

PERFORMANCE AUDIT REPORT

Pennsylvania Turnpike Commission

March 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

March 18, 2019

The Honorable Leslie S. Richards
Chair
Pennsylvania Turnpike Commission
State Transportation Secretary
P.O. Box 67676
Harrisburg, PA 17106-7676

Mr. Mark P. Compton
Chief Executive Officer
Pennsylvania Turnpike Commission
P.O. Box 67676
Harrisburg, PA 17106-7676

Dear Commission Chair Richards and Mr. Compton:

This report contains the results of the Department of the Auditor General's performance audit of the Pennsylvania Turnpike Commission (Commission or PTC). This audit was conducted pursuant to Section 706(b) of the Administrative Code of 1929 which provides that, "the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities" of the Commission.¹ Also, pursuant to Act 44 of 2007, as amended by Act 89 of 2013, the audit now includes a review of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.²

To fulfill our financial-related mandates, we did not conduct our own multi-year financial audit but instead, we continued our past practice of reviewing the financial audit reports and working papers of the independent CPA firms, one CPA firm for each fiscal year, that audited the PTC's financial statements for the fiscal years ended May 31, 2016 and 2017. Accordingly, we reviewed the two CPA firms' financial audit reports and supporting audit documentation. We also performed additional procedures related to the PTC's operating and capital budgets. Further, we reviewed the PTC's debt as part of our performance audit discussed below.

¹ 71 P.S. § 246(b).

² 74 Pa.C.S. § 8204(b)(1).

Our performance audit covered the period June 1, 2015 through January 30, 2019, unless otherwise noted, with updates through the report date. The audit was conducted in accordance with applicable *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: (1) Review and evaluate the process of selecting and awarding construction contracts; and (2) Determine if the Commission's revenue collections are meeting projected toll revenue expectations in order to meet its payment obligations and planned capital improvement projects.

This report presents two findings and six recommendations, four directed to the PTC and two to the Pennsylvania General Assembly.

We found that while based on the PTC consultant's projections it appears that the PTC will be able to meet its debt payments over the next 20 years, due to inherent uncertainties with projecting future traffic and toll revenue, as well as a major pending lawsuit discussed below, the PTC's ability to raise toll revenue to cover Act 44/89 payments to the Pennsylvania Department of Transportation (PennDOT) and expenditures for capital projects remains potentially unsustainable. Specifically, we found that:

- Act 44/89 payments continue to create a heavy debt burden for the PTC.
- Traffic and revenue projections reported in 2016 were lowered in 2018.
- The PTC's ability to make its projected debt payments is dependent upon incurring less debt and minimizing expenses.
- Annual costly toll increases place an undue burden on Pennsylvania residents.
- In 2018, parties in the commercial trucking industry filed a class action lawsuit against the PTC regarding Act 44/89 payment obligations to PennDOT, creating additional uncertainties as to its financial impact on the PTC.

We also found that the PTC awarded construction contracts and engineering consultant agreements in accordance with its policies and procedures, with a large portion of funds allocated to the mandated and partially federally funded Interstate 95 (I-95) Interchange Project in Bucks County which completed I-95's "missing link" making I-95 continuous from Maine to Florida.

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In addition to our current audit objectives, we conducted procedures to determine the status of the implementation of our prior audit findings and recommendations as presented in the audit report released in September 2016. Our prior performance audit covered the period June 1, 2014 through July 11, 2016, and contained three findings, two of which had a total of eight recommendations. The prior report also contained the status of six previous prior year findings, four of which had a total of 11 additional recommendations.

The first finding in our prior audit report, related to the sustainability of the PTC, was incorporated into our current performance audit report in Finding 1. Although partially resolved, we continue to have concerns with the second finding regarding the increasing number of toll violations and total violation accounts receivable from the owners of vehicles, both in-state and out-of-state, that fail to pay the prescribed tolls. With regard to the four previous prior findings, we found that three findings regarding the amount of toll free travel permitted for both PTC employees and non-employees and the postponement of a tunnel project to install video cameras and an automatic fire detection system are partially resolved and one finding regarding commissioners' expenses is resolved. Our discussions regarding the partially resolved findings include seven recommendations.

In closing, we thank the PTC for its cooperation and assistance during the audit. The PTC is in general agreement with our findings and committed to implementing many of the recommendations. We will follow up during our next audit to determine whether and to what extent all recommendations have been implemented.

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

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Pennsylvania Turnpike Commission

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Executive Summary

The Pennsylvania Turnpike Commission (PTC or Commission) was created in 1937 by the General Assembly as an instrumentality of the Commonwealth to build a 160-mile turnpike system and aid in work-relief projects during the Great Depression.³ Over seventy-five years later, the Turnpike has evolved from “America’s First Superhighway” to a 552-mile 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 mission of the PTC is to operate a safe, reliable, customer-valued toll road system that supports national mobility and commerce. The PTC is governed by a Commission composed of five members, one of whom is the Pennsylvania Secretary of Transportation. The other four commissioners are appointed by the Governor with the advice and consent of two-thirds of the members of the Senate.

State law mandates that, “the Auditor General shall, on a quadrennial basis, conduct a financial audit and compliance audit of the affairs and activities” of the Commission.”⁴ Also, pursuant to Act 44 of 2007, as amended by Act 89 of 2013, the audit now includes a review of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.⁵

To fulfill our financial-related mandates, we reviewed the working papers and financial audit reports of the two separate CPA firms, one CPA firm for each fiscal year, for the fiscal years ended (FYE) May 31, 2016 and 2017. We also performed additional procedures related to the PTC’s operating and capital budgets. Further, we reviewed the PTC’s debt as part of our performance audit discussed below. See the Financial Results section of this report.

The two objectives of our performance audit of the PTC were as follows: (1) Review and evaluate the process of selecting and awarding construction contracts; and (2) Determine if the Commission’s revenue collections are meeting projected toll revenue expectations in order to meet its payment obligations and planned capital improvement projects. Our audit period was June 1, 2015 through January 30, 2019, unless otherwise noted, with updates through the report date. Additional information on the audit scope and methodology can be found in *Appendix A – Objectives, Scope, and Methodology*.

Our performance audit results are contained in two findings with six recommendations, four directed to the PTC and two to the Pennsylvania General Assembly. The PTC is in general agreement with our findings and committed to implementing many of the recommendations.

³ 36 P.S. § 652d (as amended by Act 154 of 1974).

⁴ 71 P.S. § 246(b).

⁵ 74 Pa.C.S. § 8204(b)(1).

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Finding 1 - The PTC's ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects remains potentially unsustainable.

With the enactment of Act 44 of 2007, as amended by Act 89 of 2013, the PTC will pay PennDOT a total of \$9.65 billion through 2057 to provide funding for roads, bridges, and transit throughout the Commonwealth. As of May 31, 2018, the PTC had paid PennDOT \$6.1 billion. Additionally, since the passage of Act 44/89, the PTC has recorded interest expenses of approximately \$2.13 billion through FYE May 31, 2018, on debt used to fund the Act 44/89 payments to PennDOT. Based on our audit procedures, which included reviewing traffic and toll revenue projections by PTC consultants, it appears that the PTC will be able to meet its debt payments over the next 20 years. However, due to inherent uncertainties with projecting future traffic and toll revenue and the occurrence of unforeseen circumstances, including a major pending lawsuit discussed below, we have determined that the PTC's ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects remains potentially unsustainable.

Since our prior audit released in September 2016, we found that:

- Act 44/89 payments continue to create a heavy debt burden for the PTC, as evidenced by the decline of its net position from a negative \$4.11 billion in 2015 to negative \$5.64 billion in 2018.
- Traffic and revenue projections reported in 2016 were lowered in 2018, which indicates that the previous projections may have been overly optimistic.
- The PTC's ability to make its projected debt payments is dependent upon incurring less debt and minimizing expenses.
- Annual costly toll increases continue to place an undue burden on residents of Pennsylvania.
- In 2018, parties in the commercial trucking industry filed a class action lawsuit against the PTC regarding Act 44/89 payment obligations to PennDOT, creating additional uncertainties as to its financial impact on the PTC.

We offer four recommendations to the PTC, including prioritizing only capital projects requiring immediate attention, ensuring that traffic projections are conservative and realistic, evaluating and scrutinizing sources of revenue and operating expenses, and evaluating ways to increase passenger car and commercial use of the Turnpike. In addition, we recommend that the Pennsylvania General Assembly immediately re-evaluate Acts 44/89 and consider drafting and enacting new legislation to closely focus on reasonable interim alternative revenue sources. New legislation could help to ensure the current debt burden placed on the PTC is considerably mitigated for the continued viability of the PTC and the toll system in Pennsylvania. We also recommend that the Pennsylvania General Assembly refrain from increasing the \$50 million annual payment scheduled to begin during the fiscal year ending May 31, 2023.

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Finding 2 – The PTC awarded construction contracts and engineering consultant agreements in accordance with its policies and procedures, with a large portion of funds allocated to southeastern Pennsylvania for the Interstate 95 Interchange Project.

We selected and tested 13 construction contracts and 12 engineering consultant agreements from a total of 88 contracts and 77 engineering agreements awarded during the period of our review. We found that, for the areas selected for review, the PTC followed its construction contracting manual when procuring construction contracts and its professional services procurement policy and procedures, adopted pursuant to the Commonwealth Procurement Code, when procuring engineering consultant agreements.

We note, however, that projects in Bucks and Montgomery Counties, located in the southeastern portion of Pennsylvania, comprised a large share of the dollars included in the capital plans' highway program during our audit period. Further review found it appropriate because the majority of the projects in Bucks County were part of the mandated and partially federally funded I-95 Interchange Project to make I-95 continuous along the entire East Coast of the United States. Additionally, we found that as projects in Montgomery County neared completion, the PTC's allocation of funds in fiscal year 2018 has spread over central and western portions of Pennsylvania.

Status of Prior Audit Findings

We also conducted procedures to determine the status of the implementation of our prior audit findings and recommendations as presented in the audit report released in September 2016. Our prior performance audit covered the period June 1, 2014 through July 11, 2016, and contained three findings, two of which had a total of eight recommendations. The prior report also contained the status of six previous prior year findings, four of which had a total of 11 additional recommendations.

The first finding in our prior audit report, related to the sustainability of the PTC, was incorporated into our current performance audit report in Finding 1. Although partially resolved, we continue to have concerns with the second finding regarding the increasing number of toll violations and total violation accounts receivable from the owners of vehicles, both in-state and out-of-state, that fail to pay the prescribed tolls. With regard to the four previous prior findings, we found that three findings regarding the amount of toll free travel permitted for both PTC employees and non-employees and the postponement of a tunnel project to install video cameras and an automatic fire detection system are partially resolved and one finding regarding commissioners' expenses is resolved. Our discussions regarding the partially resolved findings include seven recommendations.

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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 or PTC). This audit is mandated by state law stating 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.”⁶ Also, pursuant to Act 44 of 2007, as amended by Act 89 of 2013, the audit now includes a review of the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.⁷

In lieu of conducting a financial audit to fulfill the above indicated mandate, we reviewed the reports and supporting audit documentation of the two independent firms who conducted the annual audits of the PTC’s financial statements during the audit period. We reviewed the independent firms’ financial audits for the fiscal years ended (FYE) May 31, 2016 and 2017, which included a review of the procedures, debt, and the accounts of the PTC. We also evaluated debt as part of our performance audit and obtained and reviewed budget information directly from the PTC to fully satisfy the requirements in Act 44.

Our performance audit has two objectives and includes the period from June 1, 2015 through January 30, 2019, 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 PTC. Additional information can be found at its website: <https://www.paturndpike.com/>.

Background Information on the Pennsylvania Turnpike Commission

The PTC was created in 1937 by the General Assembly as an instrumentality of the Commonwealth to build a 160-mile turnpike system and aid in work-relief projects during the Great Depression.⁸ The turnpike system opened on October 1, 1940. Over seventy-five years later, the Turnpike has evolved from “America’s First Superhighway” to a 552-mile 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 PTC reports that it has completed over 120 miles of total reconstruction and anticipates the completion of over 140 miles of additional total reconstruction projects within the next decade. Many of the sections of the turnpike system that have been reconstructed have also been widened from four to six lanes.⁹

⁶ 71 P.S. § 246(b).

⁷ 74 Pa.C.S. § 8204(b)(1).

⁸ 36 P.S. § 652d (as amended by Act 154 of 1974).

⁹ https://www.paturndpike.com/business/capital_plan.aspx (accessed October 9, 2018).

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The Commission currently operates 66 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 upon advice and consent of two-thirds of the members of the Senate.¹⁰

The Commission chairman is paid an annual salary of \$28,500, while the three other voting commissioners are paid annual salaries of \$26,000.¹¹ Members of the Commission are also reimbursed for necessary expenses incurred in the performance of their duties. The PTC employed 1,968 individuals as of May 31, 2018.

Mission and Vision

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

The PTC 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.¹²

¹⁰ 36 P.S. § 652d. These four commissioners must be qualified Pennsylvania electors for a period of at least one year preceding their appointment.

¹¹ 74 Pa.C.S. § 8105(g) (Act 44 of 2007, as amended by Act 89 of 2013). These salaries are to be paid in equal installments every other week.

¹² https://www.paturnpike.com/pdfs/about/PTC_Executive_Summary.pdf (accessed August 17, 2018).

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Funding

The PTC generally receives all of its operating revenue from customer tolls and fees (known as the Mainline Fund), which represents more than 80 percent of the PTC’s total revenue. The PTC 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 3 percent of total revenues and consists mostly of investment earnings. The breakout of these revenues over the past three years is as follows:

2016 to 2018 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
2018	Operating Revenue	\$1,201,274	-	-	\$1,201,274	82.9%
	Non-operating Revenue	\$36,166	\$4,943	\$3	\$41,112	2.8%
	Capital Contributions	\$37,842	\$141,962	\$28,000	\$207,804	14.3%
	TOTAL	\$1,275,282	\$146,905	\$28,003	\$1,450,190	
2017	Operating Revenue	\$1,134,396	-	-	\$1,134,396	81.9%
	Non-operating Revenue	\$30,949	\$4,241	\$567	\$35,757	2.6%
	Capital Contributions	\$62,967	\$123,697	\$28,000	\$214,664	15.5%
	TOTAL	\$1,228,312	\$127,938	\$28,567	\$1,384,817	
2016	Operating Revenue	\$1,052,691	-	-	\$1,052,691	82.0%
	Non-operating Revenue	\$35,991	\$14,308	\$421	\$50,720	3.9%
	Capital Contributions	\$33,103	\$119,803	\$28,000	\$180,906	14.1%
	TOTAL	\$1,121,785	\$134,111	\$28,421	\$1,284,317	

Source: This table was compiled by staff of the Department of the Auditor General based on information in the PTC’s 2017 and 2018 Comprehensive Annual Financial Reports (CAFR).

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For the FYE May 31, 2018, a total of 201.1 million vehicles traveled on the Turnpike: 172.5 million vehicles (85.8 percent) were Class 1 (Passenger) vehicles and 28.6 million vehicles (14.2 percent) were Classes 2-9 (Commercial). Total fare revenue amounted to approximately \$1.2 billion for the FYE May 31, 2018. 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
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
2016	171,565	\$588,295	27,319	\$443,325	198,884	\$1,031,620
2017	172,617	\$638,787	27,686	\$476,189	200,303	\$1,114,976
2018	172,502	\$678,720	28,652	\$524,438	201,154	\$1,203,158

Source: This table was compiled by staff of the Department of the Auditor General based on information in the PTC's 2018 CAFR.

Tolls are collected four 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. Typically, 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.

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 83 percent of all customers utilized E-ZPass in 2018.

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Cashless Tolling

In January 2016, the Commission began a cashless tolling 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 toll booths, so no tickets or cash are 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. For the FYE May 31, 2016, 2017, and 2018, approximately 0.3 percent, 0.6 percent and 0.8 percent, respectively, of the fare revenues were realized through the TOLL BY PLATE system, which are included as part of electronic toll collection.

Credit /Debit Cards

In September 2016, the Commission launched a program to accept most major credit cards in the exit lanes at toll plazas statewide. The program was launched to decrease the number of Certificates of Passage (COP) forms submitted when drivers do not have cash on hand while traveling on the Turnpike. Previously, drivers without cash or an E-ZPass had to complete a COP, which could hold up traffic passing through the cash toll lane. Drivers were then expected to pay the toll online, by check or by money order, after completing their travel. The Commission began the program at three interchanges initially and expanded to all interchanges the following week. According to the PTC, approximately \$50.3 million in tolls were paid with a credit/debit card by September 2018.

Act 165 of 2016

In our previous audit, we noted that the Commission had little enforcement power when seeking payment for toll violations. As a result, we recommended seeking legislative action to allow a more aggressive approach when collecting toll violations. Act 165 of 2016, enacted on November 4, 2016, amended the Vehicle Code to include penalties for unpaid tolls, including the suspension of vehicle registrations.¹³ The Commission offered an amnesty period before Act 165 went into effect on August 4, 2017, which offered violators a discount from certain fees and fines. Almost 11,000 drivers were delinquent, owing approximately \$17 million in fines. Between July 5 and August 4, 2017, over 2,000 motorists submitted payment for toll violations totaling \$1.4 million.

¹³ 75 Pa.C.S. § 1380.

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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.¹⁴ Act 44 required the Commission to make substantial annual payments to PennDOT. As a result, 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. Act 89 of 2013, which amended Act 44, amended the amounts of annual payments to PennDOT. 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 Payments PTC makes to PennDOT	
Actual payments made to date (FYE 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
2017	\$450,000,000
2018	\$450,000,000
Total payments to date	\$6,100,000,000
Future payments due annually:	
2019 – 2022 (\$450,000,000 per year)	\$1,800,000,000
2023 – 2057 (\$50,000,000 per year)	\$1,750,000,000
Total Actual and Future Payments	\$9,650,000,000

Source: This table was compiled by staff of the Department of the Auditor General based on payments reported in the PTC's Act 44 Financial Plan Fiscal Year 2019 and the PTC's 2018 CAFR.

See Finding 1 for more information regarding Act 44/89.

¹⁴ https://www.paturnpike.com/financialPlanning/documents/due_date_tmpl_doc.pdf (accessed February 11, 2019).

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Construction Contracts and Engineering Consultant Agreements Procurement Process

In accordance with the PTC’s mission “to operate a safe, reliable, customer-valued toll road system that supports national mobility and commerce,” the PTC procures construction contracts and engineering consultant agreements in conjunction with implementing its ten-year capital plan. These procurements are for the purpose of: 1) improving and maintaining the Turnpike, 2) to ensure customer safety and convenience, and 3) to address capacity constraints as noted in its Act 44 Financial Plan for Fiscal Year 2019.

Procurement criteria require that construction contracts are to be procured through a publicly advertised, competitive low bid process, with the award being made to the lowest responsive and responsible bidder consistent with the Commonwealth Procurement Code (Act 57 of 1998, as amended).¹⁵

The PTC has developed a Professional Services Procurement Procedures and Procurement Policy for procuring professional services such as engineering consultant agreements. The PTC utilizes PennDOT's Engineering and Construction Management System (ECMS) to advertise for most of the PTC’s engineering consultant services.¹⁶ The PTC performs two levels of review and rates the responses received from interested firms. The responses from the firms that receive a high rating are forwarded to PTC management for review and approval prior to being submitted to PTC Commissioners for consideration and final award selection.

See Appendix C for additional detail on the construction contract and engineering consultant agreement procurement process.

¹⁵ PTC’s Construction Contracting Operations Manual (ConCOM) 2017-1, dated April 1, 2017, is a compilation of PTC policies, procedures, guidelines, and checklists relating to the administration and management of projects from final design to construction. The procedures are consistent with PennDOT and the PTC to provide direction and guidance in the administration of bidding and awarding projects on the Turnpike.

¹⁶ PTC Professional Services Procurement Procedures dated April 5, 2012, and revised May 26, 2016, and PTC Policy 7.04 – Procurement effective May 1, 1999, and revised December 15, 2015. **The PTC advertises a few Request for Proposals (RFPs) for non-highway/bridge facility design agreements on the PTC’s website instead of through the ECMS.**

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

Act 44 of 2007 was enacted by the Pennsylvania General Assembly and the then governor in an attempt to find revenues for road and bridge repairs and for public transit agencies throughout the commonwealth. Act 44 required the Pennsylvania Turnpike Commission (PTC or Commission) to pay the Pennsylvania Department of Transportation (PennDOT) \$900 million per year over the course of 50 years.¹⁷ The original plan included tolling Interstate 80 (I-80) and transferring control of I-80, including the collection of tolls on that interstate, from PennDOT to the PTC. The Federal Highway Administration ultimately denied Pennsylvania permission to toll I-80 on April 6, 2010.¹⁸ Subsequently, the \$900 million annual payment provided for in Act 44 was reduced to \$450 million.¹⁹

Act 89 of 2013, amending Act 44 of 2007, included a provision to lower the PTC’s payments to PennDOT to \$50 million annually beginning June 1, 2022, and continuing through 2057.²⁰ As previously reported in the Introduction and Background section, over the 50 year period, the PTC will make payments to PennDOT totaling \$9.65 billion. While Act 89 alleviated some of the future debt burden, the PTC’s financial situation continues to decline with the increased issuance of debt coupled with the PTC’s capital spending plan for maintenance and improvements to the Turnpike. In both the Auditor General’s Special Report on Turnpike Debt in June 2013 and the September 2016 PTC performance audit report (prior audit), we concluded that the PTC may not have the ability to raise enough toll revenue in the future to cover the Act 44/89 payments to PennDOT and expenditures for capital projects. That conclusion remains valid to date.

Based on our audit procedures, which include reviewing traffic and toll revenue projections by PTC consultants, it appears that the PTC will be able to meet its debt payments over the next 20 years. Yet, inherent uncertainties with projecting future traffic and toll revenue and the occurrence of unforeseen circumstances, such as unexpected road closures (e.g., the temporary 2017 closure of the Delaware River Bridge), economic downturns, and fuel price surges have caused concerns about the capacity of the PTC to maintain its on-going debt payments to PennDOT. Therefore, we have determined that the PTC’s ability to raise toll revenue to cover Act 44/89 payments to PennDOT and expenditures for capital projects remains potentially unsustainable.

¹⁷ 75 Pa.C.S. §§ 8901, 8915.3(a).

¹⁸ https://www.paturnpike.com/pdfs/business/Interstate_80_Letter_to_Rendell.pdf.

¹⁹ 74 Pa.C.S. § 1506(b)(1)(ii).

²⁰ 74 Pa.C.S. § 1506(b)(1)(iii).

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The following table shows future projected toll revenue (under the assumption that traffic will increase every year and that toll revenue will increase by 156 percent), total outstanding debt, and projected future debt through 2038 per Commission-provided information:

Table 1

Turnpike Revenue vs. Debt Forecast Fiscal Years Ending 2018 through 2038 (Amounts in 000's)						
Fiscal Year Ending May 31 ^{a/}	Projected Toll Revenue ²¹	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
2018	\$1,196,606	\$775,857	\$573,441	\$11,284,780	\$6,136,885	54.38%
2019	\$1,250,929	\$702,590	\$670,405	\$11,689,946	\$6,482,021	55.45%
2020	\$1,329,382	\$797,913	\$750,138	\$12,427,655	\$6,862,943	55.22%
2021	\$1,410,906	\$829,160	\$786,576	\$13,088,055	\$7,217,337	55.14%
2022	\$1,495,468	\$895,700	\$854,597	\$13,731,294	\$7,558,803	55.05%
2023	\$1,589,229	\$942,396	\$896,169	\$13,900,653	\$7,445,863	53.56%
2024	\$1,684,343	\$969,798	\$927,801	\$14,017,127	\$7,323,521	52.25%
2025	\$1,785,814	\$1,000,949	\$957,884	\$14,057,887	\$7,190,059	51.15%
2026	\$1,888,350	\$1,033,607	\$986,334	\$14,057,727	\$7,046,092	50.12%
2027	\$1,981,635	\$1,059,795	\$1,015,543	\$13,976,903	\$6,856,606	49.06%
2028	\$2,068,126	\$1,175,959	\$995,418	\$13,976,391	\$6,652,712	47.60%
2029	\$2,151,047	\$1,222,655	\$1,032,866	\$13,940,866	\$6,419,157	46.05%
2030	\$2,236,615	\$1,201,607	\$1,057,373	\$13,809,931	\$6,181,445	44.76%
2031	\$2,325,657	\$1,248,698	\$1,083,856	\$13,636,232	\$5,925,389	43.45%
2032	\$2,419,605	\$1,299,013	\$1,157,627	\$13,433,080	\$5,649,507	42.06%
2033	\$2,517,943	\$1,274,422	\$1,186,180	\$13,111,010	\$5,351,763	40.82%
2034	\$2,619,547	\$1,325,719	\$1,220,776	\$12,746,284	\$5,028,278	39.45%
2035	\$2,724,656	\$1,378,503	\$1,261,978	\$12,332,967	\$4,678,504	37.93%
2036	\$2,833,400	\$1,345,597	\$1,289,081	\$11,783,313	\$4,301,376	36.50%
2037	\$2,945,731	\$1,397,832	\$1,308,157	\$11,195,614	\$3,895,647	34.80%
2038	\$3,060,971	\$1,450,567	\$1,319,511	\$10,556,642	\$3,441,699	32.60%

^{a/} - Information for the FYE May 31, 2018, is based on actual data reported in the PTC's 2018 comprehensive annual financial report (CAFR). Information for the fiscal years ending May 31, 2019 through May 31, 2038 is based on projections that do not take into consideration the class action lawsuit filed by parties in the commercial trucking industry or that the PTC did not borrow money to make its first three quarterly payments to PennDOT during the fiscal year ending May 31, 2019 (further information on both the lawsuit and delay in PennDOT payments is described later in the finding).

Source: This table was compiled by the staff of the Auditor General based on information provided by PTC management. However, for the projected amounts for the fiscal years ending 2019 through 2038, 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 and conclusions.

²¹ Projected by the Commission's 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 Table 1 in Appendix B.

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While Table 1 reflects projections that the PTC can sustain its debt payments over the next 20 years, these projections are based on many variables and take for granted the very fragile balance between being able to keep expenses down and actually having sufficient vehicle traffic on the Turnpike to generate the necessary projected toll revenues.²² As the PTC's Act 44 Financial Plan for Fiscal Year (FY) 2019 noted, "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. Although PTC's consultants reduced long-term projected annual traffic and projected toll revenue in 2018, we believe that the revised projections, which indicate that the PTC will continue to generally have increasing traffic volume over several years, may still be highly optimistic. Also as previously reported, unforeseen circumstances can negatively affect operations resulting in lower than anticipated traffic and toll revenues and less funds available for the PTC to make its scheduled debt payments.

Based on our current audit procedures covering the three FYE May 31, 2016, 2017, and 2018, we determined the following has occurred since our prior audit was released in 2016:

- Act 44/89 payments continue to create a heavy debt burden for the PTC, as evidenced by the decline of its net position from a negative \$4.11 billion in 2015 to negative \$5.64 billion in 2018.
- Traffic and revenue projections reported in 2016 were lowered in 2018, which indicates that the previous projections may have been overly optimistic.
- The PTC's ability to make its projected debt payments is dependent upon incurring less debt and minimizing expenses.
- Annual costly toll increases continue to place an undue burden on residents of Pennsylvania.
- In 2018, parties in the commercial trucking industry filed a class action lawsuit against the PTC regarding Act 44/89 payment obligations to PennDOT.

The following sections provide further details with updates since our prior audit regarding payments the PTC made to PennDOT, the PTC's financial position, and reductions to projections regarding PTC revenue, traffic data, and debt payments.

Act 44/89 payments continue to create a heavy debt burden for the PTC, as evidenced by the decline of its net position from a negative \$4.11 billion in 2015 to negative \$5.64 billion in 2018.

As previously described in the Introduction and Background section of this report, the PTC made all its required Act 44/89 payments to PennDOT through the FYE May 31, 2018; however, these payments have continued to create a heavy debt burden for the PTC as seen in the continual

²² The PTC projects that it will be able to meet its debt payments in that "Funds Remaining After Operating Expenses" is greater than "Total Scheduled Debt Payments."

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decline of its net position from approximately negative \$4.11 billion in 2015 to a staggering negative \$5.64 billion in 2018.²³

In 2007, just prior to Act 44 being enacted, the PTC reached its highest net position value at \$1.76 billion. Since the Act 44 payments began, the PTC's net position has spiraled into a deficit. The PTC's 2018 CAFR stated a net position of negative \$5.64 billion, a decrease of more than \$1.53 billion since our prior audit in September 2016 and \$7.4 billion in 11 years. As of May 31, 2018, the PTC had paid PennDOT \$6.1 billion, which represents 82 percent of the 11-year change in net position. Additionally, since the passage of Act 44/89, the PTC has recorded interest expenses of approximately \$2.13 billion through FYE May 31, 2018, on debt used to fund the Act 44/89 payments to PennDOT. Adding this interest expense to the \$6.1 billion more than accounts for the \$7.4 billion decrease in net position, indicating the magnitude of the negative effect Act 44/89 has had on the PTC's net position.

We compared the PTC's net position to neighboring state turnpike systems' net positions over a twelve-year period.²⁴ While other states had changes in net position, most had remained fairly steady. Additionally, all states in our analysis, with the notable exception of Pennsylvania, currently have positive net positions, as shown in the graph below:

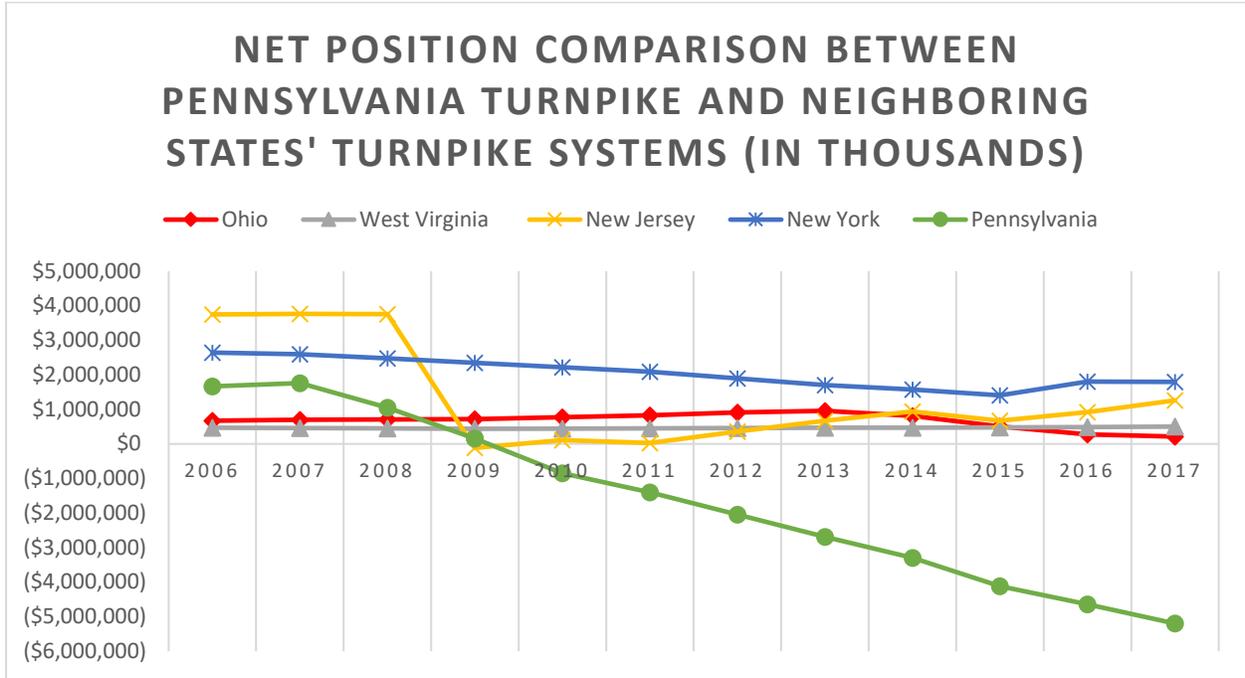
²³ A good indicator of the financial condition of any entity is its net position (total assets minus total liabilities). The higher the net position, the better the financial condition.

²⁴ The twelve-year period was 2006 through 2017. The comparison ended in 2017 due to data not being available for all of the states for 2018.

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Graph 1



Source: This graph was developed by the staff of the Department of the Auditor General from information in the states' turnpike systems' CAFRs.

Traffic and revenue projections reported in 2016 were lowered in 2018, which indicates that the previous projections may have been overly optimistic.

Our prior audit of the PTC included, similar to Table 1, the projections for traffic, toll revenue, and debt as reported by the PTC in 2016. During the current audit, in order to determine the reasonableness of the projected amounts reported in the prior audit, as presented in Table 2 below, we compared the projected to actual amounts for FYE 2016 through 2018:

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Table 2

Turnpike Projected vs. Actual Traffic, Revenue, and Debt (Amounts in 000's)										
Fiscal Year Ended May 31	Estimated Total Vehicle Transactions ^{a/}	Actual Total Vehicle Transactions	Projected Toll Revenue 2017 Act 44 Financial Plan	Actual Toll Revenue	Projected Funds Remaining After Operating Expenses	Actual Funds Remaining After Operating Expenses	Projected Total Scheduled Debt Payments	Total Debt Payments	Projected Total Outstanding Debt	Total Outstanding Debt
2016	197,128	198,884	\$1,022,289	\$1,030,115	\$613,988	\$634,419	\$479,797	\$473,608	\$9,967,377	\$10,059,052
2017	199,656	200,303 ^{b/}	\$1,112,611	\$1,111,061 ^{c/}	\$622,620	\$704,763	\$573,666	\$516,008	\$11,493,371	\$10,719,015
2018	204,228	201,154	\$1,195,848	\$1,196,606	\$689,153	\$775,857	\$663,059	\$573,441	\$12,462,029	\$11,284,780

^{a/} - Estimated amounts as reported by a PTC consultant in March 2016.
^{b/} - The Delaware River Bridge was closed due to structural integrity concerns from January 20, 2017 through March 9, 2017.
^{c/} - As a result of the closure of the Delaware River Bridge, the PTC lost an estimated \$12 million in toll revenues. <https://www.fitchratings.com/site/pr/10043894> (accessed October 5, 2018).

Source: This table was compiled by the staff of the Department of the Auditor General from information reported in our prior PTC audit report and from information provided by PTC management and confirmed in the PTC's CAFRs and Act 44 Financial Plan for Fiscal Year 2019.

As reported in Table 2, the PTC met and slightly exceeded the estimated vehicle transactions and the projected toll revenue amounts in two of the three years. During FYE May 31, 2017, actual revenue was \$1.55 million less than projected because the Delaware River Bridge was closed for approximately one and one-half months, which resulted in an estimated loss in toll revenue of approximately \$12 million. The temporary closure of the Delaware River Bridge and subsequent loss of toll revenue demonstrates that projections are subject to unexpected events such as road closures, economic downturns, fuel price surges, etc.

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We further compared long-term traffic and toll revenue in the consultants' 2016 reports to the 2018 reports as shown in Table 3:

Table 3

Comparison of 2016 vs. 2018 Projections for Vehicle Transactions and Toll Revenue Fiscal Years Ending 2019 through 2038 (Amounts in 000's)						
Fiscal Year Ending May 31	Estimated Total Vehicle Transactions (March 2016)	Estimated Total Vehicle Transactions (April 2018)	Annual Change in Estimated Total Vehicle Transactions	Projected Toll Revenue (Act 44 Financial Plan FY 2017 ^{a/})	Projected Toll Revenue (Act 44 Financial Plan FY 2019 ^{b/})	Annual Change in Projected Toll Revenue
2019	209,665	199,225	(10,440)	\$ 1,287,891	\$ 1,250,929	(\$ 36,962)
2020	212,569	199,024	(13,545)	\$ 1,380,972	\$ 1,329,382	(\$ 51,590)
2021	215,502	199,574	(15,928)	\$ 1,475,606	\$ 1,410,906	(\$ 64,700)
2022	218,465	203,467	(14,998)	\$ 1,567,634	\$ 1,495,468	(\$ 72,166)
2023	221,450	209,703	(11,747)	\$ 1,665,475	\$ 1,589,229	(\$ 76,246)
2024	224,471	212,402	(12,069)	\$ 1,769,559	\$ 1,684,343	(\$ 85,216)
2025	227,523	215,027	(12,496)	\$ 1,879,504	\$ 1,785,814	(\$ 93,690)
2026	230,597	217,707	(12,890)	\$ 1,988,758	\$ 1,888,350	(\$ 100,408)
2027	233,701	220,362	(13,339)	\$ 2,088,604	\$ 1,981,635	(\$ 106,969)
2028	236,836	222,700	(14,136)	\$ 2,183,472	\$ 2,068,126	(\$ 115,346)
2029	240,000	225,001	(14,999)	\$ 2,276,275	\$ 2,151,047	(\$ 125,228)
2030	243,133	227,245	(15,888)	\$ 2,372,314	\$ 2,236,615	(\$ 135,699)
2031	246,119	229,436	(16,683)	\$ 2,471,927	\$ 2,325,657	(\$ 146,270)
2032	249,015	231,603	(17,412)	\$ 2,575,585	\$ 2,419,605	(\$ 155,980)
2033	251,941	233,745	(18,196)	\$ 2,683,889	\$ 2,517,943	(\$ 165,946)
2034	254,895	235,826	(19,069)	\$ 2,796,877	\$ 2,619,547	(\$ 177,330)
2035	257,878	237,857	(20,021)	\$ 2,913,858	\$ 2,724,656	(\$ 189,202)
2036	260,874	239,842	(21,032)	\$ 3,035,302	\$ 2,833,400	(\$ 201,902)
2037	263,742	241,788	(21,954)	\$ 3,160,567	\$ 2,945,731	(\$ 214,836)
2038	266,423	243,628	(22,795)	\$ 3,289,377	\$ 3,060,971	(\$ 228,406)

^{a/} - PTC's Act 44 Financial Plan FY 2017 was issued on May 18, 2016.
^{b/} - PTC's Act 44 Financial Plan FY 2019 was issued on June 1, 2018.

Source: This table was compiled by the staff of the Department of the Auditor General based on information provided in PTC Act 44 Financial Plans and Traffic and Revenue Forecast Studies, both performed by PTC consultants. 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 and conclusions.

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We found that the consultants lowered the projections for the PTC's traffic and toll revenue for each of the next 20 years. In fact, the amounts by which the projections were lowered steadily increases each year. A decline in vehicles utilizing the Turnpike directly results in a decline in toll revenue, with annual reductions in toll revenue projections increasing from approximately \$36.9 million in 2019 to \$228.4 million in 2038.

PTC management stated that the consultant updates the forecast for traffic and toll revenue based on items such as general economic conditions, fuel prices, and actual traffic and revenue experience. The projection reductions are an indication that previous assumptions that travelers would continue to utilize the Turnpike in spite of the annual toll rate increases the PTC intends to implement every year were too optimistic. Therefore, annual increases in toll rates may continue to have negative effect on traffic growth, which in turn could negatively affect the PTC's ability to collect revenues needed to sustain its operations. The effects of Turnpike toll increases is further discussed in a later section within this finding.

The PTC's ability to make its projected debt payments is dependent upon incurring less debt and minimizing expenses.

Through the FYE May 31, 2018, the PTC issued approximately \$6.1 billion in new debt since the inception of Act 44 in 2007 in order to meet the mandated payments to PennDOT. As part of our audit, we performed procedures to analyze how the PTC is able to project that it can meet future debt payments in spite of the 2018 reductions to traffic and toll revenue projections. We found that in comparing reports prepared in 2016 to reports prepared in 2018, the PTC also reduced its projected annual scheduled debt payments. In fact, without reductions to projected future debt payments, the PTC would not have been able to meet the projected debt payments previously reported in 2016 with the projected decreases in revenue currently reported in 2018. Table 4 below illustrates that during the 20-year period of fiscal years ending May 31, 2019 through May 31, 2038, the total funds remaining after operating expenses projected in the 2018 report would not have been sufficient to meet the debt payments projected in the 2016 report in 11 of the 20 years. Table 4 also illustrates the projected decreases in debt payments reported in 2018 as compared to the amounts reported in 2016:

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Table 4

Comparison of 2016 vs. 2018 Projections for Debt Payments Fiscal Years Ending 2019 through 2038 (Amounts in 000's)					
Fiscal Year Ending May 31	Total Toll Revenue Projected in 2018 ^{a/}	Total Funds Remaining After Operating Expenses Projected in 2018 ^{a/}	Total Scheduled Debt Payments Projected in 2016 ^{b/}	Total Scheduled Debt Payments Projected in 2018 ^{a/}	Annual Change in Total Scheduled Debt Payments ^{d/}
2019	\$1,250,929	\$702,590 ^{c/}	\$744,274	\$670,405	(\$73,869)
2020	\$1,329,382	\$797,913 ^{c/}	\$801,041	\$750,138	(\$50,903)
2021	\$1,410,906	\$829,160 ^{c/}	\$848,581	\$786,576	(\$62,005)
2022	\$1,495,468	\$895,700 ^{c/}	\$926,078	\$854,597	(\$71,481)
2023	\$1,589,229	\$942,396 ^{c/}	\$969,351	\$896,169	(\$73,182)
2024	\$1,684,343	\$969,798 ^{c/}	\$1,000,648	\$927,801	(\$72,847)
2025	\$1,785,814	\$1,000,949 ^{c/}	\$1,029,510	\$957,884	(\$71,626)
2026	\$1,888,350	\$1,033,607 ^{c/}	\$1,057,047	\$986,334	(\$70,713)
2027	\$1,981,635	\$1,059,795 ^{c/}	\$1,086,600	\$1,015,543	(\$71,057)
2028	\$2,068,126	\$1,175,959	\$1,072,267	\$995,418	(\$76,849)
2029	\$2,151,047	\$1,222,655	\$1,113,186	\$1,032,866	(\$80,320)
2030	\$2,236,615	\$1,201,607	\$1,164,672	\$1,057,373	(\$107,299)
2031	\$2,325,657	\$1,248,698	\$1,194,617	\$1,083,856	(\$110,761)
2032	\$2,419,605	\$1,299,013	\$1,256,096	\$1,157,627	(\$98,469)
2033	\$2,517,943	\$1,274,422 ^{c/}	\$1,285,794	\$1,186,180	(\$99,614)
2034	\$2,619,547	\$1,325,719	\$1,315,595	\$1,220,776	(\$94,819)
2035	\$2,724,656	\$1,378,503	\$1,342,811	\$1,261,978	(\$80,833)
2036	\$2,833,400	\$1,345,597 ^{c/}	\$1,374,831	\$1,289,081	(\$85,750)
2037	\$2,945,731	\$1,397,832	\$1,394,994	\$1,308,157	(\$86,837)
2038	\$3,060,971	\$1,450,567	\$1,406,862	\$1,319,511	(\$87,351)

^{a/} - Source of amounts is information in Table 1 of this finding. PTC's Act 44 Financial Plan FY 2019 was issued on June 1, 2018.

^{b/} - PTC's Act 44 Financial Plan FY 2017 was issued on May 18, 2016.

^{c/} - The "Total Funds Remaining After Operating Expenses" projected in the 2018 report were less than the amounts that would have been needed for the "Total Scheduled Debt Payments" as previously projected in the 2016 report.

^{d/} - "Total Scheduled Debt Payments Projected in 2016" minus the "Total Scheduled Debt Payments Projected in 2018".

Source: This table was compiled by the staff of the Auditor General based on information provided by PTC management and PTC Act 44 Financial Plans. 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 and conclusions.

PTC management stated that the reduction in projected debt payments is due to reducing the ten-year capital plan in the FYE May 31, 2017, by approximately \$900 million and increasing the targeted PAYGO percentage.²⁵ In 2016, PTC Commissioners ordered a system-wide

²⁵ PAYGO - Pay as you go fund that sweeps surplus cash when the General Reserve Fund is greater than an amount established by the PTC and utilizes the surplus cash to reduce bonding.

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reassessment of its capital improvement projects in order to reassess capital spending due to concerns regarding debt service. This led to the reduction in the ten-year capital plan amounts. PTC management stated that due to the PTC's current financial constraints, regarding projects, it can only do "one-offs" - meaning that although there are multiple projects that have been presented that are warranted, they are only able to do one of the projects due to financial constraints.²⁶ This issue was also noted by a credit rating agency that stated in a September 2018 rating that the PTC's capital plan focuses on the protection of its existing asset base and that some non-critical projects have been deferred.²⁷

In addition to reducing debt through the reduction of capital plan projects, the PTC has been able to reduce debt by decreasing the amount it finances. Act 89 requires that through the fiscal year ending May 31, 2022, the PTC must fund at least \$30 million of the \$450 million annual payment to PennDOT with current revenue. However, according to PTC management, they have made payments of \$50 million from current revenue annually since FYE May 31, 2013. This has enabled the PTC to lower the amount financed by \$20 million in each of the past six years and therefore lowering future debt payments.

In addition to reducing debt payments, PTC management stated that it is offsetting the projected reduction of toll revenue amounts through other cost reduction strategies such as managing operating expense growth and deferring filling job vacancies. As a result, the PTC anticipates being able to make the scheduled payments.

A PTC official stated that he believes the PTC can operate through the fiscal year ending May 31, 2022, when the payment to PennDOT is scheduled to decrease, but the PTC needs to be alleviated of the burden of the Act 44/89 payment obligations as currently stated in law.²⁸ Current law, Act 89, provides that beginning during the fiscal year ending May 31, 2023, the current payments are scheduled to decrease from \$450 million to \$50 million per year through an allocation of the tax receipts of sales of motor vehicles, trailers and semi-trailers.²⁹ This reduction is dependent upon the Governor and the legislature allowing the PTC's annual payments to PennDOT to decrease as scheduled. Additionally, the Governor and legislature should determine if alternative funding sources to replace the PTC payments can be made available well before the reduction is set to begin during the fiscal year ending May 31, 2023, to help alleviate the PTC's debt burden.

However, if these projections (traffic count and toll revenue increases) are not realized through 2022, and/or if the PTC payments are not allowed to decrease to \$50 million in 2023, the PTC

https://www.paturnpike.com/pdfs/business/finance/PTC_Fiscal_2019_Act_44_Financial_Plan_FINAL.pdf (accessed January 18, 2019).

²⁶ PTC official's testimony at a Senate Transportation Committee meeting on May 22, 2018.

²⁷ <https://www.fitchratings.com/site/pr/10043894> (accessed October 5, 2018).

²⁸ PTC official's testimony at a Senate Transportation Committee meeting on May 22, 2018.

²⁹ 74 Pa.C.S. § 1506(c)(3.4); see also 72 P.S. § 7238.

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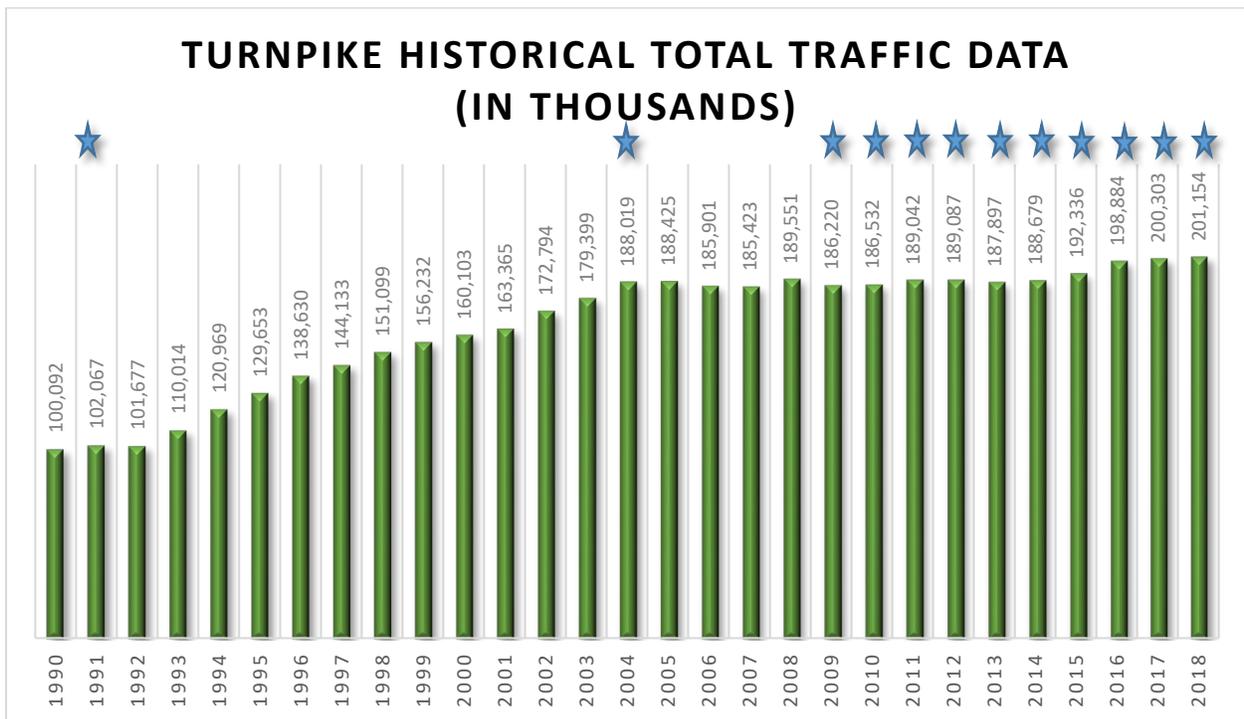
will be in jeopardy of defaulting on its scheduled debt payments and/or needing to further reduce its capital spending levels in the future.

Annual costly toll increases continue to place an undue burden on residents of Pennsylvania.

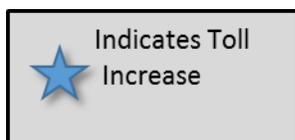
Turnpike Traffic and Toll Rates

The PTC's CAFRs reported that the total number of vehicles that traveled the Turnpike increased each year during our audit period; however, we noted that the traffic volume has remained relatively flat. (See the Introduction and Background section for a breakdown of the total by passenger and commercial vehicles for the FYE May 31, 2009 through FYE May 31, 2018.) The following graph shows the total number of vehicles traveling the Pennsylvania Turnpike per year over the last 29 years and when toll increases were instituted:

Graph 2



Source: This graph was developed by the staff of the Auditor General based on information reported in the PTC's CAFRs.



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Before Act 44, the PTC only increased tolls five times in 64 years, which is important to note since the tolls have been increased 10 times over the last 10 calendar years. With the passage of Act 44 and the PTC’s increasing debt load, the PTC 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. In recent years, the annual increase has been six percent (See Table 1 in Appendix B for detail on the rate of inflation and the toll increase for the calendar years 2009 through 2048). The PTC plans to increase tolls each year through 2048 in order to meet its Act 44/89 obligations.

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 increases described in Table 1 in Appendix B. We scheduled the toll rates for a passenger vehicle (Class 1, with 2-axles) and a commercial vehicle (Class 6: 45,001 – 62,000 lbs., with 5-axles). The results for 2018 and 2048 are presented as follows (See Table 2 in Appendix B for detail on future toll rates calculated for the calendar years 2018 through 2048):

Table 5

Projected Toll Rates from Valley Forge (Exit 326) to Pittsburgh (Exit 57) - 2018 and 2048								
270.18 miles								
Passenger Vehicle, 2-Axles					Commercial Vehicle, 5-Axles			
	Cash	Cost per mile	EZ-Pass	Cost per mile	Cash	Cost per mile	EZ-Pass	Cost per mile
2018^{a/}	\$37.00	\$0.14	\$26.29	\$0.10	\$139.45	\$0.52	\$100.07	\$0.37
2048	\$106.25	\$0.39	\$75.49	\$0.28	\$400.44	\$1.48	\$287.35	\$1.06
^{a/} - 2018 is the actual toll rate according to the PTC’s on-line toll calculator.								

Source: This table was compiled by the staff of the Department of the Auditor General based on the 2018 current toll rates and the assumed toll rate increases based on Traffic and Revenue Forecast Studies performed by a PTC consultant. The assumed toll rate increases are of undetermined reliability as noted in Appendix A. However, this data is 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 and conclusions.

The one-way ticket prices between Philadelphia and Pittsburgh shown in Table 5 will increase at the same rates for traveling other distances on the Turnpike. Considering that toll rates for Turnpike travel are projected to almost triple by 2048, we believe that, at some point, the typical Turnpike traveler will be deterred by the increased cost and seek alternate, toll-free routes. This would obviously negatively impact the PTC’s revenues. The stagnant traffic growth from 2004 to 2018, shown in the historical traffic data Graph 2, and the reduction in projected Turnpike

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traffic and toll revenue as reported in Table 3 may already demonstrate that this situation is occurring.

The contracted consultant for the PTC noted in its *2018 Traffic and Revenue Forecast Study* that the vehicle transaction growth on the Turnpike in 2017 was less than that of three other measures of economic growth, including the gross domestic product, gross regional product, and gross state product. The consultant noted this is likely due to vehicle transactions being dampened by annual toll rate increases and the temporary closure of the Delaware River Bridge in early 2017.

Two credit rating agencies have also noted concerns with the PTC's projections regarding turnpike traffic levels and related toll revenue. Moody's Investors Service noted in an October 1, 2018, rating action:

Over the long term we expect minimal traffic growth due to shifting service area demographics, including an aging population, weak population growth, urbanization and out migration of residents. Long-term revenue growth will primarily be driven by toll rate increases.

The ratings rationale action further noted:

There may be adverse developments outside of the Commission's control that could limit its ability to increase toll revenues to levels necessary to achieve its long-term forecast revenue targets. These include changes in user elasticity as toll increases accumulate over time, economic softening, volatile fuel prices, political interference to limit toll rate increases, and changing demographics that impact driving patterns and transaction volumes. These pressures could converge to undermine the Commission's current leverage strategy, which is reliant on above inflation annual toll rate increases and assumed steady traffic volume and revenue growth.³⁰

Fitch Ratings, noted in a September 2018 rating:

The PTC benefits from unlimited legal authority to raise rates and has implemented above inflationary increases historically. However, there may be political risk associated with implementing toll rates above inflation for multiple years, as is anticipated in PTC's financial plan.³¹

The rating further noted that a court ruling in favor of the parties in the commercial trucking industry in their pending lawsuit against the PTC (described later in this finding) could affect the PTC's ability to raise tolls.

³⁰ https://www.moody.com/research/Moodys-assigns-A1-to-Pennsylvania-Turnpike-Commission-91-million-Turnpike--PR_905536646 (accessed October 9, 2018).

³¹ <https://www.fitchratings.com/site/pr/10043894> (accessed October 5, 2018).

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Effects on Travelers

Toll price increases directly impact the very travelers who provide the PTC with the majority of its revenue. Every annual toll increase is a burden for Pennsylvania consumers, as companies that transport goods by commercial vehicles on the Turnpike could pass the additional costs onto consumers. Additionally, annual increases in toll prices place a heavy burden on those travelers who use the Turnpike for their daily commute to and from work. Based on the 2018 Traffic and Revenue Forecast Study cited above and an analysis by the *Central Penn Business Journal* issued on February 24, 2017, the PTC's toll prices are higher than those of Massachusetts, New Jersey, New York and Ohio, which will potentially cause travelers to avoid the Turnpike because they will find it too costly.³² As such, the PTC's plan to annually increase toll rates through 2048 as shown in Table 1 in Appendix B may be an unsustainable practice for the PTC to meet its Act 44/89 and capital improvement expenses over the long-term.

Effects on Credit Rating and Debt Financing Costs

The PTC's credit ratings decreased slightly after the passage of Act 44 but have remained steady in recent years; however, concerns regarding the expected minimal traffic growth over the long-term was cited by one credit rating agency as a factor that could lead to a downgrade if traffic levels fall short of forecasts. Additionally, another credit agency noted that given PTC's sizable and ongoing borrowing plans for the intermediate term and due in part to the pending lawsuit by parties in the commercial trucking industry, upward rating action is not likely at this time and that a court ruling in favor of the plaintiffs, which could affect the PTC's liquidity, ability to raise tolls, and/or ability to issue subordinate bonds, would warrant negative rating action.³³ Credit rating decreases can lead to an increase in debt financing costs on new bond issues and higher future interest rates, which equate to higher debt payments.

In 2018, parties in the commercial trucking industry filed a class action lawsuit against the PTC regarding Act 44/89 payment obligations to PennDOT.

As reported in the Introduction and Background section of this report, the PTC is scheduled to make payments totaling \$450 million to PennDOT during the fiscal year ending May 31, 2019. Generally, the PTC makes quarterly payments to PennDOT; however, PennDOT agreed to a delay in the PTC's first three quarterly payments. The delay in payments was agreed upon in light of a class action lawsuit filed in March 2018 against the PTC by parties involved in the commercial trucking industry. The lawsuit challenges the PTC's payment to PennDOT and

³² <http://www.cpbj.com/article/20170224/CPBJ01/170229877/analysis-shows-pa-turnpike-toll-rates-well-above-ohio-ny-others> (accessed January 9, 2019).

³³ <https://www.fitchratings.com/site/pr/10043894> (accessed October 5, 2018).

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claims that it is a violation of federal law to impose tolls and use toll revenue for purposes other than the operation and maintenance of the tolled roads.

The lawsuit seeks, among other things, the following injunctive remedies:

- A permanent injunction enjoining the Commission from issuing any further bonds or incurring any additional debt for the purpose of making Act 44/89 payments.
- A permanent injunction prohibiting the Commission from using toll revenues to make payments on outstanding bonds issued to meet Act 44/89 obligations.

Moreover, the lawsuit seeks certain monetary damages, including a refund of a portion of certain tolls allegedly imposed upon the trucking plaintiffs' use of the Turnpike in excess of what was reasonably necessary to pay for the cost of operating and maintaining the Turnpike System, together with any legally applicable interest and other compensation.³⁴

Although the PTC states that it is vigorously defending Act 44/89 and the propriety of its use of the Turnpike toll revenues in court, it is not known if the PTC will be successful or what the financial impact would be if the PTC is not successful.

Recommendations for Finding 1

We recommend that the PTC:

1. Continue to prioritize only capital projects requiring immediate attention in order to reduce its overall heavy debt load.
2. Ensure that traffic projections used to project toll revenue are conservative and realistic.
3. Evaluate and scrutinize sources of revenue and operating expenses to find ways to increase revenues while reducing costs. Several immediate recommendations are made in our follow-up to the status of Prior Audit Finding 2 to increase collection of toll violation fees and Previous Prior Year Findings 1 and 2 to reduce toll-free use of the Turnpike by employees and non-employees.
4. Evaluate ways to increase passenger car and commercial use of the Turnpike.

³⁴ See *Owner Operator Independent Driver Association, et al. v. Pennsylvania Turnpike Commission, et al.*, 1:18-CV-00608-YK. See also the PTC's 2018 CAFR.

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We recommend that the Pennsylvania General Assembly:

1. Immediately re-evaluate Acts 44/89 and consider drafting and enacting new legislation through the help of a joint taskforce comprised of representatives of the Senate and House Appropriations and Transportation Committees, the PTC, PennDOT, and trucking industry/driver's associations to closely focus on reasonable interim alternative revenue sources (such as a tax on Uber, Lyft, and other ride-shares [other than in Philadelphia]) and possibly expanding the tax on the sale of Plug-In Hybrid and Battery Electric Vehicles), to help ensure the current debt burden placed on the PTC is considerably mitigated for the continued viability of the PTC and the toll system in Pennsylvania.
2. Refrain from increasing the \$50 million annual payment scheduled to begin during the fiscal year ending May 31, 2023.

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Finding 2 – The Pennsylvania Turnpike Commission awarded construction contracts and engineering consultant agreements in accordance with its policies and procedures, with a large portion of funds allocated to southeastern Pennsylvania for the Interstate 95 Interchange Project.

The Pennsylvania Turnpike Commission’s (PTC or Commission) Act 44 Financial Plan for Fiscal Year (FY) 2019 states that in order to provide and maintain high quality transportation infrastructure for its customers and preserve the PTC’s economic competitiveness, the PTC continues to execute its planned ten-year \$5.9 billion capital improvement program (capital plan).³⁵ The capital plan features roadway resurfacing and total reconstruction programs, the rehabilitation or replacement of structurally deficient bridges, the design and construction of the Interstate 95 Interchange Project (I-95 Project), and the implementation of cashless tolling.

Our review of the PTC’s selection process for capital projects included a review of the FY 2016, 2017, and 2018 capital plans. We found that projects in Bucks County, located in the southeastern portion of the state, comprised a large share of the dollars, over 20 percent, included in the capital plans’ highway program over the three years reviewed. The majority of the projects in Bucks County were part of the partially federally funded I-95 Project.

We further reviewed the PTC’s awarding of construction contracts and engineering agreements. We found that for the areas selected for review, the PTC followed its construction contracting manual when procuring construction contracts and its professional services procurement policy and procedures, adopted pursuant to the Commonwealth Procurement Code (Code), when procuring engineering consultant agreements.³⁶ Further information regarding these policies and procedures are described in Appendix C of this audit report.³⁷

³⁵ https://www.paturndpike.com/business/capital_plan.aspx (accessed January 10, 2019). PTC Commissioners generally adopt a ten-year capital plan each year with input from PTC management and executives.

³⁶ Under the Code, the PTC is a “state affiliated agency” not subject to the direction and policies of the Department of General Services but must use the Code’s procedures. See 62 Pa.C.S. § 103 (Definitions) and Subsection (d) of 62 Pa.C.S. § 301 (Procurement responsibility), which states, in part: “[s]tate-affiliated entities may formulate their own procurement policy governing the procurement, management, control and disposal of...services and construction and may act as their own purchasing agency for the procurement of... services and construction, but they are required to use the procedures provided in this part for such procurement.” See also the *DGS Procurement Handbook*, Part I, Chapter 01 (last updated on June 30, 2017).

³⁷ The PTC’s Construction Contracting Operations Manual (ConCOM) 2017-1, dated April 1, 2017, designates the utilization of a publicly advertised, competitive low bid process with award made to the lowest responsive and responsible bidder which is also required by the Commonwealth Procurement Code, Act 57 of 1998. For engineering consultant contracts, the PTC adheres to PTC Professional Services Procurement Procedures dated April 5, 2012, and revised May 26, 2016, and PTC Policy 7.04 – Procurement effective May 1, 1999, and revised December 15, 2015.

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PTC Selection Process for Capital Projects

According to PTC management, when annually developing the ten-year capital plan, their program and category managers identify projects and develop cost estimates to include in the capital plan.³⁸ During the process, the program and category managers prioritize projects based on items such as the results of bridge inspections and pavement condition ratings. The program and category managers send their requests for inclusion of the projects to the PTC's Planning Department. The Planning Department then presents the requests to PTC executives who review and then forward the information to PTC Commissioners. The PTC Commissioners make the final decisions on which projects to move forward and adopt a new capital plan each year. When adopting the new capital plan, the Commissioners approve spending for the first two years of the capital plan, including authorization to advertise and obtain bids for projects.

As part of our review, we analyzed the PTC's capital plans for FY 2016, 2017, and 2018, to determine the amounts funded to highway projects by county and overall system-wide projects. The following table reports the top five counties/system-wide highway projects designated to receive the most capital plan funds during FY 2016, 2017, and 2018:

PTC Highway Program								
County	Fiscal Year 2016	% of Total	County	Fiscal Year 2017	% of Total	County	Fiscal Year 2018	% of Total
Bucks	\$136,452,000 ^{a/}	20.7%	Bucks	\$131,373,904 ^{b/}	21.9%	Bucks	\$130,540,600 ^{c/}	25.5%
Montgomery	\$103,677,050	15.7%	System-wide ^{d/}	\$100,000,179	16.7%	System-wide	\$92,522,113	18.1%
System-wide	\$91,041,560	13.8%	Montgomery	\$88,657,500	14.8%	Allegheny	\$51,925,600	10.1%
Allegheny	\$57,999,740	8.8%	Cumberland	\$65,025,000	10.9%	Cumberland	\$51,391,724	10.0%
Cumberland	\$50,750,000	7.7%	York	\$36,010,495	6.0%	Montgomery	\$45,361,119	8.9%
All other counties ^{e/}	\$220,148,205	33.3%	All other counties	\$178,082,922	29.7%	All other counties	\$140,537,186	27.4%
Total Capital Plan Expenditures for FY	\$660,068,555	100.0%	Total Plan	\$599,150,000	100.0%	Total Plan	\$512,278,342	100.0%
^{a/} - \$120,289,000 of this amount was allocated to the I-95 Project. ^{b/} - \$126,883,000 of this amount was allocated to the I-95 Project. ^{c/} - \$119,910,000 of this amount was allocated to the I-95 Project. ^{d/} - Includes projects such as the conversion to cashless tolling throughout the Turnpike and general roadway paving and repairs. ^{e/} - See Appendix D for a listing of all counties that were designated capital plan funding for highway projects during this period.								

Source: This table was compiled by the staff of the Department of the Auditor General based on the PTC's FY 2016-2018 Capital Plan Budget by County provided by PTC management. 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 and conclusions.

³⁸ The ten-year capital plan includes four programs: highway; technology; fleet equipment; and facilities and energy management operations. The highway program is broken into five categories: roadway/safety; bridges, tunnels and miscellaneous structure; total reconstruction; slip ramp/interchanges; and highway miscellaneous.

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As indicated in the above table, projects in southeastern Pennsylvania, specifically Bucks and Montgomery Counties, were allocated a large portion of the funds during all three fiscal years, with Bucks County allocated over 20 percent of the funding each year. The funding for Bucks County was primarily for the partially federally funded I-95 Project, discussed in more detail later in this finding, while the majority of the funding in Montgomery County was directed to a roadway and bridge reconstruction project on a portion of the northeast extension of the Turnpike as part of the PTC's statewide total reconstruction initiative. Although the southeastern portion of Pennsylvania was allocated a large percentage of the funding during all three years under our review, we found that funding to Montgomery County decreased in FY 2018 due to its projects nearing completion, and more funds are now being allocated to other parts of the state.

With the large percentage of funds allocated to Bucks County for the I-95 Project, we obtained and reviewed additional information relating to this project. According to PTC management, the I-95 Project has been an active project for over 20 years at the PTC. The project completed Interstate 95's (I-95) "missing link" by creating a direct connection between I-95 and the Pennsylvania Turnpike, thus making I-95 continuous from Maine to Florida.³⁹ The goals of this project are to reduce congestion on local Bucks County roadways as well as improve the flow of traffic in the Philadelphia region and along the entire east coast.⁴⁰ Previously, I-95 ran from Philadelphia north across the Delaware River at the Scudder Falls Bridge into New Jersey, just north of Trenton, and terminated at the Route 1 interchange in Lawrence, New Jersey, where it became I-295 south. I-95 then picked up again as part of the New Jersey Turnpike.

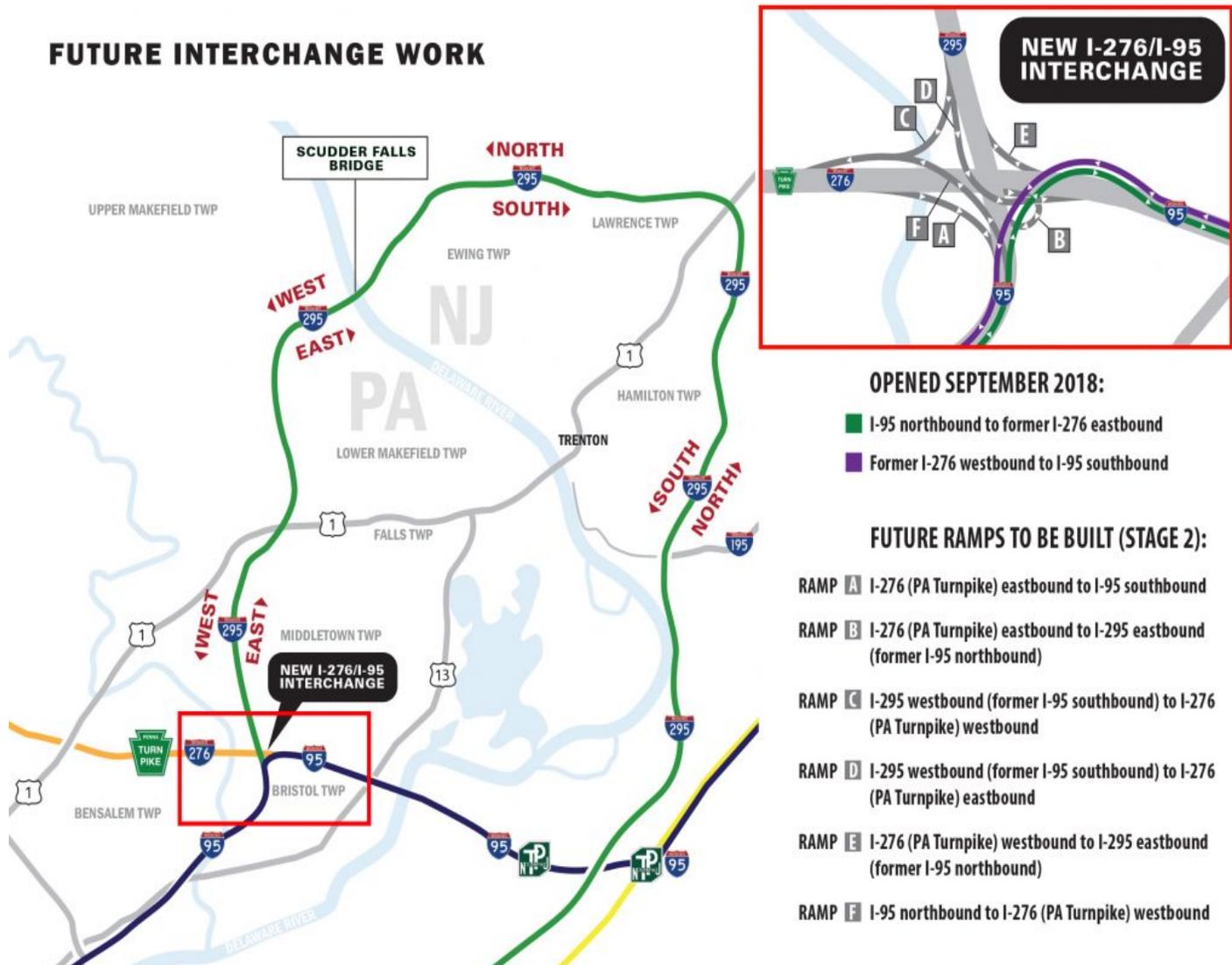
³⁹ <https://www.paturnpike.com/press/2018/20180921112832.htm> (accessed November 13, 2018).

⁴⁰ <https://www.patpconstruction.com/paturnpikei95/default.aspx> (accessed November 9, 2018).

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The following map provides a visual of the project:



Source of Map: <http://i95link.com/> (accessed November 13, 2018).

To address the “missing link” and make I-95 continuous along the entire East Coast of the United States, Congress passed the 1982 Surface Transportation Assistance Act (STAA), which mandated the completion of I-95 using the existing Pennsylvania and New Jersey Turnpikes via an interchange between I-95 and the Pennsylvania Turnpike. With the enactment of Pennsylvania Act 61 of 1985, the PTC became the leading Pennsylvania agency on this project. Since the project was partially federally funded, the project required three agencies, the Pennsylvania Department of Transportation (PennDOT), the PTC, and the Federal Highway Administration (FHWA) to develop and execute agreements. PennDOT is also involved in

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monitoring the project, and the PTC coordinates with PennDOT for items such as approval of change orders.

The I-95 project consists of three stages. The major component of Stage 1 includes a new interchange made up of two highway-speed (55 mph) connecting structures that were opened to traffic in September 2018. One structure carries northbound I-95 traffic onto the eastbound Pennsylvania Turnpike (I-276) and the other carries westbound I-276 traffic onto southbound I-95.⁴¹ According to PTC management, some final design and construction activities for Stage 1 elements will continue through 2020. Some design work has been performed for the major components of Stage 2, which include the replacement and reconstruction of overhead bridges, roadways, and ramps. Stage 3 plans include the replacement of the Delaware River Bridge.

According to PTC management, from January 2012 through September 2018, the total cost of Stage 1 of the project, which included costs for study, design, construction, right of way, and utilities, was \$427 million, of which approximately \$214 million was reimbursed through federal funding. For that same time period, the total cost of Stage 2 of the project was \$45 million with no current federal reimbursements. Finally, no costs were incurred for Stage 3 within that time period.

Based on our review of this I-95 Project and considering the fact that it is mandated and partially federally funded, it seems appropriate that there was a large portion of dollars allocated to southeastern Pennsylvania during the period of our review and that such large allocations will continue as the stages of the I-95 Project move through to completion. While we have noted that projects in the southeastern portion of Pennsylvania received the most funding in the PTC's capital plan during the years of our review, we found that as the projects in Montgomery County near completion, the PTC's allocation of funds in FY 2018 has spread over the central and western portions of Pennsylvania.

Results of testing the PTC's construction contract and engineering consultant agreement award processes

PTC management stated that it follows its construction manual when procuring construction contracts and its professional services procurement policy and procedures when procuring engineering consultant agreements.⁴² As part of our audit procedures, we conducted interviews and corresponded with PTC contracting management, as well as judgmentally selected and tested

⁴¹ <https://www.paturnpike.com/press/2018/20180921112832.htm> (accessed November 13, 2018).

⁴² For reporting purposes, we may refer to engineering consultant agreements as "contracts."

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25 construction and engineering consultant contracts awarded during our audit period as follows:⁴³

Contract Type	Total Number of Contracts Awarded	Total Dollar Amount	Number of Contracts Selected for Testing	Tested Dollar Amount
Construction Contracts^{a/}	88	\$1,245,185,317	13	\$570,335,006
Engineering Consultant Agreements^{b/}	77	\$227,100,000	12	\$67,500,000
Total	165	\$1,472,285,317	25	\$637,835,006

^{a/} - Construction contracts were awarded during the period June 1, 2015 through December 19, 2017.
^{b/} - Engineering consultant agreements were awarded during the period June 1, 2015 through January 4, 2018.

Source: This table was compiled by the staff of the Department of the Auditor General based on the information included in the PTC's listings of construction contracts and engineering consultant agreements awarded during our audit period.

Based on our audit procedures, we found the following for each of the 13 contracts:

- The projects were listed on the PTC's capital plan.
- Prior to the PTC advertising the projects to seek bids from potential contractors, PennDOT approved the bid documents as required.
- The PTC awarded the contracts to the lowest bidders as calculated by the PTC's Electronic Bidding System (EBS), and all of the awarded contractors submitted their bids before the bid deadline.
- Recommendation for award memos, signed by the required PTC management, were included with the PTC Commission meeting agenda items, and approval to award the contracts by the Commissioners was documented in the approved Commission meeting minutes.
- The contracts were signed by representatives from both the PTC and the contractor.

Based on our audit procedures, we found the following for each of the 12 agreements:

- The approval of the Technical Evaluation Team (TET) members responsible to perform the first level review of responses from interested firms was documented and the TET members completed conflict of interest forms.⁴⁴

⁴³ We judgmentally selected contracts by including contracts for projects covering a geographic cross section of the state, high dollar amounts, various project types, and those located in the southeastern region of Pennsylvania where the majority of the highway program funding was awarded during the audit period.

⁴⁴ The PTC's Professional Services Procurement Procedures and Procurement Policy requires that all Technical Evaluation Team (TET) and Professional Services Procurement Committee (PSPC) members affirm in writing on the "Conflict of Interest and Confidentiality Statement" form that they have no conflicts of interest, actual or

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- The TET members' analysis was documented in narrative evaluation summaries (NES), included a rating of firms, appeared reasonable, and included analysis of the firm that was eventually awarded the agreement. Additionally, the NES was initialed by the TET members, evidencing their concurrence with the ratings of each of the firms.
- The Professional Services Procurement Committee (PSPC) members responsible for the second level of review of responses completed the conflict of interest forms.
- The PSPC reviewed the TET's ratings of responses received from interested firms and any changes made to the TET's ratings were justified in the PSPC meeting minutes. Additionally, we verified that the PSPC members initialed the PSPC meeting minutes, evidencing their concurrence with the evaluations.
- At a minimum, either the TET or PSPC documented their evaluation of the interested firms' past performance for the PTC.
- Recommendation memos were appropriately signed, recommendation packets were posted on the PTC's secure server for the Commissioners' review, and the Commissioners were notified via email prior to the meetings that the recommendation packets were available for their review.
- Resolutions were on file documenting the Commissioners' review of the TET and PSPC evaluations and actions related to the award process.
- All of the agreements were signed by representatives from both the PTC and the selected firm.

Based on the results of our audit procedures, we found that the construction contracts and engineering consultant agreements reviewed were awarded in compliance with applicable PTC policy and procedures which are consistent with the Commonwealth Procurement Code.

perceived, or direct financial interest in the firms competing for Commission business. Completion of these forms is important since the rating of firms providing professional services is more subjective in nature.

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

The following are the financial-related mandates⁴⁵ addressed in this report:

- Section 706(b) of the Administrative Code of 1929 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.⁴⁶
- Section 8204(b)(1) of Part IV, Title 74 (Transportation) requires the Auditor General to review the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.⁴⁷

The Pennsylvania Turnpike Commission (Commission or PTC) contracts with an independent CPA firm to conduct an annual audit of the PTC’s financial statements. For the two fiscal year financial statements reviewed, the Commission contracted with separate CPA firms – one CPA firm for each fiscal year. The Department of the Auditor General reviewed the CPA firms’ 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 two CPA firms and determined that the scope, quality, and timing of the audit work performed by the CPA firms adequately addressed the mandated requirement(s) pertaining to the financial audit and review of the performance, procedures, and accounts of the PTC:

- Verified that the external auditors of each CPA firm were independent to conduct the financial audits of the PTC.
- Obtained copies of peer review results and found both CPA firms received a rating of pass during each of the years they performed the financial audits of the PTC.
- Reviewed the independent auditors’ working papers for the fiscal years ended May 31, 2016 and 2017.

⁴⁵ Please note that these provisions also authorize a compliance audit and a performance audit, respectively.

⁴⁶ 71 P.S. § 246(b) and § 706, as amended by Act 122 of 1988.

⁴⁷ 74 Pa. C.S. § 8204(b)(1), as added by Act 44 of 2007 and amended by Act 89 of 2013. *See* Chapter 82. Turnpike Commission Standards of Conduct.

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- Noted that both of the independent auditors presented an unmodified opinion on the PTC's financial statements for the applicable fiscal year audited.

In addition to reviewing the CPA firms' working papers and financial audit reports, we also obtained the related operating and capital budgets for these fiscal years and performed analytical review procedures to determine if there were any substantial fluctuations in amounts between the years reviewed. We did not identify any unusual items that warrant further review.

Finally, based on the requirements of Section 8204(b)(1) of Part IV, Title 74, we reviewed the PTC's debt as part of our performance audit. Specifically, we evaluated the PTC's current and future expected debt load in connection to the mandated annual payments to PennDOT to determine whether the PTC 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 and Section 8204(b)(1) of Part IV, Title 74.

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Status of Prior Audit Findings

Our prior audit of the Pennsylvania Turnpike Commission (PTC or Commission) dated September 2, 2016, presented the results of our performance audit, as well as the results of our procedures to fulfill our financial-related mandates. Specifically, we reviewed the financial audit reports and the related working papers performed by an independent CPA firm as well as performed other procedures for the fiscal years ended May 31, 2011 through May 31, 2015. The performance audit covered the period June 1, 2014 through July 11, 2016, unless otherwise noted, and contained three findings, two of which had a total of eight recommendations.⁴⁸ The report also contained the status of six prior year findings, four of which had a total of 11 additional recommendations.⁴⁹

Prior Year Finding 1, regarding the sustainability of PTC operations, is covered as part of a current audit objective. See current Finding 1 for further details and recommendations. Based on our current performance audit procedures, we determined the status of Prior Year Finding 2 and the remaining four previous prior audit findings that contained recommendations and present additional recommendations, where applicable, to eliminate the deficiencies identified during our current audit.

Prior Year Finding 2 – Rapid increases in toll violations with little enforcement power may lead to additional financial problems for the Pennsylvania Turnpike Commission. (Partially Resolved)

During our prior audit, we found that although the number of vehicles using the Pennsylvania Turnpike had only increased by less than two percent for each of the fiscal years ended (FYE) May 31, 2011 through May 31, 2015, the number and amount of violation notices invoiced had increased by more than 15 percent per year, with the exception of 2013. This was a major concern for the PTC because it lacked the legal authority to further penalize toll violators regardless of whether violations were intentional or not and regardless of how many times individuals failed to pay their tolls and fees. We also found that, consistent with the increase in the number of violations between June 1, 2012 and April 30, 2016, the amount of tolls and fees invoiced increased 90 percent and the dollar amount of accounts receivable outstanding for violations increased 104 percent.

We recommended that the PTC seek action by the legislature to enact more significant deterrents for individuals who drive on the Turnpike and fail to pay tolls, such as the authority to suspend

⁴⁸ The third prior audit finding did not contain recommendations and, therefore, we did not perform any follow-up procedures during the current audit.

⁴⁹ Two of the previous audit findings were resolved and, therefore, we did not perform any follow-up procedures during the current audit.

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vehicle registrations, impose graduated fines for multiple toll violations, and to publish lists of egregious toll violators. Additionally, once the legislation has been enacted, if appropriate, we recommended the PTC reach out to other states, especially adjacent states, to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations. Finally, we recommended that the PTC 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.

Status as of this audit

In November 2016, Act 165 of 2016 was enacted to allow for the suspension of a vehicle registration for unpaid tolls and fees. Effective August 4, 2017, the PTC can request the Pennsylvania Department of Transportation (PennDOT) to suspend the registration of any Pennsylvania motorist with six or more violations for unpaid tolls over the past three years or tolls and fees totaling \$500 or more over the past three years, and at least one unpaid toll for travel after August 4, 2017.⁵⁰ PTC management offered a partial amnesty period from July 5, 2017 through the August 4, 2017, effective date where owners received a discount on fees that resulted in 2,083 owners paying \$1,426,609 in violations due.⁵¹ Act 165 did not include language to provide the PTC the authority to impose graduated fines for multiple toll violations or to publish lists of egregious toll violators.

Information provided by the PTC indicated that as of December 5, 2018, its Compliance Department's Office of Special Investigations (OSI) had 448 toll evasion cases.⁵² Of this total, 239 remain open and 209 had been closed. The following summarizes the status of the 209 cases closed by the OSI, some of which are still in process outside of the PTC:

⁵⁰ See Subsection (a)(1) of Section 1380 (relating to Suspension of registration upon unpaid tolls) of the Vehicle Code, 75 Pa.C.S. § 1380(a)(1).

⁵¹ Toll violations that had not been placed with a collection agency could be settled by paying in full all tolls for any violations or invoices, and the PTC waived all administrative fees. Toll violations that had been placed with a collection agency could be settled by paying in full all tolls and a portion of the administrative fees for all violations or invoices.

⁵² Cases include those that OSI was investigating prior to Act 165 being enacted and also cases that were forwarded to OSI after the violator's registration had been suspended but still had not made contact with the PTC to arrange payment for violation amounts due.

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Status	Total
Payments made in full/Payment plans in place that will total \$334,520	101
Violators working on payment plan through outside counsel	6
Criminal charges filed against violators	39
Violators now eligible for toll enforcement (suspension of registration plate)	16
Out of state	25
Other (e.g., violators deceased, filed for bankruptcy, past statute of limitations, etc.)	22
Total	209

Source: This table was compiled by the staff of the Department of the Auditor General based on information provided by PTC management. The totals provided are of undetermined reliability as noted in Appendix A; however, this data is 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 and conclusions.

In addition to Pennsylvania motorists, the PTC must also deal with violators from other states. PTC management indicated that Act 165 of 2016 also provides authority for PennDOT to enter into an agreement for reciprocity in regard to collection of outstanding tolls.⁵³ Although the PTC is not a party in this type of agreement, it works in partnership with PennDOT. During the current audit period, PennDOT entered into a reciprocity agreement with the Delaware Department of Transportation, Division of Motor Vehicles (DeLDOT). Although the agreement was effective September 11, 2018, DeLDOT indicated to PennDOT that it will not be able to move forward with the technical implementation of the reciprocity agreement until the spring of 2019.

PTC management further indicated that it has had discussions with the states of Maryland, Massachusetts, New Jersey, and New York. Maryland indicated that seeking an agreement is not a priority for its department at this time. Massachusetts staff are currently reviewing the agreement between PennDOT and DeLDOT with the goal of convening a work-group for further discussions. New Jersey does not have the legal authority to enter into a reciprocity agreement. Discussions with New York were held during the past two years; however, no agreement is being actively pursued at this time.

The PTC indicated that as of FYE May 31, 2018, \$34.8 million of the \$87.6 million, or 39.7 percent, of violations receivable were from out-of-state registered vehicle owners. Therefore, the PTC and PennDOT should continue to work with neighboring states regarding entering into reciprocity agreements to allow for the opportunity to collect additional outstanding tolls resulting from out-of-state violators.

⁵³ 75 Pa.C.S. § 1380(i)(1).

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Regarding our recommendation related to accepting credit and debit cards (cards) at toll booths, PTC management indicated that the system-wide rollout of the program to accept cards occurred on September 19, 2016. The PTC accepts cards at toll booths where there is a toll collector. Unattended (coin drop) toll locations and cashless tolling locations do not accept card payments.⁵⁴

As shown in the table below, the number of vehicles using the Turnpike increased by less than four percent in the FYE May 31, 2016, and less than one percent in both the FYE May 31, 2017, and the FYE May 31, 2018, but the number of violation notices invoiced has increased by 19 percent or more per year.⁵⁵

FYE May 31	Number of Violation Notices Invoiced	Percent Increase in Number of Invoices	Total Number of Vehicles Using the Turnpike	Percent Increase in Total Vehicles Using the Turnpike
2016	1,098,000	23.9%	198,884,000	3.40%
2017	1,307,000	19.0%	200,303,000	0.71%
2018	1,619,000	23.9%	201,154,000	0.42%

Source: This table was compiled by the staff of the Department of the Auditor General based on vehicle numbers from the PTC's FYE May 31, 2018, CAFR and the number of violation notices invoiced as provided by the PTC. The number of violation notices 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.

Consistent with the increases in the number of violations noted above, we found increases in the amount of tolls and fees invoiced and the amount of violations accounts receivable outstanding. Specifically, as shown in the table below, the total dollar amount of invoiced toll violations and fees increased by 49 percent, and the total dollar amount of accounts receivable increased approximately 103 percent. Further, the toll violation and fee amounts invoiced were 7 percent of toll revenue for the FYE May 31, 2018.

⁵⁴ <https://www.paturndpike.com/toll/cash.aspx> (accessed November 14, 2018). Web-site includes information on paying tolls by both cash and credit card.

⁵⁵ PTC management indicated that as the use of electronic toll collection (ETC) methods increased, violations increased as well. This was due in part to travelers who do not have an EZPass account utilizing the EZPass only Turnpike exits. For example, with the increased use in mobile apps that are designed to provide the shortest travel route, travelers are instructed to exit by way of an EZPass only lane. Violations also occur for travelers that do have EZPass accounts but do not update their license plate number or credit card information and, therefore, the transactions cannot be processed.

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FYE May 31	Total Invoiced Violation Tolls and Fees Originating in FY	Percent Increase in Annual Tolls and Fees Invoiced	Violation Tolls and Fees as Percent of Annual Toll Revenue	Total Violations Accounts Receivable per PTC Aging Report at FYE	Percent Increase in Violations Accounts Receivable at FYE	Annual Toll Revenue Collected	Percent Increase in Annual Toll Revenue Collected
2016	\$55,679,206	18.0%	5.4%	\$43,193,636	29.9%	\$1,030,115,000	11.4%
2017	\$67,363,233	21.0%	6.1%	\$53,616,803	24.1%	\$1,111,061,000	7.9%
2018	\$83,191,591	23.5%	7.0%	\$87,686,040	63.5%	\$1,196,606,000	7.7%

Source: This table was compiled by the staff of the Department of the Auditor General based on revenue amounts reported in the PTC's FYE May 31, 2018, CAFR and total invoiced violation tolls and fees amounts and accounts receivable amounts provided by the PTC. The invoiced and accounts receivable amounts are 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.

PTC management indicated that toll violations continue to be sent to collection agencies and that the PTC has obtained outside counsel to pursue commercial violators who owe more than \$20,000. However, the alarming rate at which both the number of violation notices and total violation accounts receivable have increased during the audit period supports the need for the PTC to use every means possible to collect tolls from the owners of vehicles, whether in-state or out-of-state, when the operators fail to pay the prescribed tolls.

Recommendations

We recommend that the PTC:

1. Continue to pursue individuals who drive on the Turnpike and fail to pay tolls through all means possible including the following:
 - Forward the names of violators for registration suspension of all those who meet the criteria in Act 165 of 2016; and
 - OSI should proceed with investigations for violators that do not meet the criteria in Act 165 of 2016.
2. Continue to work with other states to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations.

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Previous Prior Year Finding 1 – The Turnpike Commission let its employees ride the Turnpike toll-free, even for personal travel, costing the PTC millions of dollars in lost revenue. This generous perk continued with little oversight at a time when the PTC raises tolls for other travelers in its struggle with mounting debt. (Partially Resolved)

During our prior audit, we found that the Pennsylvania Turnpike Commission (PTC) had not implemented our recommendations from the previous audit that covered the period January 1, 2007 through August 31, 2011, relating to the unlimited toll-free usage of the Turnpike to all of its employees. Toll-free access was provided through badges (cards) and transponders. Specifically, our review which covered the 21-month period (June 2014 through February 2016) indicated that toll-free usage of the Turnpike by employees amounted to more than \$1.2 million. We also reviewed a PTC internal audit report that covered the period February 2015 through July 2015, which identified the following: (1) Cards used by certain former employees for toll-free access remained active subsequent to them leaving employment; and (2) Certain employees' cards were not listed on the employees' personal inventory of Commission-owned property.

We recommended that the PTC: (1) Rescind previous policies that consider all employees' responsibilities as "round the clock" and only limit toll-free access to those employees needing access in the discharge of their official duties; (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; (3) Strengthen existing procedures to timely remove retired or separated employees from the PTC's Card Management System (CMS); and (4) Strengthen existing procedures to ensure all identification cards active in the CMS are included on the employee's inventory in the SAP Objects on Loan System.

Status as of this audit

During our current audit, PTC management stated that they respectfully continue to disagree with our characterization of the existing employee non-revenue usage policies as being a "generous perk" and the assertion that the PTC is losing millions of dollars of revenue.⁵⁶

⁵⁶ The term "non-revenue" refers to toll charges that have been incurred but will not result in generating revenue for the PTC.

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PTC management provided a breakdown of the \$2.4 million of employee toll-free travel incurred during the three year period June 1, 2015 through May 31, 2018, as shown in the table below:

Number of Employees with Non-Revenue Identification Cards	Amount of Employee Toll-Free Travel Incurred with Identification Cards
1,968 ^{a/}	\$736,196
Number of Permanent Employees with Non-Revenue Transponders ^{b/}	Amount of Employee Toll-Free Travel Incurred with Transponders
1,278	\$1,683,248
Total Employee Toll-Free Travel	\$2,419,444
^{a/} - This number represents the total number of PTC employees as of May 31, 2018.	
^{b/} - All permanent employees have badges; therefore, the 1,278 employees with transponders have more than one device to access toll-free travel on the Turnpike.	

Source: This table was compiled by the staff of the Department of the Auditor General based on data provided by the PTC. The data regarding the number of employees with non-revenue transponders and the amount of toll-free travel incurred are of undetermined reliability as noted in Appendix A. However, this data is 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 and conclusions.

Although the PTC continues to offer toll-free usage of the Turnpike by employees, we found that the PTC did implement our recommendation pertaining to developing techniques for monitoring usage and identifying potential misuse. This monitoring resulted in the PTC recovering approximately \$8,400 from eight employees through work done by the PTC's Internal Audit Department and \$1,725 from two employees through monitoring performed by the PTC's contracted vendor, for a total of approximately \$10,125 during our audit period.

Regarding the results of the PTC's internal audit department which found separated employees whose cards had not been de-activated and employees' cards that were not listed on the employees' personal inventory of PTC property, the PTC is currently working on a project to eliminate the need to enter and delimit identification cards in two systems. Once the project is completed, it will automatically enter the card in the employee's SAP objects on loan once an identification card is created in CMS. When the card is returned and the return date is entered in the CMS, it will automatically delimit the identification card from SAP objects on loan. However, according to PTC management, this project has been delayed, and the target date for completion is May 31, 2019, based on workload and priorities.

Given the PTC's Act 44/89 payments, previously discussed in Finding 1, capital improvement expenses, and annual toll price increases, it is imperative that the PTC makes every effort to increase its revenue, including considering amending policies regarding employee toll-free travel.⁵⁷

⁵⁷ https://www.paturnpike.com/business/act44_plan.aspx (accessed December 3, 2018).

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Recommendations

We recommend that the PTC:

1. Reconsider its decision to not rescind previous policies implemented that consider 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 PTC's Trust Indenture.
2. Ensure that enhancements are implemented to eliminate the need to enter and delimit identification cards in two systems (CMS and SAP objects on loan). This will help to ensure that identification cards active in the CMS are included in the employees' inventory in the SAP objects on loan system and that separated employees' identification cards are removed from the PTC's CMS.

Previous Prior Year Finding 2 – The Pennsylvania 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 assure taxpayers that toll-free travel was limited to authorized use only. (Partially Resolved)

During our prior audit, we found that the Pennsylvania Turnpike Commission (PTC) did not fully implement any of our recommendations from the previous audit that covered the period January 1, 2007 through August 31, 2011, relating to the unlimited toll-free usage of the Turnpike to non-employees, including consultants, contractors and other state government officials. Specifically, the PTC did not: (1) Limit the issuance of non-revenue identification cards and transponders for toll-free travel; (2) Adequately ensure toll-free travel was monitored; and (3) Implement procedures to increase transparency by posting monthly toll-free usage reports on its website. Our comparison of non-revenue cards and transponders issued on November 9, 2011, to non-revenue cards and transponders issued on February 29, 2016, indicated that the number of both devices increased. We also found that the PTC took steps to regulate its practice of authorizing non-employee toll-free travel by implementing a revised policy effective October 23, 2014, and conducting an internal audit of non-employee toll-free transactions covering the period February 1, 2015 through July 30, 2015.

We recommended that the PTC: (1) Implement procedures to limit the number of non-employees with non-revenue cards and transponders; (2) Ensure that the monitoring of non-employee toll-

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free travel is functioning effectively; and (3) Be transparent by posting monthly amounts of toll-free usage on its website.

Status as of this audit

We found that the number of non-employees with non-revenue identification cards and transponders has decreased since our prior audit and that the PTC's Internal Audit Department has continued to audit non-employee toll-free travel. However, as of December 4, 2018, the PTC has not posted monthly amounts of toll-free travel on its website.

Non-Employee Toll-Free Identification Card Travel

The table below shows by group the total number of non-PTC employees with non-revenue identification cards issued as of July 12, 2018, and the corresponding dollar amount of toll-free travel incurred during the period June 1, 2015 through May 31, 2018:

Non-Turnpike Employees' Toll-free Travel Using PTC-issued Cards on the PA Turnpike as of May 31, 2018 (unaudited)		
Non-Employees with Non-Revenue Cards by Group	Number of Non-Revenue Cards	Toll-Free Travel Fare (June 1, 2015 – May 31, 2018)
Authorized Service Providers	387	\$ 361,687
Consultants	476	514,448
Contractors	2,268	4,035,154
HMS Host & Sunoco	182	176,719
PA State Police	258	97,915
TransCore	68	52,619
TOTAL	3,639^{a/}	\$5,238,542

^{a/} - The number of non-revenue cards is as of July 12, 2018, the date that the PTC generated the report of active cards.

Source: This table was compiled by the staff of the Department of the Auditor General based on data provided by the PTC. The data regarding the number of non-employees with non-revenue identification cards and the amount of toll-free travel incurred are of undetermined reliability as noted in Appendix A. However, this data is 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 and conclusions.

Our prior audit reported 4,217 non-employee toll-free identification cards issued as of February 29, 2016, which in comparison to the 3,639 as of July 12, 2018, is a 14 percent reduction. Based on discussions with PTC management, this reduction was not the result of any policy or procedural changes; nevertheless, more than 500 fewer non-employees have toll-free travel identification cards as of July 2018.

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Non-Employee Toll-Free Transponder Travel

The table below shows by group the total number of non-PTC employees with non-revenue transponders issued as of May 31, 2018, and the corresponding dollar amount of toll-free travel incurred during the period June 1, 2015 through May 31, 2018:

Non-Turnpike Employee's Toll-free Travel Using PTC-issued Transponders on the PA Turnpike as of May 31, 2018		
Non-Employees with Non-Revenue Transponders by Group	Number of Non-Revenue Transponders	Toll-Free Travel Fare (June 1, 2015 - May 31, 2018)
PA State Police – Troop T	114 ^{a/}	\$216,109
Governor	1	2,920
Governor's Detail	1	15,046
PennDOT	1	5,977
TransCore	135	437,987
TOTAL	252	\$678,039

^{a/} - As of August 31, 2018, Pennsylvania State Police Troop T no longer utilize transponders. Use of the Turnpike is currently tracked by state police car license plate number.

Source: This table was compiled by the staff of the Department of the Auditor General based on data provided by the PTC. The data regarding the number of non-employees with non-revenue transponders and the amount of toll-free travel incurred are of undetermined reliability as noted in Appendix A. However, this data is 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 and conclusions.

During the period June 1, 2014 through February 29, 2016, the PTC issued 1,115 non-revenue transponders to non-employees. In comparison, as noted above, as of May 31, 2018, the number of non-employees with non-revenue transponders was 252, a reduction of 863 responders, or 77 percent. The reduction in the number of transponders was due to the closure of accounts with the Governor's Office and with the Pennsylvania State Police, with the exception of Troop T.

According to PTC management, the Governor's Office non-revenue transponder account was closed on June 4, 2015. Additionally, the PTC entered into a new agreement with the Pennsylvania State Police (not Troop T) that resulted in replacing the previous 800 non-revenue transponders provided to the Pennsylvania State Police (not Troop T) with an account that tracks Turnpike usage by the license plates for almost 3,000 Pennsylvania State Police vehicles.

The PTC's Internal Audit Department continues to monitor non-employee toll-free travel through its non-revenue audits. During our audit period, audits were conducted in April 2016, June 2017, and December 2017. The December 2017 audit reported that several PTC employees did not properly complete the non-revenue application form for toll-free identification cards for contractors, consultants, and the Pennsylvania State Police. According to PTC management, since the audit, an online application form was implemented, and all fields required must be

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completed before the form can be processed. The second issue found three instances where contractors, consultants, or other non-employees had transactions outside of the interchange parameters on the application. In one case, the original form had the incorrect interchanges entered. In the other two cases, the amount of travel outside the interchange restrictions totaled approximately \$35. The PTC did not recover this amount. Instead, the two companies were put on notice that if there are further violations, it could result in losing card privileges. According to PTC management, the next non-revenue audit is scheduled to begin in December 2018.

Regarding our prior recommendation to be transparent about the toll-free travel it grants to all parties by posting monthly amounts of toll-free usage on its website, PTC management again responded that it has not yet made a determination as to whether they are in agreement regarding the posting of monthly amounts of toll-free usage on the PTC's website. However, we continue to believe that the PTC should be transparent regarding all instances of toll-free usage of the Turnpike.

Recommendations

We recommend that the PTC:

1. Continue to monitor all non-employee toll-free travel to ensure that the PTC-issued cards and transponders are required and only used for Turnpike-related business travel.
2. Consider increasing transparency by posting monthly amounts of toll-free usage on its website.

Previous Prior Year Finding 4 – 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 found that the Pennsylvania Turnpike Commission (PTC) had taken steps to address our concerns regarding critical project management issues reported in the previous audit; however, the PTC still had not installed a video monitoring system in one of the tunnels. Instead, the PTC planned to include video monitoring as part of an upcoming rehabilitation project in April 2017. Additionally, with regard to automated fire detection systems, PTC officials stated that they had developed a project to install a fire detection system at one of the tunnels but had not received an acceptable bid to complete the project. At a second tunnel, PTC officials were still in the process of developing a project to be put out for bid.

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We recommended that the PTC: (1) Continue to pursue the installation of video cameras in the one remaining tunnel; and (2) Continue its efforts to complete the installation of automated fire detection systems in the remaining two tunnels.

Status as of this audit

We found that the installation of an automated fire detection system was completed in one of the tunnels on October 30, 2015. However, the project for the installation of video cameras and an automated fire detection system in the other tunnel which was originally scheduled to be bid in the spring of 2018 was postponed to the spring of 2019. PTC management stated that funding for projects in the Fiscal Year (FY) 2018 Capital Plan was significantly reduced from the prior year. Our review of the funding for FY 2018 in the Ten-Year Capital Plan for FY 2017 compared to the Ten-Year Capital Plan for FY 2018 confirmed that the total for FY 2018 was reduced by \$11.6 million. As a result, no funding was allocated to this project. However, PTC management stated that it was their intent to provide the necessary funding for the project in the FY 2019 Capital Plan, assuming there are no significant changes in capital plan funding or other project priorities. See Finding 1 for additional information regarding the reduction in capital spending.

Recommendation

We recommend that the PTC:

1. Continue its efforts to fund and complete the project for the installation of video cameras and an automated fire detection system in the remaining tunnel that has yet to have those systems installed.

Previous Prior Year Finding 5 – The Pennsylvania Turnpike Commission is overly generous and permissive when reimbursing commissioners for expenses. Further, the PTC lacks transparency and accountability with regard to these expenses. (Resolved)

During our prior audit, we found that the PTC had taken steps to address our concerns regarding commissioner expenses from the previous audit that covered the period January 1, 2007 to August 31, 2011, which included issues over a substantial amount of vehicle expenses for commissioners' business and public use and a lack of supporting documentation for reimbursed commissioners' expenses.

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While we found improvements during our prior audit, we recommended that the PTC: (1) Continue to monitor and improve upon the commissioners' expense reporting to create an environment of transparency; and (2) Continue with improvements to ensure the commissioners' expenses are reasonable and economical.

Status as of this audit

During our current audit, we found that the PTC's Compliance Department completed an internal audit specifically related to commissioners' and executives' travel expenses on January 17, 2018, covering 100 percent of the travel expenses incurred during the period December 2015 through November 2017. The internal audit noted that commissioners' expenses decreased considerably in the last two years and concluded that all expenses incurred and submitted for reimbursement were in accordance with PTC policies and procedures.

Prior to the internal audit completed on January 17, 2018, the Compliance Department completed an internal audit on December 17, 2015, also covering 100 percent of the commissioners' and executives' travel expenses incurred during the period October 2014 through November 2015. The Compliance Department also completed two travel expense internal audits on July 30, 2016, and October 31, 2016, respectively, that included a review of a sample of expenses for employees, executives, and commissioners. Additionally, management from PTC's Compliance Department stated that an audit of commissioners' and executives' expenses will be conducted on an annual basis.

As a result of the internal audits that the PTC's Compliance Department completed of travel expenses during our audit period and the plan to continue to perform an annual audit of expenses, we determined that our recommendations have been implemented and this previous prior finding has been resolved.

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Agency's Response and Auditor's Conclusion

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

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Audit Response from the Pennsylvania Turnpike Commission



MARK P. COMPTON
Chief Executive Officer
Pennsylvania Turnpike Commission
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March 8, 2019

The Honorable Eugene A. DePasquale
Auditor General
Finance Building
613 North Street, Room 229
Harrisburg, PA 17120-0018

RE: Audit Response from the PA Turnpike Commission

Dear General DePasquale:

On behalf of Chair Leslie S. Richards and our Commissioners, I provide to you the Pennsylvania Turnpike Commission's response to your draft audit report issued February 21, 2019. We appreciate the opportunity offered to the Commission to provide our comments on 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 given our breadth of geographic coverage and age of system.

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 continue seeking reciprocity agreements with neighboring states in furtherance of our Act 165 toll violation enforcement efforts.

In any organization, the setting of priorities requires an understanding of the levels of risk associated with each challenge. Under the leadership of our Commission, 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 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 re-adjust our priorities.



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The Honorable Eugene A. DePasquale
March 8, 2019
Page Two

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 Leslie S. Richards, Chair
The Honorable William K. Lieberman, Vice Chair
The Honorable Pasquale T. Deon, Commissioner
The Barry T. Drew, Secretary Treasurer
The Honorable John N. Wozniak, 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

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Pennsylvania Turnpike Commission
Performance Audit Response Document
March 8, 2019

Finding One – Commission Response

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

We recommend that the PTC:

Recommendation 1 – Continue to prioritize only capital projects requiring immediate attention in order to reduce its overall heavy debt load.

The Turnpike Commission has been prioritizing capital projects since the implementation of our 10 Year Capital Plan in fiscal year 1999. By focusing on the most urgent repair projects that must be addressed over each rolling 10-year period, the Turnpike Commission is ensuring that its most critical infrastructure needs are addressed. As part of this process, the Turnpike Commission establishes the maximum level of financial investment that can be undertaken each year of the 10 Year Capital Plan and ensures that such levels are not exceeded. As America’s first and oldest super-highway, our main priority for capital projects continues to be the full depth reconstruction of the 359-mile Turnpike Mainline and the 110-mile Northeast Extension. To date, 120 miles of these two roadways have been fully reconstructed and expanded where possible.

Recommendation 2 – Ensure that traffic projections used to project toll revenue are conservative and realistic.

The Turnpike Commission believes that its traffic and revenue projections are conservative and realistic. The Turnpike Commission utilizes the services of a nationally recognized expert in this field, CDM Smith, to annually prepare and update its Traffic and Revenue Study. The projections are consistently updated based on actual experience and input from various external economic models and pay particular attention to the subject of possible traffic diversion (elasticity of demand) associated with increasing toll rates.

Recommendation 3 – Evaluate and scrutinize sources of revenue and operating expenses to find ways to increase revenues while reducing costs. Several immediate recommendations are made in our follow-up to the status of Prior Audit Finding 2 to increase collection of toll violation fees and Previous Prior Audit Finding 1 and 2 to reduce toll-free use of the Turnpike by employees and non-employees.

The Turnpike Commission agrees with the recommendation to increase collection of toll violations. The Turnpike Commission does not believe it is fair for the vast majority of our customers to pay for the few who do not comply with payment requirements. In August 2017,

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Act 165 took effect, which among other things, allows for the suspension of Pennsylvania vehicle registrations for unpaid tolls. Specifically, the vehicle suspension process is triggered by the failure to pay six (6) or more violations or incurring unpaid tolls or administrative fees of \$500. In January 2018, the Turnpike Commission began sending notices of possible vehicle registration suspensions and in February 2018, PennDOT began suspending certain vehicle registrations. Additionally, Act 165 allows the Turnpike Commission to collect unpaid out-of-state tolls after having PennDOT enter into a reciprocity agreement with another state or tolling entity. To date, PennDOT has entered into a Reciprocity Agreement with the State of Delaware and is in discussions with the Commonwealth of Massachusetts.

Additional neighboring states (NJ, NY, MD, OH, WV) have been approached about possible Reciprocity Agreements however, some states lack legislative authority to enter into such agreements or are not pursuing an Agreement with PennDOT at this time. To date, the Turnpike Commission has a total of 526 toll violation cases and has made 327 Act 165 referrals regarding toll violators. A total of 263 cases have been closed and 130 cases are in various forms of payment plans with the Turnpike Commission that total \$404,106.79. Additional efforts to increase toll violation collections were initiated in December 2017 when the Turnpike Commission began filing criminal charges against some of the largest toll violators for theft of services. Fifty such criminal charges have been brought in cooperation with fifteen local District Attorneys and have resulted in various plea and settlement agreements.

With respect to reducing costs, the Turnpike Commission has been engaging in aggressive “Cost Containment” measures since at least 2008. On June 5, 2018 the Turnpike Commission adopted its Fiscal year 2019 operating budget that once again achieved a cap on operating expense growth of 4%. From Fiscal Year 2019 onward, the financial plan assumes the Turnpike Commission will achieve its financial planning goal of 4% annual growth in operating expenses. Where possible, the Turnpike Commission is actively managing its operations to limit the rate of growth in those operating costs directly under its control. However, significant portions of the Turnpike Commission’s operating budget are beyond its ability to control. These external cost drivers include the Turnpike Commission’s pension expense related to the State Employees Retirement System (“SERS”) and the Turnpike Commission’s projected expense for the Pennsylvania State Police. For Fiscal Year 2019, operating expenses under the control of the Turnpike Commission are estimated to increase by just 1.9% (\$5.7 million) while its SERS pension expense is estimated to increase 14.4% (\$6.9 million) and the Turnpike Commission’s projected expense for the Pennsylvania State police is estimated to increase 6.9% (\$3.4 million). For Fiscal Year 2018, the Turnpike Commission’s actual Cost of Services for the Mainline Operating Section was not only 6.4% below budget but was actually 2.2% lower than its Fiscal Year 2017 Cost of Services.

Recommendation 4 – Evaluate ways to increase passenger car and commercial use of the Turnpike.

The Turnpike Commission continuously evaluates ways to increase passenger car and commercial use of the Turnpike while providing a safe, reliable and convenient service to our customers. Through our marketing efforts, we continue to build on increasing Turnpike usage

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and have been successful in recent years as total transactions have set records for each of the past four years, recently surpassing 201 million transactions in Fiscal Year 2018.

We recommend that the Pennsylvania General Assembly:

Recommendation 1 – Immediately re-evaluate Acts 44/89 and consider drafting and enacting new legislation through the help of a joint taskforce comprised of representatives of the Senate and House Appropriations and Transportation Committees, the PTC, PennDOT, and trucking industry/driver’s associations to closely focus on reasonable interim alternative revenue sources (such as a tax on Uber, Lyft, and other ride-shares [other than in Philadelphia]) and possibly expanding the tax on the sale of Plug-In Hybrid and Battery Electric Vehicles), to help ensure the current debt burden placed on the PTC is considerably mitigated for the continued viability of the PTC and the toll system in Pennsylvania.

Recommendation 2 – Refrain from increasing the \$50 million annual payment scheduled to begin in the FYE May 31, 2023.

The Turnpike Commission cannot comment on the recommendations addressed to the Pennsylvania General Assembly.

Finding Two – Commission Response

The Pennsylvania Turnpike Commission awarded construction contracts and engineering consultant agreements in accordance with its policies and procedures, with a large portion of funds allocated to southeastern Pennsylvania for the Interstate 95 Interchange Project.

Prior Year 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 – Continue to pursue individuals who drive on the Turnpike and fail to pay tolls through all means possible including the following:

- ***Forward the names of violators for registration suspension of all those who meet the criteria in Act 165 of 2016; and***

The Turnpike Commission continues to send PA registrations to PennDOT that meet the criteria outlined in Act 165 of 2016.

- ***OSI should proceed with investigations for violators that do not meet the criteria in Act 165 of 2016.***

The Turnpike Commission’s Office of Special Investigations (OSI) will continue to proceed with investigations of the PTC’s most egregious toll violators. In addition, since May 2018, OSI has initiated 327 investigations regarding ACT 165 violators who have been notified that their vehicle registration has been suspended but have failed to respond in an appropriate manner and are now subject to possible criminal prosecution.

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Recommendation 2- Continue to work with other states to attempt to initiate reciprocity agreements to deter non-Pennsylvania residents from not paying toll violations.

The Turnpike Commission continues to work through PennDOT for initiating reciprocity agreements. Our reciprocity efforts, however, are dependent upon the enforcement legislation in our neighboring states and their willingness to execute such agreement.

Previous Prior Year Finding 1 – Commission Response

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

Recommendation 1- Reconsider its decision to not rescind previous policies implemented that consider 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 PTC's Trust Indenture.

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 Turnpike Commission's long-standing road safety policies underscore the genuine "round-the-clock" responsibility that Turnpike Commission 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 Turnpike Commission is losing millions of dollars of revenue due to personal travel.

The Turnpike 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. As this report acknowledges, the Turnpike Commission has taken steps to ensure any abuse is limited and when found our response is appropriate. The Turnpike Commission will also consider modifying its existing employee non-revenue usage policies, as considered appropriate, to reduce the possibility of abuse.

Recommendation 2- Ensure that enhancements are implemented to eliminate the need to enter and delimit identification cards in two systems (CMS and SAP objects on loan). This will help to ensure that identification cards active in the CMS are included in the employees' inventory in the SAP objects on loan system and that separated employees' identification cards are removed from the PTC's CMS.

The Turnpike Commission's Card Management System (CMS) is the system of origin for recording start/end dates for employee ID cards, which is performed by the PTC Access Coordinator. When employee ID cards start/end dates are entered in CMS, an automatic nightly

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process syncs those cards and dates to the employees SAP Object on Loan record. This automatic process was implemented in May 2017. After implementation, a defect was identified causing a temporary suspension of the automatic process. The defect has been addressed and the automatic process was updated in December 2018. There are some circumstances where the automatic delimitation of employee ID cards in SAP does not automatically occur. An example is a date mismatch between employee start dates in CMS and SAP. However, a monitoring process is in place for the Access Coordinator to identify and manually correct those occurrences on a regular basis.

Previous Prior Year Finding Two – Commission Response

The draft report states: The Pennsylvania 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 assure taxpayers that toll-free travel was limited to authorize use only.

Recommendation 1 – Continue to monitor all non-employee toll-free travel to ensure that the PTC-issued cards and transponders are required and only used for Turnpike-related business travel.

The Turnpike Commission's Internal Audit Department performs an annual audit of all non-employee toll-free travel and will continue to monitor this activity to ensure that the PTC-issued cards and transponders are required and only used for Turnpike Commission related business travel.

Recommendation 2 – Consider increasing transparency by posting monthly amounts of toll-free usage on its website.

The Turnpike Commission will consider increasing transparency by researching opportunities to determine the most efficient way to accurately report this information.

Previous Prior Year 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 – Continue its efforts to find and complete the project for the installation of video cameras and an automated fire detection system in the remaining tunnel that has yet to have those systems installed.

The Turnpike Commission is wrapping up design for the refurbishment of the remaining tunnel that does not currently have CCTV and Alarm Systems in-place. Construction will be conducted between fall 2019 and winter 2022.

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Auditor's Conclusion to the Pennsylvania Turnpike Commission's Response

The Pennsylvania Turnpike Commission (PTC or Commission) is in general agreement with our findings and is currently addressing most of our recommendations. The PTC has some disagreement with the previous prior year finding regarding employee toll free travel. Below we address the PTC's disagreement along with certain areas that we believe warrant further comment based on the PTC's response.

Finding 1

We are encouraged that the PTC agrees that it must implement new ways to raise revenue and reduce its debt load and to work with the state legislature to further reduce or eliminate Act 44/89 required payments to the Pennsylvania Department of Transportation. However, with regard to the PTC utilizing traffic and revenue projections provided by its consultant, we continue to caution the PTC on the use of the projections and to ensure that the projections are conservative enough to avoid serious consequences. Although the consultants lowered the projections for the PTC's traffic and toll revenue for each of the next 20 years, it still projects that increases will occur in almost every year. Unforeseen circumstances, such as unexpected road closures (e.g., the temporary 2017 closure of the Delaware River Bridge and unexpected litigation), economic downturns, and fuel price surges can negatively affect operations resulting in lower than anticipated traffic and toll revenues.

The PTC also states that it "has been engaging in aggressive 'Cost Containment' measures since at least 2008." The PTC, however, continues to allow all employees to have unlimited toll-free access to the Turnpike (see follow-up to previous prior year finding 1). Given the PTC's Act 44/89 payments, capital improvement expenses, and annual toll price increases, it is imperative that the PTC makes every effort to increase its revenue, including considering amending policies regarding employee toll-free travel.

Previous Prior Year Finding 1

The PTC responded that it respectfully disagrees with the finding, but recognizes its obligations to take all reasonable measures to reduce fraud and abuse, and therefore, will research the feasibility and cost-effectiveness of developing queries and techniques to monitor usage and identify potential misuse. We are encouraged by the PTC's response that it will consider modifying its existing employee non-revenue usage policies, as considered appropriate, to reduce the possibility of abuse. The PTC should continue to monitor toll-free travel to ensure that employees are not abusing it. Additionally, given the PTC's negative net position and plans to annually increase tolls ranging from three percent to six percent through the year 2048, it would be advantageous from a public relations standpoint to eliminate employee toll-free access for personal use to show that the PTC is committed to taking "Cost Containment" measures.

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As noted above, we are most pleased that the PTC agreed with the need to work with our General Assembly to further reduce/eliminate Act 44/89 required payments to PennDOT. The very existence of the toll system in Pennsylvania depends on the PTC's management being highly committed to working with not only the Senate and House Appropriations and Transportation Committees, but also PennDOT and trucking industry/driver's associations to find reasonable alternative revenue sources.

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Appendix A

Objectives, Scope, and Methodology

The Department of the Auditor General conducted this performance audit pursuant to the following mandates addressed in this report:

- Section 706(b) of the Administrative Code of 1929 provides 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 or PTC).⁵⁸
- Section 8204(b)(1) of Part IV, Title 74 (Transportation) requires the Auditor General to review the performance, procedures, operating and capital budgets, debt, and accounts of the Commission.⁵⁹

We conducted this audit in accordance with applicable *Government Auditing Standards*, 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.

Objectives

Our performance audit objectives were as follows:

- Review and evaluate the process of selecting and awarding constructions contracts. [See Finding 2]
- Determine if the Commission’s revenue collections are meeting projected toll revenue expectations in order to meet its payment obligations and planned capital improvement projects. [See Finding 1]

With regard to the financial aspects of the mandates noted above, we did not conduct our own financial statement audit. Instead, we continued our past practice of reviewing the financial audit reports and working papers of the independent CPA firms that audited the PTC’s financial statements. This review was completed to determine if the above mentioned mandates pertaining to the financial audit and review (of the performance, procedures, operating and capital budgets,

⁵⁸ 71 P.S. § 246(b) (§ 706), as amended by Act 122 of 1988.

⁵⁹ 74 Pa.C.S. § 8204(b)(1), as added by Act 44 of 2007 and amended by Act 89 of 2013. See Chapter 82. Turnpike Commission Standards of Conduct.

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debt, and accounts of the PTC) have been fulfilled or whether additional procedures need to be performed in order to fulfill these mandated responsibilities.

We also conducted procedures to determine whether the PTC implemented our prior performance audit's findings and recommendations from the report issued in September 2016, including the previous prior findings (see Status of Prior Audit Findings).

Scope

This performance audit covered the period January 1, 2015 through January 30, 2019, unless otherwise noted, with updates through the report date. With regard to the financial-related mandates, we reviewed the financial audit reports, related working papers and other documentation for the fiscal years ended (FYE) May 31, 2016 and 2017.

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

In conducting our audit, we obtained an understanding of the PTC'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 within the respective audit findings in this report.

Methodology

All of the items selected for testing within this audit were selected based on auditor's professional judgment. Consequently, the results of our testing cannot be projected to, and are not representative of, the corresponding populations.

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

- Reviewed Act 44 of 2007 and Act 89 of 2013 related to the PTC's funding obligations to the Pennsylvania Department of Transportation (PennDOT).
- Interviewed and corresponded with PTC management: (1) responsible for providing data to consultants hired by the PTC to perform traffic and toll revenue forecast studies and to

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prepare its annual Act 44 Financial Plan, (2) to gain an understanding of the process of selecting and awarding construction and engineering consultant contracts, (3) regarding the development of the PTC's capital plan, and the partially federally funded Interstate 95 Interchange project, and (4) to evaluate whether management controls considered to be significant within the context of the audit objectives were adequately designed.

- Reviewed the PTC's schedule of Revenue vs. Debt Forecast as of November 6, 2018, for the fiscal year ending May 31, 2018 through May 31, 2038.
- Reviewed the PTC's Act 44 Financial Plans for Fiscal Years (FY) 2018 and 2019 that describe the PTC's proposed operating and capital expenditures, borrowings, liquidity and other financial management covenants and policies, estimated toll rates and all other revenues and expenditures for the following fiscal year.
- Reviewed the traffic and toll revenue projections for the PTC included in reports issued in May 2017 and April 2018 by a contracted consultant.
- Reviewed the PTC's FYE May 31, 2016, 2017, and 2018, Comprehensive Annual Financial Reports (CAFRs) which present historical traffic data, the financial position, and changes in financial position of the PTC.
- Reviewed the net position reported in the CAFRs of Ohio, West Virginia, New Jersey, and New York states' turnpike systems over the 12-year period from 2006 through 2017.
- Reviewed the video from a Senate Transportation Committee meeting on May 22, 2018, and PTC management's testimony at that meeting regarding the sustainability of the PTC.
- Reviewed the PTC's actual and expected toll increases for the years 2009 through 2048.
- Calculated toll rates for the calendar years 2018 through 2048 for traveling between Philadelphia and Pittsburgh, entering the Turnpike system at Valley Forge (Exit 326) and exiting at Pittsburgh (Exit 57) using the projected increases obtained from the traffic projections report prepared by a PTC consultant.
- Reviewed the PTC's credit ratings issued from Moody's Investor Services and Fitch Group during the audit period.
- Reviewed documents regarding the class action lawsuit filed in March 2018, against the PTC by parties involved in the commercial trucking industry to determine claims made against the PTC and the status of the lawsuit.

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- Reviewed the PTC’s capital plan and operating budgets for FY 2016, 2017, and 2018, to assess the PTC’s capital spending levels and to determine the amount of highway projects assigned to each county in the state and to overall system-wide projects.
- Reviewed the PTC’s Construction Contracting Operations Manual dated April 1, 2017, PTC Professional Services Procurement Procedures dated April 5, 2012, and revised May 26, 2016, and PTC Policy 7.04 – Procurement effective May 1, 1999, and revised December 15, 2015, to determine the process of awarding construction and engineering consultant contracts.
- Obtained a general understanding of the Electronic Bidding System (EBS) the PTC utilized during our audit period when awarding construction contracts and PennDOT’s Engineering and Construction Management System that the PTC utilized during the process of selecting and awarding engineering consultant agreements.
- Tested the PTC’s contracting award process by judgmentally selecting 25 contracts from a geographic cross section of the state, high dollar amounts, various project types, and contracts for projects located in the southeastern region of Pennsylvania where the majority of the highway program funding was awarded during the audit period including the following:
 - Construction contracts – 13 of 88 contracts with an award amount of \$570,335,006 from a total dollar amount of \$1,245,185,317 awarded during the period June 1, 2015 through December 19, 2017.
 - Engineering consultant agreements – 12 of 77 agreements with an award value of \$67,500,000 from a total dollar amount of \$227,100,000 awarded during the period June 1, 2015 through January 4, 2018.
- With regard to construction contracts, we verified that the:
 - Project awarded to the vendor was listed on the capital plan.
 - PTC received approval of bid documents from PennDOT.
 - Lowest bidder selected by EBS was awarded the contract.
 - Vendor awarded the contract was approved per Commission meeting minutes.
 - Contract was signed by representatives from both the PTC and vendor.
- With regard to engineering consultant agreements, we verified that the:
 - Selection of the Technical Evaluation Team (TET) members responsible to perform the first level review of responses was approved and each member completed and signed the conflict of interest forms.

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- Analysis and review of firms completed by the TET was documented and appeared reasonable.
 - Professional Services Procurement Committee (PSPC) members responsible for the second level of review of responses completed and signed the conflict of interest forms.
 - Analysis by the PSPC of the TET's ratings of responses as documented in the PSPC meeting minutes seemed reasonable and any changes made to the TET's ratings were justified.
 - PSPC members initialed the PSPC meeting minutes, evidencing their concurrence with the evaluations.
 - Analysis conducted by the TET or the review by the PSPC considered past performance for the PTC.
 - Recommendation memo prepared for the Commissioners was approved by applicable PTC management and Commissioners were notified via email that the recommendation packets were posted to the secure server and available for their review.
 - Resolution was prepared that documents the Commissioners' discussion regarding the TET and PSPC evaluations and selection of the firm.
 - Agreement was signed by representatives from both the PTC and the firm.
- Reviewed the PTC's independent external auditing firms' latest peer reviews and verified that the individuals who conducted the audits were independent of the PTC and qualified to perform the audits.
 - Reviewed the PTC's independent external auditing firms' audit planning documentation and execution working papers with conclusions for the FYE May 31, 2016 and 2017, to determine that the scope, quality, and timing of the audit work performed adequately addressed the mandated requirements pertaining to the financial audit and review of the performance, procedures, and accounts of the PTC.
 - Performed analytical procedures on the PTC's operating and capital budgets for the FYE May 31 2016 and 2017 to determine if there were any substantial fluctuations in amounts between the years reviewed.

To address the Status of Prior Audit Findings, we performed the following procedures:

- Interviewed and corresponded with PTC management regarding increases in toll violations; toll-free travel privileges offered to PTC employees and non-PTC employees; the status of projects to install video cameras and automated fire detection systems in Turnpike tunnels; and reimbursement of Commissioners' expenses.
- Reviewed Act 165 of 2016 of the Vehicle Code relating to penalties for unpaid tolls, including the suspension of vehicle registrations.

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- Reviewed information related to the number of toll evasion cases the PTC's Compliance Department's Office of Special Investigations handled as of December 5, 2018.
- Reviewed documents regarding work performed by the PTC to enter into reciprocity agreements with other states regarding collection of outstanding tolls.
- Reviewed the PTC's policy regarding accepting credit and debit cards at toll booths.
- Reviewed the number of violation notices, toll violations and fees invoiced, and amount of violations accounts receivable outstanding for the FYE May 31, 2016, 2017, and 2018.
- Reviewed the amount of employee toll-free travel incurred during the FYE May 31, 2016, 2017, and 2018.
- Reviewed the PTC's procedures for ensuring separated employees' identification cards are de-activated.
- Reviewed the total number of non-PTC employees with non-revenue identification cards issued as of July 12, 2018, and the corresponding dollar amount of toll-free travel incurred during the period June 1, 2015 through May 31, 2018.
- Reviewed the total number of non-PTC employees with non-revenue transponders issued as of May 31, 2018, and the corresponding dollar amount of toll-free travel incurred during the period June 1, 2015 through May 31, 2018.
- Reviewed work conducted by the PTC's Compliance Department's Internal Audit Department during the audit period regarding employee and non-employee toll-free travel and reimbursement of Commissioners' travel expenses.
- Reviewed the PTC's Internal Audit Department's staff qualifications, independence, and chain of command in reporting internal audit findings to verify staff was independent and qualified to perform the audit work.
- Reviewed documents supporting the work performed regarding the installation of video cameras and an automated fire detection systems in Turnpike tunnels.

Data Reliability

In performing this audit, we used information from data files and PTC reports regarding both actual and projected traffic, revenue, debt, and net position; listings of highway capital projects, construction contracts and engineering consultant agreements awarded during our audit period;

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toll evasion cases, tolls and fees invoiced, and toll violation accounts receivable; and employee and non-employee toll free travel.

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.

In addition to the procedures described in the remainder of this section, as part of our overall process in obtaining assurance of the reliability of computer-processed information and data files, obtained from the PTC, we obtained a management representation letter from the PTC. This letter, signed by PTC management, included a confirmation statement indicating that the information and data provided to us had not been altered and was a complete and accurate duplication of the data from its original source.

Amounts such as Turnpike traffic, toll revenue, and net positions for 2016, 2017 and 2018 reported for the PTC and its neighboring states' turnpike systems were obtained from each states' CAFRs. We confirmed that each states' audited financial statements received an unmodified opinion. Therefore, we found no limitations with using the data for our intended purposes. In accordance with *Government Auditing Standards*, we concluded that the state turnpike systems' amounts reported for traffic, toll revenue, and net positions were sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

To assess the completeness and accuracy of the listings of construction contracts and engineering consultant agreements, we conducted audit procedures as follows:

- Interviewed PTC management responsible for maintaining the lists used to track construction contracts and engineering consultant agreements.
- To verify the completeness of the population of construction contracts (contracts) and engineering consultant agreements (agreements) awarded during the period June 1, 2015 through December 19, 2017, and June 1, 2015 through January 4, 2018, respectively, we compared the contracts listed on the PTC's website as of January 26, 2018, and agreements listed on the PTC's website as of January 30, 2018, to the contracts and agreements listed on the contract and agreement listings provided to us by the PTC's Contract Management Services Manager and the Director of Procurement and Logistics. We ensured that the contract or advertisement numbers, contractor names, and awarded dollar amounts matched and there were no additional contracts or agreements listed on the PTC's website that should have been recorded on the contract or the agreement listings.

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- Based on auditor judgment, we selected five Commissioner meeting minutes and verified that all of the contracts and agreements approved during the meetings were included on the respective PTC listing.
- Verified the accuracy of the contract and agreement listings by confirming the vendor/consultant name, award amount, project description, and contract number of the 25 contracts and agreements tested matched the information included in each executed agreement.

Based on the above procedures, we found no limitations with using the data for our intended purposes. In accordance with *Government Auditing Standards*, we concluded that the construction contract and engineering consultant agreement listings were sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

When determining the Status of the Prior Audit Finding related to unlimited toll-free usage of the Turnpike to all of its employees, the number of employees with non-revenue identification cards was obtained from the PTC's CAFR that received an unmodified opinion. Therefore, we found no limitations with using the data for our intended purposes. In accordance with *Government Auditing Standards*, we concluded that the number of employees with non-revenue identification cards was sufficiently reliable regarding completeness and accuracy for the purposes of this engagement.

We did not perform procedures to validate the projected amounts reported in the PTC's Act 44 Financial Plans (Plan) for FY 2018 and 2019. As noted in the FY 2019 Plan, there are inherent uncertainties in projecting amounts over a 40-year period; however, this is the best data available. We did perform tests for reasonableness by comparing projected revenue and debt amounts for the FYE May 31, 2016, 2017, and 2018 that were reported in prior year Plans to actual numbers reported in the PTC's CAFRs. Due to the inherent uncertainties in projecting amounts, we deemed this information 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 confirmed the data for the FYE May 31, 2018, in the PTC Revenue vs. Debt Forecast (Forecast) for the fiscal years ending May 31, 2018 through May 31, 2038, agreed to the data in the PTC's CAFR for the FYE May 31, 2018. Although the projected amounts reported for the fiscal years ending May 31, 2019 through May 31, 2038, match the amounts reported in the PTC's Financial Plan for the FY 2019, this document is, as previously reported, of undetermined reliability. However, the data in the Forecast is the best data available. As such, we also deemed the Forecast information 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.

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We did not perform procedures to validate the projected amounts reported by a PTC consultant in the PTC's 2018 Traffic and Revenue Forecast Study or the 2017 Bring Down Letter that provided an update to the PTC's 2015 Traffic and Toll Revenue Forecast Study. As noted in the reports, there are uncertainties in forecasting that may cause actual results to differ materially from the results projected, however, this is the best data available. We did perform tests for reasonableness by comparing projected traffic data for the FYE May 31, 2016, 2017, and 2018 that were reported in prior year forecast studies to actual numbers reported in the PTC's FYE May 31, 2018 CAFR. Due to the inherent uncertainties in projecting amounts, we deemed this information 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 did not perform procedures to validate the completeness and accuracy of data related to the amount of highway projects assigned to each county in the state and to overall system-wide projects included in the PTC's capital plan for the FY 2016, 2017, and 2018. However, this is the best data available. As such, we deemed this information 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 and conclusions.

We did not perform procedures to validate the completeness and accuracy of the following data provided by the PTC used when determining the Status of Prior Audit Findings:

- Compliance Department's Office of Special Investigation toll evasion listing as of December 5, 2018.
- Tolls and fees invoiced and violations accounts receivable outstanding for the FYE May 31, 2016, 2017, and 2018.
- Number of non-employees with non-revenue identification cards and the number of employees and non-employees with non-revenue transponders as of May 31, 2018, and the amount of toll-free travel incurred during the period June 1, 2015 through May 31, 2018.

However, this is the best data available. As such, we deemed this information 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.

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Appendix B

The Pennsylvania Turnpike Commission Actual and Projected Toll Increases Resulting From Act 44/89.

The tables below depict the actual and projected toll increases resulting from Act 44/89:

Table 1

Actual (through 2018) and Expected Toll Increase Resulting from Act 44/89 Calendar Year 2009 through 2048 ^{a/}						
Year	Cash	E-ZPass		Year	Cash	E-ZPass
2009^{b/}	25.0%	25.0%		2029	3.0%	3.0%
2010	3.0%	3.0%		2030	3.0%	3.0%
2011	10.0%	3.0%		2031	3.0%	3.0%
2012	10.0%	0.0%		2032	3.0%	3.0%
2013	10.0%	2.0%		2033	3.0%	3.0%
2014	12.0%	2.0%		2034	3.0%	3.0%
2015	5.0%	5.0%		2035	3.0%	3.0%
2016	6.0%	6.0%		2036	3.0%	3.0%
2017	6.0%	6.0%		2037	3.0%	3.0%
2018	6.0%	6.0%		2038	3.0%	3.0%
2019	6.0%	6.0%		2039	3.0%	3.0%
2020	6.0%	6.0%		2040	3.0%	3.0%
2021	5.0%	5.0%		2041	3.0%	3.0%
2022	5.0%	5.0%		2042	3.0%	3.0%
2023	5.0%	5.0%		2043	3.0%	3.0%
2024	5.0%	5.0%		2044	3.0%	3.0%
2025	5.0%	5.0%		2045	3.0%	3.0%
2026	4.0%	4.0%		2046	3.0%	3.0%
2027	3.5%	3.5%		2047	3.0%	3.0%
2028	3.0%	3.0%		2048	3.0%	3.0%

^{a/} - 2019 through 2048 are expected increases that typically take effect the first week in January.

^{b/} - By comparison, the U.S. inflation rate for the years 2009 through 2018 per the US Department of Labor were as follows: 2009: -0.4%; 2010: 1.6%; 2011: 3.2%; 2012: 2.1%; 2013: 1.5%; 2014: 1.6%; 2015: 0.1%; 2016: 1.3%; 2017: 2.1%; 2018: 2.4% <https://www.usinflationcalculator.com/inflation/historical-inflation-rates/> (accessed January 15, 2019).

Source: This table was compiled by the staff of the Department of the Auditor General based on Traffic and Revenue Forecast Studies performed by a PTC consultant. The actual percentages of future toll increases in the years 2020 through 2048 are of undetermined reliability as noted in Appendix A. However, this data is

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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 and conclusions.

Table 2

**Projected Toll Rates from Valley Forge
(Exit 326) to Pittsburgh (Exit 57) - 2018
through 2048**

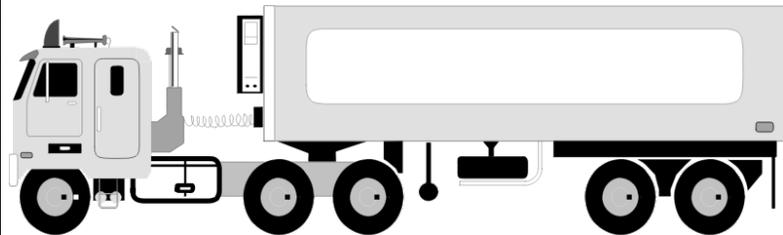
270.18 miles

	Passenger Vehicle < 7,000 lbs., 2-Axle		Commercial Vehicle 50,000 lbs., 5-Axle	
	Cash	EZ- Pass	Cash	EZ-Pass
2018 ^{a/}	\$37.00	\$26.29	\$139.45	\$100.07
2019	\$39.22	\$27.87	\$147.82	\$106.07
2020	\$41.57	\$29.54	\$156.69	\$112.44
2021	\$43.65	\$31.02	\$164.52	\$118.06
2022	\$45.83	\$32.57	\$172.75	\$123.96
2023	\$48.13	\$34.20	\$181.38	\$130.16
2024	\$50.53	\$35.91	\$190.45	\$136.67
2025	\$53.06	\$37.70	\$199.98	\$143.50
2026	\$55.18	\$39.21	\$207.97	\$149.24
2027	\$57.11	\$40.58	\$215.25	\$154.47
2028	\$58.83	\$41.80	\$221.71	\$159.10
2029	\$60.59	\$43.05	\$228.36	\$163.87
2030	\$62.41	\$44.34	\$235.21	\$168.79
2031	\$64.28	\$45.67	\$242.27	\$173.85
2032	\$66.21	\$47.04	\$249.54	\$179.07
2033	\$68.20	\$48.46	\$257.02	\$184.44
2034	\$70.24	\$49.91	\$264.73	\$189.97
2035	\$72.35	\$51.41	\$272.68	\$195.67
2036	\$74.52	\$52.95	\$280.86	\$201.54
2037	\$76.75	\$54.54	\$289.28	\$207.59
2038	\$79.06	\$56.17	\$297.96	\$213.82
2039	\$81.43	\$57.86	\$306.90	\$220.23
2040	\$83.87	\$59.59	\$316.11	\$226.84
2041	\$86.39	\$61.38	\$325.59	\$233.65
2042	\$88.98	\$63.22	\$335.36	\$240.65
2043	\$91.65	\$65.12	\$345.42	\$247.87
2044	\$94.40	\$67.07	\$355.78	\$255.31
2045	\$97.23	\$69.09	\$366.45	\$262.97
2046	\$100.15	\$71.16	\$377.45	\$270.86
2047	\$103.15	\$73.29	\$388.77	\$278.98
2048	\$106.25	\$75.49	\$400.44	\$287.35



CASH
2018: \$37.00 (about 13.7¢ per mile)
2048: \$106.25 (about 39.3¢ per mile)

E-ZPASS
2018: \$26.29 (about 9.7¢ per mile)
2048: \$75.49 (about 27.9¢ per mile)



CASH
2018: \$139.45 (about 51.6¢ per mile)
2048: \$400.44 (about \$1.48 per mile)

E-ZPASS
2018: \$100.07 (about 37.0¢ per mile)
2048: \$287.35 (about \$1.06 per mile)

^{a/} - Actual toll amounts according to the PTC's on-line toll calculator.

Source: This table was compiled by the staff of the Department of the Auditor General based on the 2018 current toll rates and the assumed toll rate increases based on Traffic and Revenue Forecast Studies performed by a PTC consultant. The assumed toll rate increases are of undetermined reliability as noted in Appendix A. However, this data is 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 and conclusions.

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Appendix C

The Pennsylvania Turnpike Commission's processes for procuring construction contracts and engineering consultant agreements.

Construction Contracts

Procurement criteria require that construction contracts are to be procured through a publicly advertised, competitive low bid process, with award made to the lowest responsive and responsible bidder, which is also required by the Commonwealth Procurement Code, Act 57 of 1998.⁶⁰

The PTC develops a bid schedule that is updated every quarter and covers five quarters that identifies which projects are to be bid in a specific quarter. The PTC develops the bid schedule based on the capital plan approved by PTC Commissioners, with input from the Design Unit of the PTC's Engineering Department (Design Department).

The PTC's Design Department assembles the bid documents, the project plans, specifications, and estimates and submits them to PennDOT's Chief of the Highway Delivery Division for review, comment, and approval. In addition to approval by PTC Commissioners, PennDOT approval is required prior to the advertisement of a PTC construction project.

Once the PTC has received project approval from PennDOT, project plans, specifications, and estimates, along with a Notice to Bidders, are uploaded into the PTC's Electronic Bidding System (EBS).⁶¹ According to PTC management, contractors generally check EBS weekly for project advertisements.

Each contract, except for small facility type projects, specifies a qualification requirement. For PTC roadway and bridge-related projects, the PTC requires the contractor to be pre-qualified with PennDOT. For building contracts, the PTC may employ a special pre-qualification process or may require qualification forms to be submitted with the bid depending on size and complexity. According to PTC management, any bid received from a contractor not pre-qualified as required by the bid documents will be rejected. The PTC completes contractor evaluations at the conclusion of the project, and the information is provided to PennDOT for inclusion in their pre-qualification process.

Bidders upload the required documents into EBS, such as statements of joint ventures and performance bonds. The system flags the bidder if all required document(s) are not submitted.

⁶⁰ PTC's Construction Contracting Operations Manual (ConCOM) 2017-1, dated April 1, 2017, is a compilation of PTC policies, procedures, guidelines, and checklists relating to the administration and management of projects from final design to construction. The procedures are consistent with PennDOT and the PTC to provide direction and guidance in the administration of bidding and awarding projects on the Turnpike.

⁶¹ The Notice to Bidders provides information such as a general description of the construction project and the bid opening date.

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However, the system does not verify that the documents submitted are complete or correct. Staff from PTC Contract Management Services assigned to handle the procurement will review the required documents for completeness and accuracy. Based on bid amounts submitted, the EBS system analyzes the quote amounts submitted to determine the apparent low bidder. Unofficial bid results are available to the public at the same time on the designated bid opening date and time.

The recommendation for award is signed by four members of PTC management and is added to the agenda for approval at the Commissioners' meeting. If approved, it is uploaded to the PTC's website. The Contract Management Services Department accesses EBS to officially award the contract. EBS' HelpDesk generates an email to the principal of the contractor with a link to download the Form of Agreement. A hard copy of the award letter signed by the PTC's CEO is also mailed to the awarded contractor.

Engineering Consultant Agreements

The PTC established Professional Services Procurement Procedures and Procurement Policy for procuring professional services, such as engineering consultant services, and utilizes PennDOT's Engineering and Construction Management System (ECMS) to advertise for most of the PTC's engineering consultant services.⁶² The PTC began using ECMS during the fiscal year ended May 31, 2015. Firms interested in doing business with the PTC access ECMS for advertisements and are able to submit statements of interest (SOI) electronically through ECMS. To submit an SOI through ECMS, firms must be a registered ECMS business partner, which requires a PennDOT-approved Consultant Qualification Package.

The first level review of responses received through ECMS includes an evaluation by the PTC's Technical Evaluation Team (TET). PTC Professional Services Procurement Procedures and Procurement Policy require that all TET members involved in the procurement review process affirm, in writing, that they have no conflicts of interest, actual or perceived, or direct financial interests in the firms competing for Commission business through completion of a conflict of interest form.⁶³ Management from the PTC's office requesting the engineering consultant services recommends at least three PTC staff to serve on the TET, who must then be approved by the PTC's Chief Engineer and Chief Executive Officer. After approval of the TET is granted, the TET evaluates the responses and documents its qualitative assessment of each submission on narrative evaluation summaries (NES). The NES identify strong and weak points of each firm associated with the published evaluation criteria, which generally includes specialized experience, past experience, and information associated with additional selection factors, such as

⁶² PTC Professional Services Procurement Procedures dated April 5, 2012, and revised May 26, 2016, and PTC Policy 7.04 – Procurement effective May 1, 1999, and revised December 15, 2015. **The PTC advertises a few Request for Proposals (RFPs) for non-highway/bridge facility design agreements on the PTC's website instead of through the ECMS.**

⁶³ The PTC's conflict of interest form is formally referred to as the "Conflict of Interest and Confidentiality Statement" form. According to PTC management, use of the form was formally added to the Procurement Policy in December 2015.

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the firm's location, project office, diverse business inclusion, utilization of Pennsylvania employees, etc. The TET rates, upon team consensus, each firm as: highly recommended (HR); recommended (R); or not-recommended (NR). The TET does not "rank" the firms within each rating level.

The NES are then presented to the Professional Services Procurement Committee (PSPC) for the second level of review. The PSPC is a standing committee that evaluates the TET's ratings approximately 10 days prior to the Commissioners' meetings. The permanent members of the PSPC include PTC Chief Counsel (non-voting member) or designee, Chief Engineer, Chief Financial Officer, Director of Procurement and Logistics, and one member appointed by the CEO. Like the TET members, Professional Services Procurement Procedures and Procurement Policy require that all PSPC members involved in the procurement review process affirm, in writing, that they have no conflicts of interest, actual or perceived, or direct financial interests in the firms competing for Commission business through completion of a conflict of interest form. The PSPC reviews the TET's evaluations and may consider additional selection factors - such as Pennsylvania presence, diversity inclusion, equitable distribution, and other relevant factors - before making an independent determination as to each firm's rating.⁶⁴

The PSPC's meeting is documented and initialed and dated by all present. If the PSPC changes the rating initially given by the TET to a firm, that decision is documented in the PSPC meeting minutes.

A list, in alphabetical order, of the PSPC's HR rated firms is then reviewed and signed by the PTC's Chief Engineer, Director of Procurement and Logistics, and CEO prior to submitting the list to the Commissioners for final approval. The Commissioners also receive a "recommendation packet" to utilize in their review.⁶⁵

The Commissioners may consider equitable distribution when ranking firms. Once the Commissioners determine the final rankings, the Commissioners vote to select the award winner(s), which is documented on a PTC Agenda Item that is initialed by the Director of Procurement and Logistics; signed by the PTC's CEO; and stamped and sealed by the PTC's Secretary Treasurer.⁶⁶

⁶⁴ Pennsylvania presence and equitable distribution are two additional selection factors that the PSPC may use during the review process. Pennsylvania presence includes considering the location of the firm's headquarters and what Pennsylvania offices the firm maintains and equitable distribution is distributing the work amongst qualified vendors as designated in the Commonwealth's Procurement Code.

⁶⁵ Recommendation packet includes a copy of the PSPC meeting minutes, TET's full version of the NES of the firms rated HR by the PSPC, and a condensed version of the TET's NES of the firms considered HR by the PSPC, noting any active/open agreements each firm has with the PTC.

⁶⁶ PTC management refers to the motion described in the PTC's Professional Services Procurement Procedures dated May 26, 2016, documenting the PTC Commissioner's selection of the "most highly qualified firm(s) or the firm(s) whose proposal is determined to be the most advantageous to the PTC based on their review of all materials" as a PTC Agenda Item. It also includes authorization for the negotiation and execution of an agreement.

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The selected firm(s) receive an award letter signed by the Director of Procurement and Logistics. Final rankings are posted in ECMS. A routing memo is then drafted by the Contracts Administration Department for agreement approval/execution that requires initialing by various departments.

According to PTC management, since 2014, a consultant evaluation form is completed by the PTC's Project Manager following the completion of a project. The use of past performance allows the Engineering Department to identify any significant performance issues for a firm during the consultant selection process. If determined to be applicable, the TET may identify a performance issue in its NES or the issue may be identified by the TET or PSPC through dialogue at the PSPC meeting.

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Appendix D

The Pennsylvania Turnpike Commission's Capital Plan Funding for the Highway Program by County.

The following table supports information included in Finding 2 of our audit report:

PTC Highway Program						
County	Fiscal Year 2016	% of Total	Fiscal Year 2017	% of Total	Fiscal Year 2018	% of Total
Allegheny	\$57,999,740	8.79%	\$34,317,650	5.73%	\$51,925,600	10.14%
Beaver	\$5,865,000	0.89%	\$7,818,500	1.30%	\$9,149,000	1.79%
Bedford	\$40,937,309	6.20%	\$21,172,000	3.53%	\$1,941,000	0.38%
Bucks	\$136,452,000	20.67%	\$131,373,904	21.93%	\$130,540,600	25.48%
Butler	\$60,000	0.01%	\$711,000	0.12%	\$110,000	0.02%
Carbon	\$15,300,500	2.32%	\$11,950,500	1.99%	\$10,659,000	2.08%
Chester	\$13,663,500	2.07%	\$18,557,000	3.10%	\$19,073,000	3.72%
Cumberland	\$50,750,000	7.69%	\$65,025,000	10.85%	\$51,391,724	10.03%
Dauphin	\$22,711,955	3.44%	\$11,157,098	1.86%	\$9,905,000	1.93%
Fayette	\$0	0.00%	\$0	0.00%	\$70,000	0.01%
Franklin	\$936,667	0.14%	\$2,077,000	0.35%	\$6,835,000	1.33%
Fulton	\$4,144,107	0.63%	\$6,310,000	1.05%	\$12,403,000	2.42%
Huntingdon	\$1,095,000	0.17%	\$762,674	0.13%	\$564,860	0.11%
Lackawanna	\$6,204,668	0.94%	\$8,440,000	1.41%	\$5,114,344	1.00%
Lancaster	\$120,000	0.02%	\$360,000	0.06%	\$2,410,000	0.47%
Lawrence	\$0	0.00%	\$1,200,000	0.20%	\$664,000	0.13%
Lehigh	\$28,967,500	4.39%	\$28,497,500	4.76%	\$14,867,000	2.90%
Luzerne	\$24,677,000	3.74%	\$18,180,000	3.03%	\$1,925,000	0.38%
Montgomery	\$103,677,050	15.71%	\$88,657,500	14.80%	\$45,361,119	8.85%
Somerset	\$16,175,000	2.45%	\$3,140,000	0.52%	\$17,006,683	3.32%
Washington	\$300,000	0.05%	\$100,000	0.02%	\$100,000	0.02%
Westmoreland	\$5,240,000	0.79%	\$3,332,000	0.56%	\$3,998,000	0.78%
York	\$33,750,000	5.11%	\$36,010,495	6.01%	\$23,742,299	4.63%
System-wide^{a/}	\$91,041,560	13.79%	\$100,000,179	16.69%	\$92,522,113	18.06%
Total Capital Plan Expenditures for FY	\$660,068,555	100.00%	\$599,150,000	100.00%	\$512,278,342	100.00%

^{a/} Includes projects such as the conversion to cashless tolling throughout the Turnpike and general roadway paving and repairs.

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Source: This table was compiled by the staff of the Department of the Auditor General based on the PTC's Fiscal Year 2016-2018 Capital Plan Budget by County provided by PTC management. 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 and conclusions.

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Appendix E

Distribution List

This report was distributed to the following Commonwealth officials:

The Honorable Tom Wolf
Governor

The Honorable Leslie S. Richards
Chair
Pennsylvania Turnpike Commission

The Honorable Jen Swails
Secretary of the Budget
Office of the Budget

Mr. Mark Compton
Chief Executive Officer
Pennsylvania Turnpike Commission

The Honorable Joseph M. Torsella
State Treasurer
Pennsylvania Treasury Department

The Honorable Tim Hennessey
Majority Chair
House Transportation Committee

The Honorable Josh Shapiro
Attorney General
Office of the Attorney General

The Honorable Mike Carroll
Democratic Chair
House Transportation Committee

The Honorable Michael Newsome
Secretary of Administration
Office of Administration

The Honorable Kim Ward
Majority Chair
Senate Transportation Committee

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

The Honorable John Sabatina
Democratic Chair
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