation for required approvals and compliance with the Commonwealth's Procurement Code.
- Obtained information pertaining to the net position of neighboring states' turnpike systems.

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- Obtained and reviewed the Commission's operating and capital budgets for the five fiscal years ended May 31, 2011 through May 31, 2015.
- Obtained and reviewed traffic and revenue projections for the Turnpike as completed by a Commission-contracted consultant.
- Obtained and reviewed the Commission's Act 44 Financial plans relevant to our performance audit period.
- Obtained and reviewed the Commission's credit ratings from Moody's and Fitch.
- Obtained and reviewed various selected audits performed by the Commission's internal audit department during the period June 2014 through December 2015.
- Obtained and reviewed documentation regarding the Commission's uncollected tolls including violations receivable reports for the fiscal years ended May 31, 2013 through May 31, 2015 and through April 30, 2016.
- Reviewed the Department of the Auditor General's special report on the Commission's financial obligation under Act 44 dated June 2013.

To address the status of Finding 1 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Reviewed the Commission's policies and procedures related to employee toll-free access to the Turnpike.
- Reviewed the Commission's internal audit working papers covering the period of February 2015 through July 2015.
- Obtained and compiled Commission-provided data relating to the number of employees with toll-free access to the Turnpike and the dollar amount of lost revenue due to their toll-free usage.

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To address the status of Finding 2 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Reviewed the Commission's policies and procedures related to non-employee toll-free access to the Turnpike.
- Reviewed the Commission's internal audit working papers covering the period of February 2015 through July 2015.
- Obtained and compiled Commission-provided data relating to the number of non-employees with toll-free access to the Turnpike and the dollar amount of their toll-free usage by using their non-revenue cards and their non-revenue transponders.

To address the status of Finding 3 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Reviewed the Commission's internal audit testing of the E-ZPass system for the months of May 2015, July 2015, and September 2015 and noted that their testing included vehicles that exceed passenger vehicle specifications.
- Verified the extension of Customer Service Center hours since our prior audit by reviewing the Commission's website.

To address the status of Finding 4 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Inquired as to the installation of video cameras and fire detection systems in tunnels that did not have such systems as of our prior audit.
- Obtained a schedule of completed tunnel inspections and reviewed two of these inspections to verify the accuracy of the list.
- Reviewed Tunnel Management Committee meeting minutes for the two year period from June 2014 through June 2016.

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To address the status of Finding 5 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Reviewed Commissioner Travel Expense Vouchers for the period June 1, 2014 through April 30, 2016.
- Reviewed a list of vehicles purchased for commissioners for the period June 1, 2014 through April 30, 2016.
- Summarized expenses charged by the commissioners to the commission for fuel, lodging, meals, and various other categories.
- Reviewed Monthly Automotive Activity Reports for the commissioners for the period June 1, 2014 through April 30, 2016.

To address the status of Finding 6 from our prior audit report dated January 8, 2013, we performed the following procedures:

- Reviewed and evaluated the Commission's Interest Rate Swap policy.
- Reviewed detailed calculations prepared by the Commission and their swaps advisor pertaining to the loss amounts stated in our prior audit finding. Supporting documentation and reports were also provided by the Commission to support its calculations.
- Reviewed the Government Accounting Standards Board (GASB) Summary of Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments.
- Reviewed the Commission's Annual Swap Report as of May 31, 2016
- Reviewed the Commission's agreement with its contracted Swap advisor.

Data Reliability

In performing this audit, we obtained data extracted from information systems maintained by the Pennsylvania Turnpike

Pennsylvania Turnpike Commission

Commission. Government Auditing Standards requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations. The assessment of the sufficiency and appropriateness of computer-processed information includes considerations regarding the completeness and accuracy of the data for the intended purposes.

Computer-processed data we obtained from the Commission and which was used in this audit report was taken from the following:

1. Commission's SAP accounting system.
2. OneDOT tunnel management tracking system.
3. Violations Enforcement System data provided by the Commission through TransCore, a third-party vendor.
4. Toll collection system, of which the electronic toll collections portion is also maintained by TransCore.
5. Statistical information and projections from the Commission's consultants.

In order to assess the completeness and accuracy of the computer-processed data provided to us, we conducted additional audit procedures as follows:

1. Commission's SAP accounting system.
 - Performed walkthroughs of contracting procedures with Commission management personnel pertaining to the procurement of supplies and materials, professional services, and construction contracts, noting internal controls in place and the processes used for data entry.
 - Traced a selection of each type of contract from a list provided by the Commission from their SAP accounting system to source documents and tested the functioning of internal controls in place.
 - For contracting data provided to us, obtained relevant field descriptions and control totals.
 - Reviewed the Commission's independent external CPA firm's evaluation of the Commission's information technology controls which were determined to be adequate. The CPA firm considered the Commission's

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SAP controls to be sufficient to support the financial statements.

Based on the above, we found no limitations with using this data for our intended purposes. Therefore, in accordance with Government Auditing Standards, we conclude that the Commission's computer-processed data was sufficiently reliable for the purposes of this engagement.

2. OneDOT tunnel management tracking system.

- From a list of tunnel inspections provided from the OneDOT tunnel management system, traced a selection of inspections to the completed tunnel inspection reports. There are only 5 tunnels so completeness was not a concern.

Based on the above, we found no limitations with using this data for our intended purposes. Therefore, in accordance with Government Auditing Standards, we conclude that the Commission's computer-processed data was sufficiently reliable for the purposes of this engagement.

3. Violations Enforcement System data provided by the Commission through TransCore, a third-party vendor.

4. Toll collection system, of which the electronic toll collections portion is also maintained by TransCore.

- Traced uncollected tolls summary information from the Violations Enforcement System to the Commission's SAP accounting system detail reports.
- Obtained representation from Commission executive level management that they periodically obtain and review Service Organization Control (SOC) reports for TransCore.
- The Commission's independent CPA firm had the Commission's Internal Audit Department perform and conclude on the control environment and processes of both Transcore's systems which were determined to be adequate.

Although these procedures provide some evidence on the adequacy of Transcore's system controls, we did not perform audit procedures to evaluate the reasonableness of

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the number of violations and the value of the violations invoiced. As such, we deemed this data to be of undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions and recommendations.

5. Statistical information and projections from the Commission's consultants.

We did not perform procedures to validate the statistical/informational data and future projections provided by the Commission from various reports. As such, we deemed this data to be of undetermined reliability. Although this determination may affect the precision of the numbers we present, there is sufficient evidence in total to support our findings, conclusions and recommendations.

We also obtained a Management Representation Letter from the Pennsylvania Turnpike Commission confirming the following:

- There have been no alterations or falsification of electronic data records maintained by the Commission.
- No electronic records have been removed or discarded.
- The electronic data was accurate and complete and is a duplicate of the data from which it was extracted.

The conclusions on data sufficiency are also noted where applicable throughout the report.

Pennsylvania Turnpike Commission

Appendix B

Audit Distribution List

Upon its release, this report was distributed to the following Commonwealth officials:

The Honorable Tom Wolf
Governor

The Honorable Sean Logan
Chairman
Pennsylvania Turnpike Commission

Mr. William K. Lieberman
Vice Chairman
Pennsylvania Turnpike Commission

Mr. Pasquale T. Deon, Sr.
Secretary-Treasurer
Pennsylvania Turnpike Commission

The Honorable Leslie S. Richards
State Transportation Secretary
Commissioner
Pennsylvania Turnpike Commission

Mr. Barry T. Drew
Commissioner
Pennsylvania Turnpike Commission

Mr. Mark P. Compton
Chief Executive Officer
Pennsylvania Turnpike Commission

Mr. Craig R. Shuey
Chief Operating Officer
Pennsylvania Turnpike Commission

Mr. Nikolaus Grieshaber
Chief Financial Officer
Pennsylvania Turnpike Commission

Mr. Ray Morrow
Chief Compliance Officer
Pennsylvania Turnpike Commission

The Honorable John Rafferty
Majority Chair
Senate Transportation Committee
The Honorable John Wozniak

Democratic Chair
Senate Transportation Committee

The Honorable John Taylor
Majority Chair
House Transportation Committee

The Honorable Bill Keller
Democratic Chair
House Transportation Committee

The Honorable Bruce Beemer
Attorney General
Office of the Attorney General

The Honorable Randy Albright
Secretary of the Budget
Office of the Budget

The Honorable Timothy Reese
State Treasurer
Treasury Department

The Honorable Sharon P. Minnich
Secretary of Administration
Office of Administration

Mr. Brian Lyman, CPA
Director, Bureau of Audits
Office of Comptroller Operations

Ms. Mary Spila
Collections/Cataloging
State Library of Pennsylvania

Pennsylvania Turnpike Commission

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.