Introduction

In October 2016, the City of Petersburg contracted with The Robert Bobb Group, LLC (“RBG”) to conduct an emergency financial and operational turnaround and restructuring effort. The City of Petersburg (the “City”) contracted with RBG effective October 25, 2016 through March 25, 2017, using an emergency procurement process. The emergency procurement was pursuant to Section 2-293 of the Code of Petersburg and Section 2.2-403F “Emergency Procurement” of the Virginia State Code. This initial contract period is Phase 1.

In March 2017, Petersburg City Council requested an extension of RBG services. RBG produced Statements of Work for Phase 2 (to extend work until the end of FY2017 on June 30th) and Phase 3 (to transition to new City leadership in Q1 FY2018, July 1st – September 30th). The duration for Phase 2 is March 26, 2017 – June 30, 2017. The duration for Phase 3 is July 1, 2017 – September 30, 2017. In March 2017, Council approved the extension of RBG services for Phases 2 and 3 ending September 30, 2017.

This document describes the completion of each contractually required service for Phase 3. While Phase 3 began with eleven (11) major services, RBG ultimately delivered eighteen (18) major services supporting the City’s ongoing financial and operational restructuring.

Background

Since RBG began working in Petersburg on October 25, 2016, our response strategy has focused consistently on three strategic themes. These themes established our framework for our financial turnaround activities since October 2016 and correspond to our three-phase period of work in Petersburg.

Strategic Theme 1: Short Term Financing and Emergency Response

In Phase 1 (October 25, 2016 – March 25, 2016), RBG collaborated with the Virginia Governor’s Office and the City’s financial and legal advisors to solve the immediate fiscal crisis. We communicated our management strategy and project plan to the Capital Markets. RBG successfully obtained the urgently needed $6.5M Revenue Anticipation Note (RAN). As a result, the City barely avoided missing Payroll by using the RAN in November 2016 and December 2016. In addition, the RAN was used to pay a $1.3 million settlement for a lawsuit with the
South-Central Waste Water Authority based on City non-payments. By solving the urgent cash shortage, we then focused on stabilizing an unbalanced FY 2017 budget, addressing critical staff shortages in the finance department, and addressing the backlog of unpaid vendor payments. The work of RBG to restructure outstanding debt and finance $3.0 million for emergency vehicles, the difficult work was complete for the City to prepare for a new RAN for FY 2018.

**Strategic Theme 2: Balance the FY 2017 Budget, Jointly Develop a Structurally Balanced FY 2018 Budget, and establish a plan for Long Term Financing**

We carefully reviewed The PFM Group’s 13 Recommendations that supported the development and approval of the 1st Amendment to the FY2017 Budget. Based on RBG analysis of current financial data for Budget vs. Actuals, updated Revenue forecasts, updated Expenditures reports, and Monthly Cash Flows, we realized a 2nd Amendment to the FY2017 Budget was needed to balance the FY2017 Budget. We presented our findings and recommendations to Council and Council approved our 2nd Amendment to the FY2017 Budget. As a result, the FY2017 budget ended on June 30, 2017 with the first budgetary surplus in the General Fund since 2009.

We conducted eight working sessions with City Council to jointly develop the FY2018 Budget. The FY2018 Budget is the first structurally balanced budget since FY 2009 marking a financial milestone for the City. Incorporated into RBG’s plan, a debt restructuring that, if successful would yield budgetary savings. Because of RBG’s efforts to stabilize the City’s bond rating, the debt restructuring yielded over $2.0 million in budgetary savings provided even greater budgetary flexibility as these savings were not accounted for in the FY 2018 budget.

The completion of the Five-Year Financial Action Plan puts forward the key financial and policy decisions that City leadership will need to continue to move forward.

**Strategic Theme 3: Technology, Data, Process & Procedures and Training**

Our approach in Phase 3 (July 1, 2017 – September 30, 2017) is to develop and leave behind key elements for long term financial stability. This includes Standard Operating Procedures (SOPs) that are relevant and feasible for staff to sustain long term, training for departmental leaders, executive coaching for City Leaders (including City Council). In Phase 3, RBG focused on documenting the current state of the Billings and Collections operations with an operational blueprint to redesign the office under the new proposed City Collector. We focused on the smooth transition and hand off from knowledge and data to the new City Administration with particular focus on finance and public works. We conducted deep dive reviews of the operations and processes of the City Treasurer and the Revenue Commissioner to improve billing and collections. We successfully on boarded and provided executive coaching to the new City Manager and new Chief Financial Officer. Finally, we completed the Forensic Audit and hired the outsourced Internal Auditor.
RBG Team

As Project Executive Robert Bobb declared to City Council during RBG’s first report on 11/1/16: “The Fiscal House Was on Fire.”

The RBG team for Phase 3 would consist of Robert Bobb (Project Executive), Nelsie Birch (Finance Expert), Dileep Rajan (Data Analytics), and Bill Slover (Real Estate Expert).

In each of our Phase 3 reports to Council, from 7/1/17 to 9/30/17, we showed an updated RBG Project Plan indicating what was completed (colored in “Green”) and what is in progress (colored in “Yellow”). Each activity represents a significant piece of work with a tangible deliverable, work product or outcome designed to close out FY 2017 with a balanced FY 2017 budget, complete the CAFR and Forensic Audit, stabilize financial operations with Standard Operating Procedures (SOPs) and financial controls, and implement a plan for long term financing.

We are pleased to show that we completed each deliverable for Phase 3. From the first activity to the last activity, we have executed our commitment to restructuring the City’s Finances and Operations in specific and measurable ways.

The original RBG Phase 3 Proposal approved by Council included the following list of eleven (11) deliverables. This is the original scope of work and posted on the City’s website: http://www.petersburgva.gov/DocumentCenter/View/2679.

RBG PHASE 3 DELIVERABLES – CONTRACTED DELIVERABLES

<table>
<thead>
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<th>Option – Phase 3: July 1, 2017 – September 30, 2017</th>
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<td>2. Develop and Implement the 5-Year Capital Improvement Program</td>
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<td>3. Develop and Implement Financial and Purchasing Policies</td>
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In addition to these eleven deliverables, RBG identified the need for and completed an additional seven for a total of eighteen deliverables representing major pieces of work for the City. We completed this work within the original budget and on schedule.

RBG PHASE 3 DELIVERABLES – WHAT WE DELIVERED

1. Develop the 5-Year Financial Plan
2. Develop and Implement the 5-Year Capital Improvement Program
3. Develop and Implement Financial and Purchasing Policies
4. Conduct City wide training for OpenGov
5. Conduct City wide training for CityWorks
6. Continue to evaluate options for the sale of the Water & Sewer Utility Sale process as needed to address the critical infrastructure issues facing the Water and Sewer system
7. Develop Implementation Strategies for Outsourcing execution and implementation
8. Develop and Implement Standard Operating Procedures (SOPs) for Finance
9. Implement Findings to address issues uncovered during the Forensic Audit
10. Implement a Budget Transition Plan
11. Provide structured Executive Coaching for New Hires
12. Assist the Management Team to implement FY16 CAFR findings
13. Research and Design the Collector of City Taxes functions & present to City Council
14. Conduct process redesign and reorganization for the City Collector’s Office.
15. Improve the Utility Billing Collections rate to greater than 80%
16. Support the City to receive $3M in General Obligation (GO) Bonds to provide new money and refund existing debt for budgetary savings. A key result was this bought the new public safety vehicles and saved $2M in FY 2018.
18. Advise the City Manager on the Final Organization Design of City Administration

All presentations are available on the City’s website: http://www.petersburgva.gov/index.aspx?NID=846

Completion of RBG Contract and Description of Deliverables

The effective duration of the contract between the City and RBG is March 26, 2017 through September 30, 2017. This report describes the completion of deliverables included in our Phase 3 proposal to Council. Phase 3 initially listed 11 deliverables. RBG completed 18 deliverables.
The deliverables are listed below along with detailed descriptions of the completion of each service.

1. **Develop the Five-Year Financial Action Plan**

   RBG developed the City of Petersburg’s Five-Year Financial Action Plan includes a forecast for each major fund in the City, along with key policy goals and strategic considerations. The plan also lays out 15 critical items that the City leadership must do, or continue to do.

   1. Ensure Diligent Budget Management.
   2. Establish a Financial Advisory Board.
   3. Continue to improve the City’s bond rating by following recommendations laid out by Standard & Poor’s.
   4. Achieve and Adhere to Adopted Finance Policies.
   5. Effective Transition to City Collector.
   6. Improve City-Wide Collection Efforts, including the Utility Fund.
   7. Eliminate the need for Revenue Anticipate Notes (RANs) by increasing cash flow and improving fund balance.
   8. Pursue Liquidity.
   9. Keep Engaged with Regional Partners for Collaboration and Funding Opportunities.
   10. Increase use of Data Analytics for Decision-Making and Invest in Technology Infrastructure.
   11. Remedy the CAFR Audit Findings; Eliminate the Qualified Opinion on the Utility Fund; and Address the Items Identified in the Forensic Audit.
   12. Working with the contracted Internal Auditor, continue to develop solid financial and business policies, practices and procedures.
   13. Work to eliminate any outstanding payables and determine path forward for repaying misused urban allocation funds and inappropriate loans made from the Perpetual Care Fund.
   15. Continue to invest in City Council training and professional development to ensure City Council has the right tools to hold its direct reports accountable.

2. **Develop and Implement the 5-Year Capital Improvement Program**

   RBG developed the 5 Year Capital Improvement Program and began its implementation in two fundamental ways.
1. RBG negotiated the DEQ Loan for Water Utility funding for $750,000 and was successful in getting the DEQ to waive $200,000 of this loan. The DEQ turned the balance of the $550,000 DEQ loan into a zero interest loan.

2. In addition, RBG obtained for the City the release of $5.3M in VRA Fund Bonds.

3. **Develop and Implement Financial and Purchasing Policies**

   RBG identified critical and essential policies for managing financial operations that previously, because they were nonexistent or unenforced, led to financial mismanagement.

   RBG developed and implemented three fundamental financial policies for:

   1. A Requisition Process for Purchase Orders that required identifying available funds in the correct General Ledger code before issuing a Purchase Order

   2. An Accounts Payable Process to manage vendor payments within 30 days. A new email address (ap@petersburg-va.org) was created in which all members of Finance receive an email. The scope includes questions about an outstanding invoice or any vendor research.

   3. An Accounts Receivable Process to manage outstanding receivables owed to the City on a daily basis.

   These policies are stored in the City’s DropBox.

4. **Conduct City wide training for OpenGov**

   All Department leaders and their budget staff completed OpenGov Budget Builder training in February 2017 to create their FY 2018 budgets. This was a radical departure from past practice which consisted of spreadsheets emailed between staff. Going forward, the Finance Department will coordinate OpenGov staff to be onsite in Petersburg annually in February to provide a Budget Builder refresher course. Building each department budget within OpenGov enables full dashboard transparency for City Administrators and Council to view any department’s budget at will.

   In addition, the Finance Department completed additional OpenGov training in September 12th. The purpose of this training was to ensure new Finance staff knew how to use OpenGov to prepare monthly reporting for Council and other stakeholders.

   Additional OpenGov work includes automating the Chart of Accounts data upload from AS400 into OpenGov (currently done manually on the 10th of each month), utilizing the Comprehensive Annual Financial Report (CAFR) tool to develop the annual CAFR on schedule by end November, and utilizing the tool to develop the Budget Book in March.
annually which will help the City’s publish its entire budget. A weekly cadence is set up for Finance staff to review data in OpenGov and make any reports or query data.

5. **Conduct City wide training for CityWorks**

Training was conducted by Timmons Engineering and completed on June 21-22. CityWorks and the City’s GIS team realized during the Discovery phase of the project that the City’s GIS database had not been updated in over two years. The City’s Geographic Information System (GIS) stores and manages the entire City’s present spatial or geographic data. This is a critical dependency for the CityWorks implementation as Utilities and Public Works staff will use CityWorks to manage the location of street repairs, broken pipes and sewers and fire hydrants. The GIS is due to be updated by September 30th and the CityWorks configuration completed by October 15th.

6. **Continue to evaluate options for the sale of the Water & Sewer Utility Sale process as needed to address the critical infrastructure issues facing the Water and Sewer system**

Led by Jack Berry, Interim Deputy City Manager, the RBG team developed a set of alternatives and recommendations. This work was completed in coordination with CH2M as the Water Rate Consultants, Davenport Financial and Timmons Engineering. We presented a matrix of decision criteria and alternatives to manage the aging water and sewer utility infrastructure at multiple Council sessions. We presented a final review of options and the state of the Utility in the July Council Session. In our presentation, we included the comprehensive set of recommendations from the Severn Trent Final Report received in end July 2017.

7. **Develop Implementation Strategies for Outsourcing execution and implementation**

The City and RBG issued multiple Requests for Proposals (RFP) to bring solutions and innovation to the following areas. Our team evaluated responses to the numerous RFPs that were issued, with particular focus on Internal Audit, Forensic Audit, HR and Payroll.

   a. **Risk Management:** We negotiated with BBT for extended risk management services.

   b. **Integrated Multi-Function Devices/Copiers/Printers:** The City recognized a need for a contractor to address on-going efficiencies and to reduce negative environmental impact. The City proposed the consolidation and optimization of printers. This solution aims at reducing the total cost of ownership by reducing and replacing local printers by network printers and multifunction devices. The selected contractor will also manage the new system and replace existing leases as their time runs out. **A contract was awarded.**
c. **Time & Attendance:** The City recognized the need for a contractor to propose the supply, installation and implementation of a workforce timekeeping system. The identified products and services included but were not limited to:

1. Time, Attendance, Leave and Scheduling – a complete workforce management system that will support the City’s goal of improving productivity, controlling labor costs, reduction of errors and more efficiently managing employee workforce time. **A contract was awarded.**

d. **Facilities Maintenance:** City recognized the need for a contractor provide and perform ongoing scheduled preventative maintenance to the building and mechanical systems of the City of Petersburg. The City’s facilities management division currently maintains approximately 1,250,126 square feet of space. These buildings include but not are limited to: Office Space, Warehouse space, maintenance shops, concession space, churches, museums, jails, libraries and fire stations. **An RFP was issued.**

e. **Janitorial Services:** The City and RBG recognized the need for an experienced and reputable company to provide comprehensive janitorial/custodial services to the locations listed throughout the City. **An RFP was issued.**

f. **Payroll Processing & HR Management:** The City and RBG recognized the need for a qualified Payroll Services provider with expertise in outsourced payroll processing and related payroll services to successfully provide these services to meet the payroll, human resource and general ledger needs of the City in the most cost-effective and efficient manner possible. Time is of the essence in the implementation of the City’s payroll services software/solution. The requested design is for a solution that will be completely installed, integrated with the City’s BAI (Bright and Associates) Financial Management System. **An RFP was issued.**

g. **Utility Billing & Collection:** In one of the most challenging areas facing the City Administration, Utility Billing and Collections, **an RFP was issued** and four proposals were received. However, the evaluation team considered these proposals inadequate to the complexity and challenges facing Utility Billing operations.

h. **Internal Auditor:** RFP was issued and the firm CliftonLarsenAllen was awarded the contract in September 2017.

8. **Develop and Implement Standard Operating Procedures (SOPs) for Finance**

We completed Standard Operating Procedures for Finance:

- a. SOP for Editing the General Ledger
- b. SOP for Purchasing
- c. SOP for Accounts Payable
d. SOP for Cash Management

These are available in the City’s Dropbox folder.

Additionally, we reviewed and developed improvements to business processes in the Commissioner of Revenue and City Treasurer’s Offices. Both elected officials received our recommendations.

9. Implement Findings to address issues uncovered during the Forensic Audit

The Forensic Audit was originally scheduled for completion by end of June but once the auditors were on the ground and experienced the difficulties with accessing data, scheduling interviews, etc., the project plan was pushed to September. The report was sent to City Council on September 25, 2017. The report is significant because it details several key findings within the Treasurer’s Office and the Department of Parks and Recreation. The document highlights the urgent need for continued strong executive management focused on process, controls and standard operating procedures. The Internal Auditor will implement the Forensic Audit’s findings. The internal auditor that has been selected is CliftonLarsonAllen.

10. Implement a Budget Transition Plan

RBG established a cadence of weekly meetings to walk through the FY18 Budget, trained on the use of OpenGov, and set up a weekly cadence with Blake Rane, CFO, and Robert Floyd, Assistant Finance Director. The 5 Year Financial Plan includes guidance on managing the budget each year and preparing its development. The Five-Year Financial Action Plan provides an instructive roadmap to managing FY18 Budget, and creating future budgets.

11. Provide structured Executive Coaching for New Hires

Beginning with the new City Manager’s hiring and start date in July 2017, RBG conducted weekly meetings in July, portions of August and again weekly in September. A series of structured deep dive reviews with each department was conducted while Interim City Manager Tom Tyrrell was still present in July.

In addition, RBG committed to completing the following deliverables not in our original scope of work. RBG recognized the need to help the City in the following areas. As a result, we defined and completed the following deliverables.

12. Assist the Management Team to implement FY16 CAFR findings
RBG provided a detailed presentation on the FY 2016 Comprehensive Annual Financial Report (CAFR) to Council on June 20, 2017. The key takeaways from the FY 2016 CAFR include:

- The Auditor issued a Qualified Opinion on 3 parts of the CAFR:
  1. Auditor was unable to obtain sufficient audit evidence to support the Receivables and Revenues reported in the Public Utility Fund and Storm water Fund
  2. These amounts are not necessarily incorrect but could not be sufficiently supported
  3. Except for these specific items, the Auditor issued an Unmodified Opinion (clean opinion)
- Budget projections for revenue were unrealistic. Budget performance drives the figures in the CAFR.
- The 25 audit findings were determined 11 months into FY 17 therefore many of the FY 16 CAFR findings will exist in FY 17
- Inventory and land held for sale = $5.1M. The City is holding over $5.1M in assets that can be sold now (see note 5, page 49). These include 324 Commercial/ Residential lots in the City and 8 Commercial Buildings in Dinwiddie County. These properties are held by the City for resale and Do Not include Capital Assets such as roads, bridges, parks, and City government buildings
- Fund Balance – Unassigned shows $7.7M deficit. Unassigned (deficit) is NOT NORMAL for municipalities.

RBG provided presentations to Council on July 11th, July 18th and July 31st stating the need to build the City’s Unassigned Fund Balance through a significant liquidity event (e.g., sale of the Water Utility, sale of excess Water Capacity, real estate sales), emphasized the need for implementing and maintaining financial controls to manage the cash flow, manage Budget to Actuals and utilize data technologies to simplifying reporting for all financial staff and stakeholders.

RBG made the decision to refinance the storm water bonds (a portion of the funds were not used for storm water but for general government operations) to make the bonds a debt of the General Fund. By doing this, one of the audit findings will be eliminated.

13. Research and Design the Collector of City Taxes functions and present to City Council

On July 31, 2017, City Council voted to create the role of Collector for City Taxes based on Section 3.14 of the Petersburg City Code. During the July 31st Council meeting, RBG presented its research based on other Virginia localities (including Richmond) and organizational charts in which the City Collector responsibility would be located within the City Administrator’s office. This would, in effect, establish the City Manager as the “Collector” through her reporting and accountability to City Council. However, a new office would be formed operationalizing the new role. RBG presented its research
showing the data and process flow currently in place today between the City Assessor, the Revenue Commissioner and the Treasurer’s Office.

**Petersburg Current State Process Overview**

![Petersburg Current State Process Diagram]

**Petersburg Current State Process: Commissioner of Revenue to the Treasurer’s Office**

1. **Revenue assesses personal property, vehicle licenses, tools, business license, cigarette tax, meals & lodging tax.**
2. **Based on Assessor data, Revenue records real estate value changes and owner changes. Revenue generates the personal property book, real estate land book, decal violations and parking tickets.**
3. **Abatements are keyed for each tax into the Bright System (AS-400) and the amounts are reflected immediately to the Treasurer.**
4. **Revenue and Treasurer use the same system for payment (Bright/AS-400). As soon as a tax is entered in Revenue, it will show in the Treasurer’s system for payment.**

**14. Conduct process redesign and reorganization for the City Collector’s Office.**

RBG conducted detailed process interviews with staff in Utility Billing and the Treasurer’s Office in August and September. In addition, a new Director for Billing &
Collections began work on September 18th. RBG developed a 20 Point Action Plan for the Transition of Utility Billing and Treasurer operations into one office. The Transitions covers six areas of RBG’s Framework:

1. Customer Service Delivery
2. Business Processes
3. Technology
4. Data & Reporting
5. Controls & Governance
6. Staffing

RBG developed the following 4 Stage Transition Plan to manage each of the twenty mini projects.

RBG developed the following project management structure to provide structured executive oversight for the challenging and complex transition:
RBG delivered its report and presented this Transition Plan during the special report to Council on October 2nd.

15. Improve the Utility Billing Collections rate to greater than 80%

Utility collections have improved from approximately 70% in FY 17 to 86% for the most recent 4-month period. Continued focus on resolving billing errors with apartment complexes will boost collections further. This initiative should be closely monitored by City Council.

16. Support the City to receive $3M in General Obligation (GO) Bonds to provide new money and refund existing debt for budgetary savings. A key result was this bought the new public safety vehicles and saved $2M in FY 2018.

The RBG presented its Action Plan for implementing the Severn Trent report recommendations to Council during its July 31, 2017 presentation. Contained on pages 32-43, we presented a comprehensive set of actions to address each of the report’s recommendations. The key areas of focus include ensuring each staff member is a “power user” of AS400 (e.g., can run multiple types of data queries and respond to customers), business processes for billing, delinquent accounts, cut offs and technologies for simplifying manual spreadsheet work. In our Transition Plan for the new Collector Office, we recommend policies for Utility Billing staff training in AS400, for meter reading, billing, generating cut off reports, generating delinquent reports, tracking outstanding collections and managing customer accounts.

18. Advise the City Manager on the Final Organization Design of City Administration

We developed various models for the City Organization in meetings held with the new City Manager in August and September. The key focus areas included:

1. The redesign of the Finance office to include Utility Billings
2. Citywide collections under a new Collector position reporting directly to the new City Manager; and,
3. The creation of the Deputy City Manager for Community Affairs.

RBG Focus on Technology

Cities in the 21st century are trending towards services based technologies that can be easily added on or removed as business needs and priorities change. The City already took initiative by selecting OpenGov for financial reporting and CityWorks for infrastructure service requests. RBG evaluated these technologies in the current context of the City’s Bright financial management software and the GIS asset management database developed by Timmons. While Bright is a legacy end of lifecycle financial data storage technology, using the Chart of Accounts within OpenGov will provide sufficient financial reporting to meet the City’s needs near term. Similarly, CityWorks pulls GIS data from the City’s GIS database and manages service requests in City properties. This architecture provides enough reporting capability for the City in the near term. The key is to establish regular and repeatable reporting processes using these tools.

Longer term, RBG believes it makes sense for the City to replace the Bright system and transition to a more service oriented technology architecture with data storage in the “Cloud” (e.g., Amazon Web Services). Maintaining fiscal discipline and avoiding a return to a cycle of fiscal crisis will require an organization culture that is focused on data based decision making and that rewards performance and accountability.