CITY COUNCIL MINUTES  
PORTERVILLE, CALIFORNIA  
DECEMBER 20, 2005  

STUDY SESSION - 5:00 p.m.

Call to Order at 5:00 p.m.
Roll Call: Council Member Irish, Council Member Martinez, Mayor Pro Tem Hamilton, Council Member Stadtherr, Mayor West

ORAL COMMUNICATIONS

• Greg Shelton, 888 North Williford Drive, voiced concern with maintaining the status quo with regard to the farming operation, questioned the validity of a local wheat rust outbreak and its effects on City crops, and requested access to the records purportedly required pursuant to the Farm Agreement. Mr. Shelton spoke against the current operation of the farm, spoke in favor of bidding out the farm contract, and provided documentation regarding farming to the Council.

SCHEDULED MATTER

1. AUDITOR’S DISCUSSION OF AGRICULTURAL MANAGEMENT AND GOLF COURSE OPERATION.

City Manager John Longley presented the item and introduced City Auditor Steve Presley for discussion of the Agricultural Management and Golf Course Operation.

Mr. Presley advised the Council of the level at which he, as Auditor, was involved with the Financial Statement Audit. He stated that he had been engaged in a contract with the City to do agreed-upon procedures to check the efficiency of the farming operation. He identified some potential expenditures totaling $45,130 in Year 2004 that could have been capitalized, such as land preparation costs. He added that there were also issues with departmental accounting within the Sewer Fund, indicating that some expenses relating to the percolation pond had been posted to the farming operation which should not have been in order to realize the true picture of efficiency. He added that he found similar issues in Year 2005.

He requested guidance from the Council as to whether the items identified were truly capital items that should have been put on the Balance Sheet, and whether percolation pond expenses should have been excluded from the farming operation expenditures. Mr. Presley then went on to say that a review of the receipts had taken place and that everything looked appropriate for gap accounting.

Council Member Irish confirmed that the City’s farming operation had been in place since 2002, and questioned why an accurate fiscal portrait of the operation was still not available.

Council Member Stadtherr suggested that the accounting had been initially set up to track compliance with the DWR and not to track the farming aspect. He stated that the chart of accounts had not been initially set up to answer the questions that the Council was now asking.
Mayor Pro Tem Hamilton pointed out that according to the contract, such accounting was to have been set up, and voiced concern that it had not. Mr. Longley responded that he believed the accounting had been set up appropriately, stating that there had been no issue until the last six or seven months. He indicated that previously the priority had been the discharge of water, and that there had been a general acceptance that there would be associated costs. Mayor Pro Tem Hamilton stated that he had been told on several occasions that the farming figures had been made up to the best of staff’s ability, and noted that he was now being told something different. A discussion ensued as to the farming figures, during which Mr. Longley and the Mayor Pro Tem disagreed on whether such statements had been made by staff.

In response to a question posed by Council Member Irish, Mr. Longley elaborated on why the farming operation accounting had not originally been set up using a cost-accounting approach, stating that the focus had been towards disposing of water. He added that as the operation had become more mature, a stronger feeling for the need for oversight had developed.

Council Member Irish noted that after visiting the site and speaking with Mr. Nuckols, he now understood the situation to be a growth situation. He indicated that in no way was he coming down on Mr. Nuckols, but rather more so on the City. He then spoke of the need to correct the situation as soon as possible, adding that for the future, the goal should be to stay out of farming.

Council Member Stadtherr spoke of the challenges in farming with excessive amounts of water, and noted the need for the Council’s focus to be on increasing acreage and percolation ponds. He then posed several questions as to how Mr. Presley had depreciated the land, after which a discussion ensued as to capital items and operational items attributed to the farming operation.

Council Member Martinez inquired if crop production was commensurate with increased levels of water for irrigation. Farm Operator Bob Nuckols indicated that the inflexibility with regard to watering the crops actually harmed production levels, noting that over-irrigation was detrimental to crops. He then spoke of the water levels which must not be exceeded pursuant to DWR requirements, pointing out that he had consistently met those requirements. Mr. Nuckols went on to discuss the challenges of operating the farm while at the same time disposing of water.

In response to a question posed by Mayor Pro Tem Hamilton, Mr. Presley explained the scope of services that had been requested of him. He indicated that he had been requested to conduct agreed-upon procedures, which pursuant to the Office of Management and Budget was the level at which he, as the Financial Statement Auditor could be involved. A discussion then ensued as to the extent of the audit, during which Mr. Presley indicated that he believed that the Sewer Fund was being appropriately handled as an Enterprise Fund. He noted that typically municipality sewer funds had a high cost to dispose of waste water. He suggested that the farming operation was merely a vehicle by which waste water was disposed and that different municipalities handled disposal differently. He indicated that the farming operation had been pursued to assist in recouping some revenue. In response to Mayor Pro Tem Hamilton question as to whether the City should consider a rate fee adjustment, Mr. Presley indicated that such course should be investigated so as to have the citizens share in the cost.

Mayor Pro Tem Hamilton voiced his concern that the Auditor had not shown him that the expenditures had been offset as much as possible. Mr. Presley responded that such a determination would had been an expansion of the agreed-upon procedures, and that he had not been engaged to go into that depth. He added that he could proceed with that level of audit sometime after April, if the
Council so desired. Mayor Pro Tem Hamilton commented that the Council had initially requested such an audit and that there appeared to have been a miscommunication.

Mayor West commented that he had been on the Council when the City began the farming operation. He stated that the primary focus at that time had been the disposal of water pursuant to the Cease and Desist Order. He then agreed with Council Member Irish’s comments in that while the City may have entered into the venture somewhat blind, it was now finding its feet.

Council Member Irish clarified that he wanted the City to get out of the farming business.

Mayor Pro Tem Hamilton questioned why, when so many brokers were available, had only two been used. At the City Manager’s request, Mr. Nuckols came forward to respond. He spoke of the sudan crop being contracted for export to Japan, and therefore one broker had been used. He added that the substandard Sudan was sold through Machado Hay, which had been selected after years of experience. He then spoke of the challenges in the hay bidding process. A discussion ensued as to the required testing of the crops and the various grades of hay.

When no further comments were made by the Council with regard to the farming operation, City Manager John Longley recommended that if the Council so desired additional audit functions in the future, now would be the appropriate time to make that request. He then clarified that staff would continue to do cost accounting on the farming operation, and Mr. Presley would continue to review the accounting for procedures and would provided information to the Council. In response to a question posed by Council Member Martinez, Mr. Longley then spoke of the accomplishments of the farming operation, with respect to the disposal of water pursuant to the Cease and Desist Order.

Council Member Irish confirmed with staff that a percentage of the City’s water was required to be disposed of on certain types of crops.

In response to a question posed by Mayor Pro Tem Hamilton, Mr. Baker came forward and spoke of the approximate amount and location of water discharged historically.

Mayor Pro Tem Hamilton voiced concern that staff had not presented the farming revenues and expenses to the Council, nor identified a method of recapturing the costs.

Mayor West commented that he believed that Mr. Nuckols and Mr. Baker had done a stellar job.

Council Member Irish requested that more of a separation of the farming and the water be shown, to which Mr. Longley agreed.

Council Member Stadtherr requested that he be given the opportunity to review the audit engagement letter prior to it being issued.

Noting there were no further comments with regard to the farming operation audit, Mayor West requested that Mr. Longley present the second portion of the study session relating to the Golf Course.

Mr. Longley indicated that a member of the Council had requested an investigation as to
allegations regarding fraud at the Golf Course. He then called upon Auditor Mr. Presley to address the Council.

Mr. Presley indicated the requested action pertaining to an audit of the Golf Course would be considered an agreed-procedures type of activity and indicated that no such agreement currently existed with respect to the Golf Course. He suggested that the most efficient course of action would be to have staff first look at the numbers. A discussion ensued as to what had precipitated the request that the accounting be audited. City Manager John Longley clarified that the issue to discuss was really the extent to which staff could respond to those types of questions. He cautioned of the precariousness of a situation created when allegations of fraud were responded to by an independent auditor. He confirmed with the auditor that staff – as standard procedure – should initially respond to any allegations, and only in the event that the Council did not accept staff’s approach, should the matter be referred to an independent auditor. Mr. Longley emphasized that referring a fraud allegation to an auditor was not minor, nor procedural. He indicated that involvement by the auditor would exacerbate the severity of the situation and consequently change the entire review of City records, in terms of the scope and cost of future audits.

Mayor Pro Tem Hamilton commented that he did not believe any of the Council Members believed that any fraudulent activity was occurring, but merely wanted to respond to the accusation. A discussion ensued as to the accusation and how future allegations should be handled.

City Attorney Julia Lew recommended that if the Council wished for the matter to be looked into further, that staff be directed to conduct an investigation. She stated that in the event that staff’s investigation warranted further action, then the Council would be discussing the matter in a different forum. She then emphasized that the involvement of the auditor in such a situation would have serious implications, and since the Council had confidence in staff, that staff should handle the investigation.

In response to a question from Council Member Stadtherr, Mr. Presley briefly reviewed the resources available to the City to determine how other municipalities utilized an internal audit function. Council Member Stadtherr voiced interest in pursuing a listserv inquiry as to cities that have a resident internal audit as standard practice. City Manager John Longley confirmed the Council Member’s request.

**ADJOURNMENT**

The Council adjourned at 6:02 p.m. to the regular meeting of the Porterville City Council.

Patrice Hildreth, Deputy City Clerk

ATTEST:

Kelly West, Mayor