



Minnesota Department of Transportation

MnPASS Program

November 2018

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

November 29, 2018

Senator Mary Kiffmeyer, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Charles Zelle, Commissioner
Minnesota Department of Transportation

This report presents the results of our internal controls and compliance audit of the Minnesota Department of Transportation's MnPASS program for the period July 2014 through February 2018. The objectives of this audit were to determine if the department had adequate internal controls over selected financial activities and complied with significant finance-related legal requirements.

This audit was conducted by Scott Tjomsland, CPA (Audit Director); Natalie Mehlhorn (Auditor-in-Charge); and Bill Dumas (Staff Auditor).

We received the full cooperation of the department's staff while performing this audit.

Sincerely,

James R. Nobles
Legislative Auditor

Christopher P. Buse
Deputy Legislative Auditor



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Report Summary

The Minnesota Department of Transportation is the state agency responsible for operating the MnPASS program. MnPASS express lanes help reduce congestion on some of the busiest roads in the Twin Cities metropolitan area. Buses, motorcycles, and vehicles with two or more occupants can use the dedicated express lanes free during peak travel times. Solo motorists pay a fee when they choose to use the MnPASS lanes during peak travel periods.

The Office of the Legislative Auditor (OLA) conducted this selected scope audit to determine whether the department had adequate internal controls and complied with significant finance-related legal requirements related to the MnPASS program. The period under examination went from July 2014 through February 2018.

Conclusion

The Department of Transportation's internal controls over the MnPASS program were generally adequate. For the transactions tested, the department generally complied with significant finance-related legal requirements. However, OLA found one recordkeeping issue with the specific accounts for each MnPASS corridor.

Internal Controls



Legal Compliance



Finding

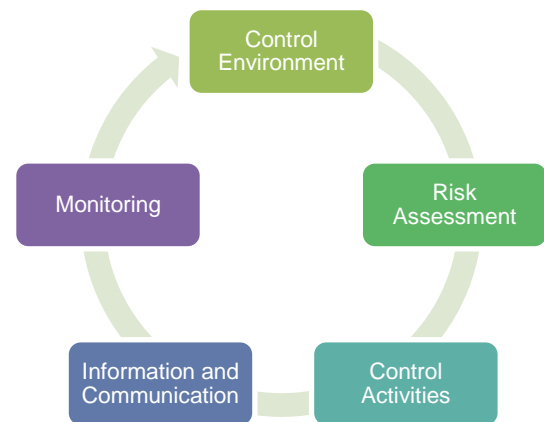
The Department of Transportation did not maintain accurate account balances for each MnPASS corridor account.



Audit Overview

This report presents the results of an internal controls and compliance audit of the MnPASS program. The Minnesota Department of Transportation is responsible for establishing internal controls to safeguard assets and ensure compliance with applicable laws, regulations, and state policies.

A strong system of internal controls begins with management's philosophy, operating style, and commitment to ethical values. It also includes processes to continuously assess risks and implement control activities to mitigate risks. A successful internal controls system includes iterative processes to monitor and communicate the effectiveness of control activities.



MnPASS Program Overview

To reduce congestion, the Department of Transportation operates designated express lanes on some of the busiest highway corridors in the Twin Cities metropolitan area. The MnPASS program provides free use of express lanes during peak travel times to public transit vehicles, motorcycles, and vehicles with two or more occupants. The program also allows solo motorists to use the express lanes during peak travel times for a fee. The express lanes are open to all motorists during non-peak travel times.

Before MnPASS, express lanes were only available during peak travel times to public transit vehicles, motorcycles, and vehicles with two or more occupants. The original intent was to reduce congestion by providing an incentive for motorists to carpool or use public transit. However, when limited to just high occupancy and public transit vehicles, the express lanes did not operate at full capacity. In 2003, the Legislature authorized use of the express lanes by solo motorists, and the first MnPASS lanes opened on Interstate 394 in May 2005.¹

¹ *Minnesota Statutes* 2018, 160.93, subd. 1.

MnPASS Corridors

The MnPASS program currently has express lanes operating in the following three highway corridors:

Interstate 394

The express lanes in the corridor extend from downtown Minneapolis to the city of Wayzata. The eastbound lane extends from County Road 101 to Highway 100, while the westbound lane extends from Highway 100 to Interstate 494. The corridor also has a reversible express lane between Highway 100 and Interstate 94.

Direction	Schedule
Eastbound	6 a.m. – 10 a.m.
Westbound	3 p.m. – 7 p.m.
Reversible – Eastbound	6 a.m. – 1 p.m.
Reversible – Westbound	2 p.m. – 5 a.m.

Interstate 35W

The express lanes in the corridor opened in three phases between 2009 and 2011 and extend from downtown Minneapolis to the city of Burnsville. The northbound lane extends from Crystal Lake Road to 26th Street, while the southbound lane extends from 42nd Street to Highway 13.

Direction	Schedule
Northbound	6 a.m. – 10 a.m.
Northbound – Highway 62 to 26th Street	3 p.m. – 7 p.m.
Southbound	3 p.m. – 7 p.m.
Southbound – 42nd Street to I-494	6 a.m. – 10 a.m.

Interstate 35E

The express lanes in the corridor opened in two phases in 2015 and 2016 and extend from downtown St. Paul to the city of White Bear Lake. One segment of the northbound lane extends from Cayuga Street to Little Canada Road, while the other segment extends from County Road E to County Road J. The southbound lane extends from County Road 96 to Cayuga Street.

Direction	Schedule
Northbound	3 p.m. – 7 p.m.
Southbound	6 a.m. – 10 a.m.

Projects in progress include extending the southbound express lane on Interstate 35W between 26th Street and 42nd Street and adding express lanes in each direction on Interstate 35W, between the cities of Roseville and Blaine. Exhibit 1 illustrates the current MnPASS corridors, along with future development plans.

Exhibit 1: MnPASS Corridor Map



SOURCE: January 2018 MnPASS Express Lane Financial Report.

MnPASS Customer Fees

The fee for solo motorists that use the MnPASS express lanes ranges from \$0.25 to \$8.00 per trip. The department uses an internal system connected to traffic sensors to set the fee every three minutes, based on the number of vehicles in the lanes. Fees increase as the number of vehicles in the express lanes increase and decrease when there are fewer vehicles using the lanes. The system displays the current fee on overhead digital signs located at entry points of the express lanes.



There are very few locations in the Twin Cities where such a revenue-generating HOT lane facility would be viable due to insufficient congestion levels, right of way limitations and the significant environmental and economic cost associated with acquiring additional right of way to add lanes in fully developed urban corridors. Changing HOV policies, raising toll rates and implementing camera-based license plate tolling are also complex and controversial decisions.

– January 2018 MnPASS Express Lane Financial Report

The department designed the fee rates to achieve congestion-free speeds in the express lanes during peak travel times, not to generate revenue to cover the costs of operating the MnPASS program. In its January 2018 MnPASS Express Lane Financial Report, the department is transparent about its pricing strategy. The department also publishes financial information that makes it clear that the cost of operating MnPASS lanes exceeds the revenue generated from customer fees. Finally, the department discusses why the Twin Cities traffic environment fails to meet the attributes of environments with more financially viable high occupancy traffic (HOT) lanes.

Customer Accounts and Transponder Tags

To establish a MnPASS account, customers must make an initial prepayment of at least \$25 with a valid credit or debit card. Customers also must set a replenishment amount for future prepayments, along with a low balance threshold. The minimum replenishment amount is \$40, and the minimum low balance threshold is \$15.



Customers can choose between a free window sticker transponder tag, or a \$15 switchable transponder tag. The benefits of a switchable tag are that customers can transfer it between vehicles and can set it to carpool mode when multiple people are in the vehicle.



When customers enter MnPASS lanes during peak travel times, overhead scanners read the transponder tags and transmit data to the department's internal computer system. The system correlates transponder tag data and MnPASS fee data to calculate detailed charges for the trip. Customers receive monthly statements with their detailed charges, but also can view their accounts online.

To enforce the MnPASS express lane use restrictions during peak travel times, the department contracts with the Department of Public Safety for six state troopers, who actively patrol the lanes. The department estimates that 56 percent of the vehicles using MnPASS express lanes during peak travel times are public transit vehicles and vehicles with two or more occupants.² The department also estimates that the people in those vehicles represent 80 percent of the people using the lanes during peak times.

² Minnesota Department of Transportation, MnPASS Express Lanes Operations Report, 2018, 2nd Quarter; April-June.

Financial Activity

Finance-related Legal Provisions

State law for the use of MnPASS program revenues is complex and varies by corridor. State law appropriates MnPASS program revenues to the department and requires the department to establish separate accounts in the Special Revenue Fund for each corridor.³ The department initially records customer prepayments in an unearned revenue holding account, since it cannot allocate money to specific corridors until customers use those corridors and incur charges. Monthly, the department reallocates holding account money to the specific revenue accounts for each corridor.

State law dedicates a portion of MnPASS program revenues to the Metropolitan Council for expansion and improvement of bus transit services. For the Interstate 35W corridor, the department must transfer 25 percent of the first \$1,333,333 in revenues and 75 percent of any additional revenues to the Metropolitan Council. For all other corridors, the department must transfer half of all excess revenues to the Metropolitan Council. State law defines excess revenues as money that remains after repaying MnPASS capital costs and paying MnPASS operational costs.

MnPASS Revenues and Expenditures

The department uses MnPASS revenues to help offset the costs of operating the program. However, since MnPASS costs exceed program revenues, the department also relies on Trunk Highway Fund appropriations. Exhibit 2 displays MnPASS program revenues and expenditures for fiscal years 2015 through 2017.

³ *Minnesota Statutes* 2018, 160.93, subds. 2 and 2a.

Exhibit 2: MnPASS Program Revenues and Expenditures, July 1, 2014, through June 30, 2017

	Fiscal Year		
	2015	2016	2017
Earned Revenues:			
Customer MnPASS Usage (Reallocated from Unearned) ^a	\$3,350,538	\$3,392,648	\$3,747,779
Expenditures:			
Purchased Services	\$2,183,924	\$5,070,194	\$2,257,928
Transfers to the Metropolitan Council	983,587	748,429	756,207
Payroll and Expense Reimbursements	502,993	956,527	937,773
Interstate 35E Corridor Capital Cost Repayment	0	47,933	288,254
All Other Expenditures	<u>1,570,054</u>	<u>1,308,303</u>	<u>296,555</u>
Total Expenditures	<u>\$5,240,558</u>	<u>\$8,131,386</u>	<u>\$4,536,717</u>

NOTES: This exhibit only includes financial activity for fiscal years 2015 through 2017. However, the scope of our audit also included fiscal year 2018 activity through February 2018. Expenditures are paid from both MnPASS revenues and Trunk Highway Fund appropriations. Higher expenditures in fiscal year 2016 resulted from the transition to a new operations contractor and upgrades to the tolling system and equipment.

^a The department initially records MnPASS customer prepayments in an unearned revenue holding account and subsequently reallocates money to earned revenue accounts based on customer MnPASS use charges. Customer prepayments totaled \$3.96 million, \$3.46 million, and \$3.81 million in fiscal years 2015, 2016, and 2017, respectively.

SOURCE: State of Minnesota's accounting system.

Audit Scope

This audit reviewed the MnPASS program fiscal activities that occurred between July 1, 2014, and February 28, 2018. Specific areas in scope for this audit included:

- Customer prepayments and the subsequent reallocation of money to corridor accounts;
- Expenditures made from MnPASS accounts; and
- Required transfers to the Metropolitan Council.

Audit Objectives

We designed our audit to answer the following questions:

- Did the Department of Transportation have adequate internal controls to safeguard assets, provide reliable financial data, and collect all revenue due from customers?
- Did the Department of Transportation comply with significant finance-related legal requirements?

Audit Methodology and Criteria

To answer the objective questions, we interviewed staff to gain an understanding of financial policies and procedures. We also analyzed accounting data to identify unusual trends or significant changes in financial operations. Finally, we examined samples of financial transactions and reviewed supporting documentation to test whether controls were effective and to determine if transactions complied with finance-related legal provisions.

We conducted this internal controls and compliance audit in accordance with generally accepted government auditing standards.⁴ 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 finding and conclusions based on our audit objectives.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.⁵ To identify legal compliance criteria for the activity we reviewed, we examined state and federal laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget, Administration, and Transportation.

⁴ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards*, December 2011.

⁵ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government*, (Washington, DC, September 2014.) In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

Conclusions

The Department of Transportation's internal controls over the MnPASS program were generally adequate. For the transactions tested, the department generally complied with significant finance-related legal requirements. However, OLA found one recordkeeping issue with the specific accounts for each MnPASS corridor.

The following *Finding and Recommendations* section provides further explanation about the one instance of inadequate internal controls and noncompliance.

Finding and Recommendations

FINDING

The Department of Transportation did not maintain accurate account balances for each MnPASS corridor account.

The department maintains supplemental financial records for each MnPASS corridor, along with supplemental records to account for administrative/transponder fees. Collectively, these supplemental records should balance with the MnPASS consolidated financial account in the state's accounting system. However, OLA found that the fiscal year 2017 ending balance in the supplemental accounting records was \$611,217 less than the balance in the state's accounting system. The department did not identify the discrepancy because it did not reconcile its supplemental accounting records to the combined account balance in the state treasury.

Without a detailed reconciliation, it is difficult to determine whether errors are in the state's accounting system, the department's supplemental accounting records, or both. OLA identified some revenue and expenditure transaction input errors in the supplemental accounting records. OLA also found some discrepancies that were caused by customers that had insufficient balances to pay for MnPASS express lane charges.

Maintaining accurate balances is an important control to ensure compliance with MnPASS legal requirements. Minnesota statutes require the department to establish separate accounts for each MnPASS corridor. Furthermore, revenues from each corridor can only be spent on costs attributable to that corridor.⁶ Beyond the requirements in law, maintaining accurate account balances helps promote effective budgeting and financial reporting. In its January 2018 MnPASS Express Lane Financial Report, the department presented inaccurate information to the Legislature because its underlying source records contained errors.⁷

⁶ *Minnesota Statutes* 2018, 160.93, subds. 2 and 2a.

⁷ *Laws of Minnesota* 2017, First Special Session, chapter 3, art. 3, sec. 137, required the department to submit the MnPASS report to the Legislature by January 2, 2018.

RECOMMENDATIONS

The Department of Transportation should periodically reconcile its supplemental MnPASS accounting records to the state's accounting system.

The Department of Transportation should consider establishing separate accounts in the state's accounting system for each MnPASS corridor, eliminating the need for supplemental financial records.

November 27, 2018

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the draft audit report regarding the MnPASS program at the department for the period from July 2014 through February 2018. The OLA's time and effort in conducting this audit is very much appreciated, and the staff who conducted the audit were diligent, professional and are a credit to your office. This letter is the Department of Transportation (MnDOT) response to the draft report issued by the Office of Legislative Auditor.

Finding 1 – The Department of Transportation did not maintain accurate account balances for each MnPASS corridor account.

Recommendation – The Department of Transportation should periodically reconcile its supplemental MnPASS accounting records to the state's accounting system.

Recommendation – The Department of Transportation should consider establishing separate accounts in the state's accounting system for each MnPASS Corridor, eliminating the need for supplemental financial records.

Response - MnDOT believes strongly in financial integrity. MnDOT continues to refine and improve its business processes and will address the finding in the following manner:

- Develop and implement processes to reconcile supplemental accounting records with the state accounting system.
- Establish additional appropriations to account for revenue and expenditures for each corridor
- Develop an automated process to manage the customer delinquent accounts and collection results.

Responsible Staff: Robin Sylvester, Controller, Director Office of Financial Management.

Implementation Date: July 1, 2019

Thank you for the opportunity to respond to your finding and recommendations. MnDOT will monitor the implementation to the successful resolution of this finding. Please contact Brad Larsen, MnPASS Policy and Planning Program Director, at 651-234-7024 with any questions.

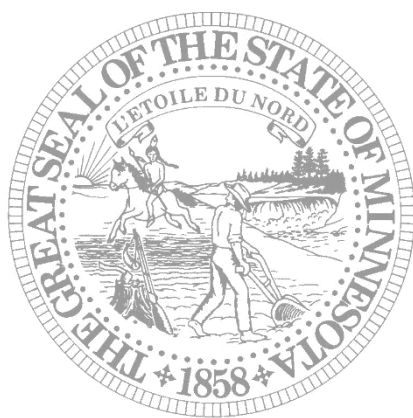
Sincerely,



Charles A. Zelle
Commissioner of Transportation

CC: Sue Mulvihill, Deputy Commissioner/Chief Engineer
Kristi Schroedl, Chief Financial Officer
Jody Martinson, Assistant Commissioner for Operations
Scott McBride, Metro District Engineer
Robin Sylvester, Financial Controller/Director
Dan Kahnke, MnDOT Audit Director
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