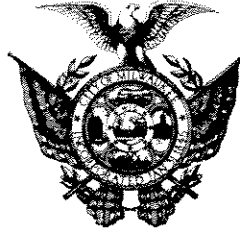


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Milwaukee Arts Board

MEMBER:
Judiciary & Legislation Committee
Steering & Rules Committee
Zoning, Neighborhoods & Development

March 5, 2007

Honorable Tom Barrett
Mayor
City of Milwaukee
200 East Wells Street, Room 201
Milwaukee, WI 53202

Re: CANAL STREET PROJECT AUDIT

Dear Mayor Barrett:

On July 7, 2005, I made a formal written request to Comptroller W. Martin Morics for an audit of the City of Milwaukee's Canal Street capital improvement project. As you know, the project involved rebuilding the existing portion of the street from South 6th Street to South 25th Street, and ultimately extending the street west to the Miller Park baseball stadium. The Canal Street undertaking was a complex project involving multiple infrastructure types, including streets, sewers, water mains, street lighting, traffic controls, sidewalks, conduit, and relocation of railroad tracks and utilities.

While construction of the Canal Street project occurred primarily during the years 2004 through 2006, planning for the project began long before this. In early 2001, the City and the State reached a funding agreement for the reconstruction of Canal Street from 6th to 25th Streets. At that point, it excluded the extension of the roadway from 25th Street to Miller Park. This funding agreement called for both the City and the State to contribute \$10 million toward the project. Thereafter, the City's 2003 capital improvement budget erroneously indicated that the total cost of the project was \$20 million, a shortfall which the City of Milwaukee Department of Public Works continued to facilitate by covering cost increases with fund transfers from other capital projects. These projects were then deferred to future years.

The Comptroller's audit has determined that the project will actually cost \$53 million, pending final construction closeout procedures with the State. The audit, which includes an independent review by the Sage Consulting Group, confirms that \$53 million is a reasonable expenditure, given the nature and extent of the infrastructure placed in service. In addition, the audit concludes that the project's engineering and construction is of a high degree of quality. Nonetheless, the audit found serious deficiencies throughout the

Canal Street project's lifecycle, in all areas of capital project estimation, planning, budgeting, monitoring and reporting.

The Department of Public Works did not budget this substantial capital improvement project as a separate budgetary line item, which would have allowed for easier tracking of estimated vs. actual costs. Instead, DPW put the initial \$20 million figure into a large catch-all general account for capital street improvements, allowing cost increases related to project scope, change orders and cost over-runs over a period of several years to be homogenized with funding from other major street projects. Thus, it is no wonder that the Comptroller's execution of the audit of the Canal Street project was particularly tedious and time consuming.

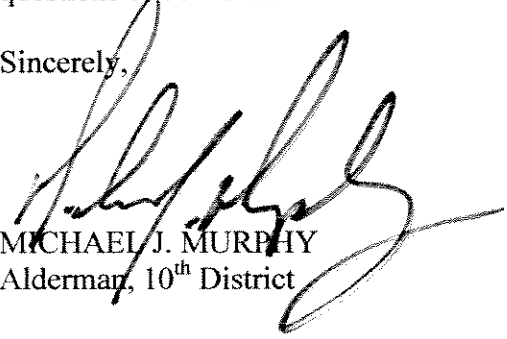
The Comptroller's audit makes eight recommendations which, if implemented properly by the Department of Public Works and the Budget & Management Division-Department of Administration, will significantly strengthen the City's capital improvement estimation, budgeting, and project management practices:

1. **Improve capital project cost estimation** as previously recommended in the Comptroller's 2003 audit of the Police Department's 3rd District Capital Project: "DOA-Budget should develop standards and guidelines for use by City departments in the preparation of capital project documents, including...An adequately detailed and supported cost estimate for the entire project, including a description of how the cost estimate was developed...A well supported estimate of the project duration in weeks, or months...A statement of major assumptions used to prepare the project plan...A statement of major risks to the timely and "on-budget" completion of the project. Improve cost estimation: DPW should implement procedures to monitor, evaluate, and improve the reliability of its cost estimates. This should include routine analysis of estimates in relation to actual costs."
2. As previously recommended in the 2003 Police 3rd District Capital Project audit, **estimates for the allocation of budget authorization should be supported by worksheets that are laid out using the industry standard American Institute of Architect chart of accounts.**
3. **Large capital projects exceeding \$1 million in City expenditures should be budgeted as an identifiable line item project in the budget using a unique project number that can serve to identify the project across all DPW divisions.** Discrete project budgets will reduce transfers between capital projects, which was done when Canal Street project budgeted estimates were insufficient to fund expenditures.
4. As previously recommended in the 2003 Police 3rd District Capital Project audit, **DOA-Budget should develop and enforce standards and guidelines for use by all City departments for capital project financial and construction progress status reporting.**
5. DPW should assign an overall project manager to coordinate financial management and project reporting for each large capital project.

6. **DOA –Budget should reduce the maximum amount that DPW contracts can be increased without Common Council authorization.** DOA-Budget should consider a lower threshold limit such as \$150,000 and amend the Capital Project Guidelines accordingly.
7. **All City contractual commitments should be limited to a maximum dollar amount.** DPW should not be permitted to enter into contracts with open-ended liability.
8. **DPW should determine whether two Canal Street Project contractors were paid excessive amounts on certain change orders, as specifically identified in the audit.**

Your Administration and the Common Council must seize this opportunity to reinforce cost controls over the City's major capital improvement projects. As Chair of the Finance & Personnel Committee, I urge you to work with the Common Council to implement these recommendations. As always, please feel free to contact me with any questions or concerns.

Sincerely,



MICHAEL J. MURPHY
Alderman, 10th District

cc: Common Council Members
W. Martin Morics, Comptroller
Mark Nicolini, Budget Director
Jeff Mantes, Commissioner, DPW