California State Auditor

BUREAU OF STATE AUDITS

Department of Transportation:

Seismic Retrofit Expenditures Are Generally In Compliance With the Bond Act, but Some Improvements Are Needed

December 1997

97022

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December 18, 1997 97022

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 310, Statutes of 1995, the Bureau of State Audits presents its audit report concerning the Department of Transportation's (department) revenues and expenditures authorized by the Seismic Retrofit Bond Act of 1996 (Bond Act). This report concludes that, although some inappropriate charges have occurred, the department in general has ensured that seismic retrofit projects funded with bond proceeds are consistent with the purpose of the Bond Act. As of November 1997, the department had not yet reimbursed the State Highway Account or the Consolidated Toll Bridge Fund for expenditures incurred during fiscal years 1994-95 and 1995-96.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

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Summary

Results in Brief

Audit Highlights . . .

The Seismic Retrofit Bond Act of 1996 (Bond Act) authorized the Department of Transportation to finance the seismic retrofit costs related to 1,150 state highway bridges and 7 state toll bridges with bond proceeds. In general, most of the $435 million the department spent complied with the Bond Act requirements. However, we found the following instances of noncompliance:

- ☑ ***Expenditures of $694,000 were charged for projects not eligible for funding with bond proceeds; and***
- ☑ ***Because accounting records were not promptly updated, some expenditures were inappropriately charged against bond funds.***

Finally, recent legislation has resolved difficulties in reimbursing early seismic retrofit expenditures.

This is the second in a series of annual reports on Department of Transportation (department) revenues and expenditures authorized by the Seismic Retrofit Bond Act of 1996 (Bond Act). Chapter 310, Statutes of 1995, requires the California State Auditor to ensure that the seismic retrofit projects funded by the bond proceeds are consistent with the purpose of the Bond Act.

Seismic retrofit expenditures for 7 toll bridges and approximately 1,150 bridges in Phase II of the retrofit program qualify for Bond Act funding. As of July 1997, the expenditures totaled $435 million, including approximately $114 million of expenditures and commitments incurred during fiscal years 1994-95 and 1995-96.

Interim funding for expenditures incurred during fiscal years 1994-95 and 1995-96 was provided through the State Highway Account, the Consolidated Toll Bridge Fund, and other state funds. For fiscal year 1996-97, the State used loans from its Pooled Money Investment Account to cover expenditures until bonds could be sold. General-obligation bonds related to the Bond Act were issued in March and October 1997. They totaled $350 million.

In general, the department has ensured that the seismic retrofit projects are consistent with the purpose of the Bond Act. However, we noted the following inappropriate charges:

- For 3 of the 60 projects we reviewed, the department erroneously charged expenditures totaling $70,000 for projects that were incorrectly classified as Phase II.
- For nine additional projects, the department erroneously charged a total of $624,000 for projects that were not Phase II because accounting records identified the projects as Phase II.

- For 11 projects dropped from Phase II status, the department has not determined how much of the $6 million in expenditures as of October 1997 was inappropriately charged to the Seismic Retrofit Bond Fund after the projects were dropped.

These inappropriate charges occurred because the department does not have a good system for communicating and monitoring changes in project status.

The department also encountered difficulties in complying with the Bond Act requirement to reimburse the State Highway Account and Consolidated Toll Bridge Fund for the fiscal year 1994-95 and 1995-96 seismic retrofit expenditures. The State Treasurer's Office and the Department of Finance objected because the reimbursement as planned would result in the loss of the bonds' tax-exempt status. The Department of Finance also refused to reimburse those expenditures because of a specific issue related to interim funding from the Pooled Money Investment Account loan. Chapter 327, Statutes of 1997, provides an opportunity for the department to make the reimbursement without the loss of the bonds' tax-exempt status and without violating the terms of the loan. As of November 19, 1997, the reimbursements had not been made.

Recommendations

To ensure that only eligible projects are funded with the Seismic Retrofit Bond Fund, the department should take the following steps:

- Establish clear, written procedures for communicating and monitoring changes in the project status; and

- Promptly reclassify projects it is inappropriately identifying as Phase II projects.

Agency Comments

The Department of Transportation agreed to use the information in our report in the final resolution of funds for the Seismic Retrofit Bond Fund of 1996.

Introduction

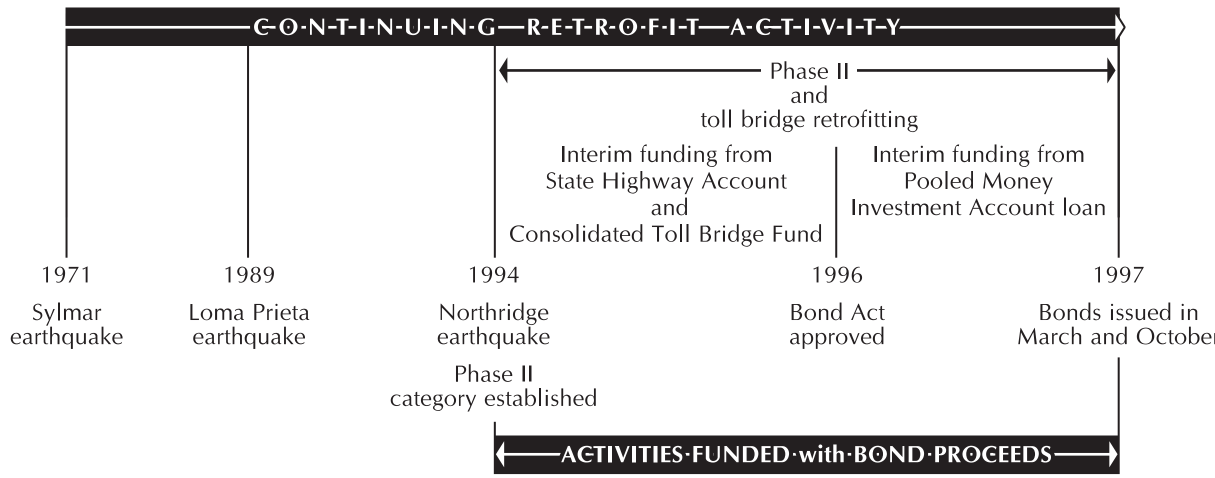
Background

Since the 1971 Sylmar earthquake struck the Los Angeles area, the Department of Transportation (department) has been engaged in a statewide seismic retrofit program for bridges. The department's seismic retrofit program initially consisted of restraining sections of bridges with steel cables. Current retrofit work includes more extensive procedures, such as strengthening the columns of existing bridges by encircling them with a steel casing; enlarging and strengthening some of the bridge footings by placing additional pilings in the ground or by using steel tie-down rods to better anchor the footings to the ground; and enlarging the hinges that connect sections of bridge decks and help prevent them from separating during severe ground movement.

In March 1996, California voters approved the Seismic Retrofit Bond Act of 1996 (Bond Act). Figure 1 depicts the State's continuing seismic retrofit activity and its relationship to the Bond Act. This measure authorized the State to sell $2 billion in state general-obligation bonds to reconstruct, replace, or retrofit state-owned highways and bridges, including toll bridges. The Bond Act will remain in effect until all construction activities for the seismic retrofit of state-owned toll bridges are complete, or until June 30, 2005, whichever is sooner. The Bond Act required the department to use $650 million of the bond proceeds for seismic retrofit of toll bridges and the remaining $1.35 billion for bridges in the second phase of the seismic retrofit process. However, on August 20, 1997, the governor signed into law Chapter 327, Statutes of 1997, allowing $140 million generated under the Bond Act in excess of the amount actually necessary to complete Phase II seismic retrofit to be reallocated to seismic retrofit of the state-owned toll bridges. Thus, Chapter 327, Statutes of 1997, effectively shifted the allocation of expenditures in the Bond Act to $790 million for toll bridges and $1.21 billion for bridges in the second phase of seismic retrofit. In addition, it required other additional funds to be used for seismic retrofit.

Figure 1

Retrofit Activity – 1971 to the Present



The Bond Act also requires the department to reimburse the State Highway Account and the Consolidated Toll Bridge Fund for fiscal year 1994-95 and 1995-96 expenditures attributable to Phase II and toll bridge retrofit.

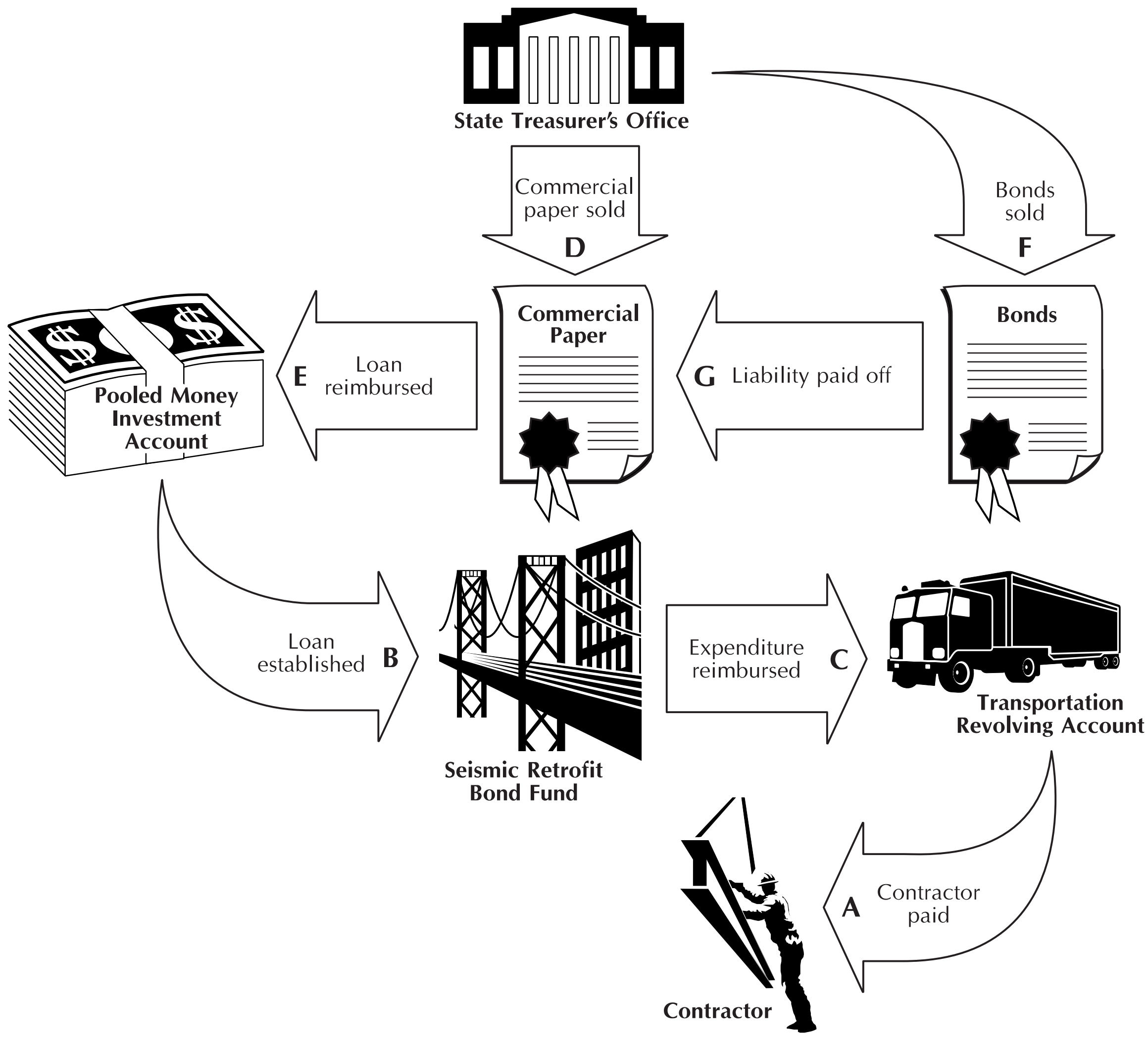
Funding for Expenditures of the Bond Act

For fiscal years 1994-95 and 1995-96, the department used a combination of funds from the State Highway Account, Seismic Safety Retrofit Account, and the Federal Trust Fund to finance expenditures related to Phase II seismic retrofit. For the same period, the department used a combination of funds from the State Highway Account, Seismic Safety Retrofit Account, and Consolidated Toll Bridge Fund to finance expenditures related to toll bridge retrofit. Total Phase II and toll bridge seismic retrofit expenditures and commitments for fiscal year 1994-95 and 1995-96 are approximately $114 million. However, as of November 19, 1997, no actual reimbursement had taken place.

In fiscal year 1996-97, the Seismic Retrofit Bond Fund of 1996 was created to account for seismic retrofit expenditures and revenues. The State used loans from the Pooled Money Investment Account to cover expenditures in the Seismic Retrofit Bond Fund of 1996. As Figure 2 indicates, the funding of these expenditures is very complex, and it involves temporary funding until bonds are issued.

Figure 2

The Flow of Funds for Bond Fund Expenditures in Fiscal Year 1996-1997



A Seismic retrofit expenditures are first paid from the Transportation Revolving Account.

B The State's Pooled Money Investment Account (PMIA) loan program provides interim financing to Bond Act projects. As of June 30, 1997, the department had received two PMIA loans totaling $852 million, both of which were approved by the Pooled Money Investment Board.

C Monthly, the department uses PMIA loan funds and submits a transfer letter based on a Plan of Financial Adjustment to the State Controller's Office to reimburse the Transportation Revolving Account from the Seismic Retrofit Bond Fund for the month's expenditures.

D The State Treasurer's Office sells commercial paper in the amount of the previous period's expenditures recorded in the Seismic Retrofit Bond Fund. Commercial paper consists of simple short-term promissory notes with maturities ranging from 1-270 days.

E The proceeds of these commercial paper sales are used to pay down the outstanding balance of the PMIA loan that the department received.

F The State Treasurer's Office sells general obligation bonds when the market allows.

G The State Treasurer's Office uses the proceeds from bond sales to pay off the liability for the commercial paper.

Status of the Bond Issuances

Two Bond Act general-obligation bonds have been issued, one for $50 million in March 1997 and the other for $300 million in October 1997. The first bond issuance included serial bonds maturing annually on October 1, 1997, and every year thereafter until October 1, 2018, and term bonds maturing in three portions from October 1, 2021 to October 1, 2026. The second bond issuance also included serial bonds maturing annually on October 1, 1998, and every year thereafter until October 1, 2018, and term bonds maturing in two portions on October 1, 2023 and October 1, 2027.

Status of Projects

As of June 30, 1997, department records showed 854 seismic retrofit projects related to 1,155 bridges with Phase II status and 7 toll bridges eligible to use Bond Act revenues. According to the department's estimate of July 1, 1997, total capital cost for Phase II is about $1.05 billion. In addition, the department estimated total costs of $780 million to complete the retrofit needed on 6 of the state toll bridges. Moreover, the department will provide seismic retrofit to the San Francisco-Oakland Bay Bridge at an estimated cost of $1.52 billion.

According to the department's July 1997 projection, 94 percent of the Phase II bridges will have retrofit completed by December 31, 1997. The department also projected that for six toll bridges all repairs will be under construction by 1998. In addition, in December 1997, the department projected that it would award all contracts for the San Francisco-Oakland Bay Bridge by 2001. (See Appendix A for the seismic retrofit program status.) As of June 30, 1997, the department recorded over $435 million in expenditures related to the Phase II and toll bridge projects. Table 1 shows the breakdown of these expenditures.

During fiscal years 1994-95 and 1995-96, most expenditures were for state operations. However, in fiscal year 1996-97, most of the expenditures were for capital outlay. This shift indicates that most of the projects went under construction at the completion of the planning and design of the projects that took place in early years. Appendix B depicts the breakdown of these expenditures in more detail.

Table 1

Seismic Retrofit Phase II and Toll Bridge Expenditures (in thousands)

Expenditures		Fiscal year 1994-95	Fiscal year 1995-96	Fiscal year 1996-97	Total All Years
State Operations	Phase II	$12,452	$19,248	$ 77,857	$109,557
	Toll Bridge	14,978	48,447	48,038	111,463
Capital Outlay	Phase II	5,185	4,100	190,392	199,677
	Toll Bridge	879	7,285	6,430	14,594
	Totals	**$33,494**	**$79,080**	**$322,717**	**$435,291**

Scope and Methodology

Chapter 310, Statutes of 1995, requires the California State Auditor to annually audit revenues and expenditures authorized by the Bond Act to ensure that projects are consistent with its purpose.

To gain an understanding of the seismic retrofit program, we reviewed the provisions of the Bond Act and related policies and procedures the department developed for the Seismic Retrofit Bond Fund of 1996 expenditures. We also interviewed administrators and staff to determine their responsibilities for implementing provisions of the Bond Act and their manner of meeting those responsibilities.

To determine how fully the department complied with the requirements of the Bond Act, we reviewed a sample of seismic retrofit projects for fiscal years 1994-95 through 1996-97 and assessed whether the projects were eligible for funding under the Bond Act. In addition, we reviewed a sample of seismic retrofit expenditures, which total more than $435 million as of June 30, 1997, all years combined.

We also discussed with department and State Treasurer's Office (STO) staff the status of an issue raised by the STO regarding federal tax implications in reimbursing past expenditures and reviewed related documents. Moreover, we analyzed information to determine the Department of Finance's (DOF) position regarding the legality of reimbursing past expenditures with the PMIA loan. We also discussed the DOF's concerns with DOF and department staff.

Finally, we reviewed bond-issuance records available through October 1997 to determine the status of the bond issuances and their use.

Chapter 1

Although Most Seismic Retrofit Expenditures Were Appropriate, Some Were for Ineligible Projects

Chapter Summary

Although most expenditures charged to the Seismic Retrofit Bond Fund of 1996 were appropriate, certain expenditures were not. We reviewed 50 projects for fiscal year 1996-97 and 10 additional projects for fiscal years 1994-95 and 1995-96. We found that the Department of Transportation (department) spent $694,000 on ineligible projects. We also found that the department had paid $6 million for projects dropped from Phase II status but had not determined how much of these costs were inappropriately charged to the Seismic Retrofit Bond Fund of 1996. These problems arose primarily because the department does not have an adequate system for communicating and monitoring changes in project status.

Background

Prior to the January 1994 Northridge earthquake, the department classified all state-owned bridges (except toll bridges) in two groups, single- and multiple-column bridges. According to the director of its Engineering Service Center, the department concentrated on the seismic retrofitting of the single-column bridges first because it felt they were potentially more vulnerable than the multiple-column bridges. Seismic retrofit, after the initial screening processes for a site, involves structural analysis to determine potential vulnerability during earthquakes, a strategy meeting with engineers to determine the extent and nature of retrofit approaches, and final design.

The Phase I and Phase II categories were defined after the Northridge earthquake. According to the director of the department's Engineering Service Center, Phase I includes bridges that had been through the strategy process and determined to require retrofitting as of January 1, 1994. Phase I projects are not eligible for funding with Seismic Retrofit Bond Act of 1996 (Bond Act) proceeds. Phase II includes all remaining bridges for which a retrofit strategy had not yet been determined. Retrofit on these bridges is eligible to be funded with Bond Act proceeds. The director indicated that some bridges require work that meets Phase I criteria as well as additional work that meets Phase II criteria, because retrofit strategies were difficult to determine and because combining the work resulted in efficiencies during the design process.

The Department Did Not Code a Project Phase Correctly

A project coding error resulted in $57,000 inappropriately charged to the bond funds.

Although most of the expenditures we reviewed were appropriately charged to the Seismic Retrofit Bond Fund of 1996, we found an error in a project category that caused inappropriate charges. For one of the 50 projects we reviewed for fiscal year 1996-97, the department erroneously charged expenditures to the Seismic Retrofit Bond Fund of 1996. Of the $27 million in expenditures for the 50 projects, $6,000 applies to this project. This error occurred because of incorrect coding of a Los Angeles County Phase I project as Phase II. After we discussed this condition with the department, it corrected the coding on this project and transferred $6,000 in fiscal year 1996-97 from the Seismic Retrofit Bond Fund of 1996 to the State Highway Account and Federal Trust Fund. The amount of expenditures in error for prior years for this project is $51,000.

The Department Does Not Efficiently Communicate Changes to the Project Status

During our review of 1996-97 expenditures, we found 9 other Phase I projects that the department's accounting records carried as Phase II. None of these projects was included in our original sample of 50. The total expenditures erroneously charged to the Bond Act for these 9 projects is $624,000. Of this total, $534,000 is for fiscal years 1994-95 and 1995-96, $77,000 for fiscal year 1996-97, and $13,000 for the period July 1, 1997 through September 30, 1997.

Moreover, during our review of projects with funding during fiscal year 1996-97, we found 11 other projects that program records show were dropped from eligibility for Phase II; however, accounting records still carried them as active Phase II projects. As of October 30, 1997, the department had paid $6 million on these projects but had not determined how much of this was inappropriately charged to the Seismic Retrofit Bond Fund of 1996 after the projects were dropped from Phase II eligibility. Until the accounting records are changed to indicate the correct phase for these projects, additional costs may be inappropriately charged to Bond Act funds.

The department also did not promptly update its accounting records to reflect another change in project status. For one of the projects we tested, the program unit created a new expenditure authorization (EA) in August 1997 to account for a change in the scope of a project. The scope of the project expanded from retrofit to bridge replacement. However, the accounting records still carried the project under the old EA with open-project status until October 1997. As a result, by October 31, 1997, expenditures of $1,800 were inappropriately charged to the old EA.

Because accounting records were not promptly updated, costs related to nine Phase I and eleven dropped projects were inappropriately charged to the bond funds.

Without promptly updating its accounting records, the department cannot ensure that affected EA accounts reflect the true cost of individual projects. The department could therefore continue to inappropriately charge the old EA accounts. Further, if a change puts a project into a category other than Phase II, the department could charge the old EA accounts with costs that are not eligible under the Bond Act.

These errors occurred because of an apparent breakdown in communicating changes to the project status among the various units responsible for ensuring correct coding of project status. As of November 1997, the department did not have a written procedure for communicating these changes. Because the department estimates that 94 percent of Phase II projects will have retrofit completed by the end of December 1997, its staff indicated that a written policy may not be needed to apply to the remainder of the EAs. However, we expect the department to continue to make changes in EA status, and written procedures for communicating status would be helpful. Further, the department does not have a system in place to reconcile the accounting and program records of project status.

The Department Used an Incorrect Funding Allocation for an Expenditure Authorization

For one of the 50 projects we reviewed for fiscal year 1996-97, the department erroneously included the Seismic Retrofit Bond Fund of 1996 as a funding source for a nonseismic project. As a result, the department charged the Seismic Retrofit Bond Fund of 1996 for the payments it made to the California Highway Patrol under the Construction Zone Enhanced Enforcement Program. The Bond Act allows bond proceeds to be used only for seismic retrofit of Phase II and toll bridge projects.

After we discussed this condition with department staff, the department revised the EA to eliminate the cost distribution to the Seismic Retrofit Bond Fund of 1996. In addition, the department moved expenditures as of June 30, 1997, totaling over $10,900, to the State Highway Account. Further, the department made adjusting entries to correct the expenditures charged to the Seismic Retrofit Bond Fund of 1996 after June 30, 1997.

This error occurred because the department did not eliminate the Seismic Retrofit Bond Fund of 1996 as a funding source when it determined the funding source for the new EA.

Conclusion

The expenditures in the Seismic Retrofit Bond Fund of 1996 are generally in compliance with the requirements of the Bond Act. However, because it did not effectively communicate changes in project status or EA numbers, the department inadvertently authorized some inappropriate payments.

Recommendations

To ensure that it charges only Phase II and toll bridge retrofit expenditures to bond proceeds, the department should take the following steps:

- Establish clear, written procedures for communicating changes in project status.

- Establish a policy requiring a periodic reconciliation of program records with accounting records on project status.

- Promptly reclassify projects that it is inappropriately carrying on its records as Phase II projects.

- Exclude the amounts it erroneously charged as Phase II costs from planned reimbursements to the State Highway Account for fiscal year 1994-95 and 1995-96 seismic retrofit expenditures.

Chapter 2

The Department Encountered Difficulties in Reimbursing Early Seismic Retrofit Expenditures

Chapter Summary

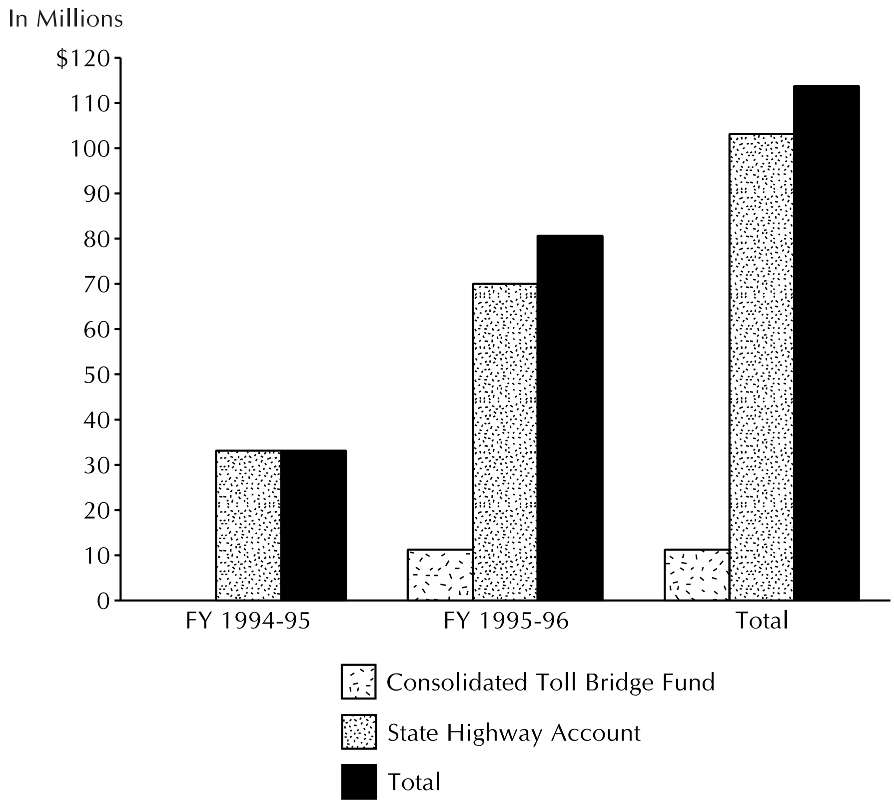
The Seismic Retrofit Bond Act of 1996 (Bond Act) requires bond proceeds to be used to reimburse retrofit expenditures originally incurred in the State Highway Account (SHA) and the Consolidated Toll Bridge Fund (CTBF) during fiscal years 1994-95 and 1995-96. However, the Department of Transportation (department) encountered two difficulties in complying with this requirement. First, when the department made plans to reimburse the two funds, the State Treasurer's Office objected, stating that such a reimbursement would result in the loss of the tax-exempt status of the bonds. Further, the Department of Finance objected to the reimbursement for fiscal reasons. Ultimately, new legislation provided an opportunity for the department to apply towards future seismic retrofit expenditures the amount it was planning to reimburse to the SHA. According to the chief of its Office of Finance and Capital Budgets, the department believes the CTBF will have sufficient seismic retrofit projects that the department will fund with bond proceeds. As of November 19, 1997, no reimbursements had yet taken place.

The Bond Act Requires Reimbursement of Early Seismic Retrofit Expenditures

The Bond Act, Article 2, requires that the proceeds from bonds sold be used to reimburse the SHA and the CTBF for fiscal year 1994-95 and 1995-96 retrofit expenditures. In January 1997, department records showed approximately $114 million in expenditures and commitments attributable to seismic retrofit in fiscal years 1994-95 and 1995-96. Included in this total is $103 million from the SHA and $11 million from the CTBF. The following bar chart depicts the use of these sources over the two fiscal years:

Figure 3

Source of Funding for Retrofit Expenditures in Fiscal Years 1994-95 and 1995-96



Separate from the department, the California Transportation Commission (CTC), an appointed executive body, has the responsibility of approving and allocating seismic retrofit bond funds for spending. Following the requirements of the Bond Act, the CTC proposed allocating approximately $114 million of bond proceeds to reimburse fiscal year 1994-95 and 1995-96 seismic retrofit expenditures.

Reimbursing Certain Expenditures With Bond Proceeds Would Threaten the Bonds' Tax-Exempt Status

After the CTC proposed the allocation, the State Treasurer's Office (STO) raised the concern that the use of bond proceeds to reimburse the expenditures incurred during fiscal years 1994-95 and 1995-96 would jeopardize the bonds' tax-exempt status. Specifically, according to the State's bond counsel, under Treasury Regulation Section 1.150-2(d) and (e), to use tax-exempt bond proceeds to reimburse expenditures, an issuer must adopt a resolution of official intent no later than 60 days after the payment of the original expenditures, indicating that it expects to reimburse the expenditures with bond proceeds. The department's early seismic expenditures were made long before the 60-day window and without the required official resolution indicating the intent to reimburse the SHA and CTBF. Therefore, these expenditures do not meet tax exemption requirements. If the federal tax-exempt status of the bonds is lost, the State must pay higher interest to purchasers of the bonds to compensate for the taxes they have to pay on interest earnings.

The Department Proposed an Alternative Reimbursement Plan

To address the tax issue raised by the STO, the department made an alternative proposal that bond proceeds be applied directly to future projects. Specifically, the department proposed $103 million of the bond proceeds be applied to future state transportation projects that would normally be funded with SHA funds. The department also proposed that another $11 million be applied to construction work, such as rehabilitation projects, for the CTBF. The State's bond counsel believed that the proposed plan would satisfy federal tax concerns. However, we believe this use of bond proceeds would not conform to the explicit language of the Bond Act, which restricts the use of the bond proceeds to seismic retrofit projects only.

New Legislation Provides an Opportunity To Resolve the Reimbursement Problem

Legislation signed in August 1997 allows the department to reimburse seismic retrofit expenditures, while preserving the bonds' tax-exempt status.

Chapter 327, Statutes of 1997, signed in August 1997, offers a solution to the problem of both meeting the legal reimbursement requirements and preserving the tax-exempt status of the bonds. The new statute authorizes the use of $745 million from the SHA to finance toll bridge seismic retrofit projects. According to the chief of the department's Office of Finance and Capital Budgets, because the new legislation requires contributions from the SHA for seismic retrofit of toll bridges, the department instead plans to use $103 million of the bond proceeds to pay for these future seismic retrofit costs. In addition, the chief stated that the department believes there will be sufficient seismic retrofit projects in the CTBF, which the department will fund with bond proceeds. This allows the department to spend the full proceeds of the Bond Act on seismic retrofit projects. The Seismic Retrofit Finance Committee (bond committee) generally approved the department's use of these moneys on November 19, 1997; however, no actual reimbursement had taken place as of that date.

The Current Reimbursement Plan Addresses an Additional Concern

The Department of Finance's concern with the use of Pooled Money Investment Account loans is also resolved.

This current reimbursement plan also addresses an additional concern the Department of Finance had with the possible use of the Pooled Money Investment Account (PMIA) loan to provide interim reimbursement of the fiscal year 1994-95 and 1995-96 costs. Because the PMIA loan would be reimbursed with bond proceeds, the Department of Finance shared the concern about the threat to the bond's tax-exempt status. The Department of Finance also objected to the use of the PMIA loans to reimburse the SHA and CTBF for fiscal year 1994-95 and 1995-96 seismic retrofit expenditures because of fiscal considerations. Provisions of the PMIA loan require that the loan be used on current expenditures only. Chapter 327, Statutes of 1997, provides future seismic retrofit projects in the SHA that the PMIA loan could temporarily fund until bonds are issued.

However, according to a Department of Finance principal budget analyst, the Department of Finance has indicated that it may not transfer PMIA loan money to the SHA soon because of a surplus in the SHA. The principal budget analyst also indicated that the Department of Finance's Capitol Office will make the final decision on when to allocate money.

Conclusion

The Bond Act requires that the State Highway Account and Consolidated Toll Bridge Fund be reimbursed for seismic retrofit costs incurred in fiscal years 1994-95 and 1995-96. However, as of November 19, 1997, the department had not made the reimbursements because of objections raised by the State Treasurer's Office and the Department of Finance. Both of these agencies were concerned that the reimbursement as originally planned would result in the loss of the tax-exempt status of the bonds. Legislation enacted in 1997 provided the department an opportunity to transfer the amount of reimbursement without losing the bonds' tax-exempt status.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in this report. The information in this report was shared with the department, and we considered its comments.

Respectfully submitted,

KURT R. SJOBERG
State Auditor

Date: December 18, 1997

Staff: Lois L. Benson, CPA, Audit Principal
Nasir Ahmadi
Greg Saul, CPA

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Appendix A

Seismic Retrofit Program Status

According to the July 1, 1997, Seismic Retrofit Program—Summary Status, issued by the Department of Transportation (department), of the 1,155 total bridges in Phase II, 568 had construction complete, 524 were under construction, 24 were advertised for bids on construction work, and 39 were still being planned and designed. The department's projection is that 94 percent of the Phase II bridges will have retrofit completed by December 31, 1997. Table 2, based on the department's summary status report, shows Phase II program status.

Table 2

Status of Phase II Bridges as of June 30, 1997

District	Construction Complete	Under Construction	Advertised for Bids	Planning and Design	Total
1	45	15	2	7	69
2	10	2	0	0	12
3	28	6	2	0	36
4	66	62	6	16	150
5	31	64	3	9	107
	20	57	0	0	77
7	165	122	4	2	293
8	43	77	5	5	130
9	5	2	0	0	7
10	24	17	0	0	41
11	84	86	2	0	172
12	47	14	0	0	61
Totals	**568**	**524**	**24**	**39**	**1,155**

As of June 1997, toll bridge retrofit had 14 construction contracts planned to complete the retrofit needed on six of the state toll facilities. Of these 14 contracts, 1 was under construction, 2 had advertised for construction bids, and the other 11 were at various stages of design with construction scheduled to begin in 1997 and 1998. In addition, in December 1997, the department projected that it would award all contracts for the San Francisco-Oakland Bay Bridge by 2001. Part of the cost of retrofitting the following toll bridges is included in the Bond Act funding:

1. San Francisco-Oakland Bay Bridge

2. Benicia-Martinez Bridge

3. San Mateo-Hayward Bridge

4. Richmond-San Rafael Bridge

5. Carquinez Bridge, Eastbound

6. Vincent Thomas Bridge

7. San Diego-Coronado Bridge

Appendix B

Bond Act Expenditures as of June 30, 1997

Table 3 shows the breakdown of seismic retrofit expenditures by fiscal year as of June 30, 1997 (in thousands).

Table 3

Breakdown of Seismic Retrofit Expenditures (in thousands)

Expenditures			Fiscal Year 1994-95	Fiscal Year 1995-96	Fiscal Year 1996-97	Total (All Years)
Phase II	State Operations	Administration	$ 0	$ 0	$ 7,248	$ 7,248
		Legal	0	0	0	0
		Operations	0	0	0	0
		Capital Outlay—Support	12,452	19,248	70,609	102,309
		Subtotal:	12,452	19,248	77,857	109,557
	Capital Outlay	Major Construction	0	0	0	0
		Major Contracts	4,085	1,880	185,215	191,180
		Minor Construction (A&B)	0	0	0	0
		Minor Contracts (A&B)	1,043	1,961	4,615	7,619
		Right of Way	57	259	562	878
		Subtotal:	5,185	4,100	190,392	199,677
		Total Phase II	17,637	23,348	268,249	309,234
Toll Bridges	State Operations	Administration	0	0	3,490	3,490
		Legal	0	0	0	0
		Operations	0	0	0	0
		Capital Outlay—Support	14,978	48,447	44,548	107,973
		Subtotal:	14,978	48,447	48,038	111,463
	Capital Outlay	Major Construction	0	0	0	0
		Major Contracts	877	7,285	5,938	14,100
		Minor Construction (A&B)	0	0	0	0
		Minor Contracts (A&B)	0	0	0	0
		Right of Way	2	0	492	494
		Subtotal:	879	7,285	6,430	14,594
		Total Toll Bridges:	15,857	55,732	54,468	126,057
		Grand Total:	**$33,494**	**$79,080**	**$322,717**	**$435,291**

STATE OF CALIFORNIA
BUSINESS, TRANSPORTATION AND HOUSING AGENCY

Dean R. Dunphy
Secretary

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Sacramento, 95814-2719
(916) 323-5401
FAX (916) 323-5402

December 11, 1997

Kurt R. Sjoberg
State Auditor
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for your audit report on seismic retrofit expenditures. The Department will utilize the information in the final resolution of Seismic Retrofit Bond funds.

Sincerely,

DEAN R. DUNPHY
Secretary

cc: Members of the Legislature
Office of the Lieutenant Governor
Attorney General
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps