HUMBOLDT WASTE MANAGEMENT AUTHORITY

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE AND COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS

JUNE 30, 2017

JJACPA, Inc.
A Professional Accounting Services Corp.

October 24, 2017

To the Board of Directors
Humboldt Waste Management Authority
Eureka, California

We have audited the financial statements of Humboldt Waste Management Authority (Authority) as of and for the year ended June 30, 2017, and have issued our report thereon dated October 24, 2017 Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated June 15, 2017, our responsibility, as described by professional standards, is to form and express an opinion(s) about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the Authority solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the Authority is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, during the year, the Authority changed its method of accounting for pensions by adopting Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Accordingly, the cumulative effect of the accounting change as of the beginning of the year has been reported in the Statement of Activities. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are landfill closure and postclosure costs.

Management's estimate of the landfill closure and postclosure costs is based on a third party valuation with experience with similar agencies as well as industry standards, when applicable. We evaluated the key factors and assumptions used to develop the landfill closure and postclosure costs and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Authority's financial statements relate to commitments and contingencies.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

Uncorrected and Corrected Misstatements, Continued

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

The Authority did not record the pension liability to update the balances for the current actuarial valuations in the general ledger. The net pension liability is measured as of the Authority's prior Plan year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change in the liability. On our recommendation, management made correcting entries of $89,458 for adjustments to deferred outflows, $321,762 for the pension expense adjustment, $127,862 for the net pension obligation, and $360,166 for adjustments to the deferred inflows.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the Authority's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated October 24, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the Authority, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Authority's auditors.

Communication of Internal Control Related Matters

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report is intended solely for the information and use of the Board of Directors and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Joseph J. Arch

JOSEPH J. ARCH, CPA
President/CEO
JJACPA, INC.

Humboldt Waste Management Authority
Current Year Schedule of Findings and Responses
For the year ended June 30, 2017

There were no current year findings or recommendations.

Finding 2017-01

Significant Deficiency – Board check signing – Cash Management

Condition:

The Authority's authorized check signers include the Board of Directors. The current disbursement practice requires two signatures on all checks.

Effect:
Segregation of duties between the operational and legislative functions is not provided and conflicts of interest could be present without proper identification.

Cause:
Past practices have been followed even though scheduling of policy review as the organization grows has not been performed.

Criteria:

The Council of Sponsoring Organizations (COSO) of the National Commission on Fraudulent Financial Reporting identifies that management must provide for the design, implementation, and maintenance of effective internal controls. A fundamental element of internal control is the segregation of certain key duties. The general premise of segregation of duties is to prevent one person from having both access to assets and responsibility for maintaining the accountability of those assets. As the legislative body, the Board performs policy setting activities and the Executive or operational branch implement those policies through the maintenance of effective internal controls.

Recommendation:

We recommend that the Authority remove any Board member as an authorized signer from the Authority's bank accounts. We also recommend that the cash disbursement policy be updated to indicate that the two authorized signers be identified in the executive (operational) branch by position.

Responsible Official's Response:

Agree. Ongoing review of all Authority policies has resulted in numerous improvements to outdated procedures, and the above recommendation continues this trend. The Board adopted minor changes to the Authority's check signing policies in October 2017 that better reflected purchasing powers granted to the Executive Director, and which added the Director of Operations and Facilities Maintenance to the list of authorized check signers. The recommended change would reflect the increased fiscal responsibility assumed by Authority management, and further eliminates potential outlets for fraudulent activity. These recommended changes will be reflected in language brought to the Board for discussion and approval in January 2018.

Finding 2015-01

Significant Deficiency – Net Deficit

Condition: The Authority has had an ongoing deficit balance. In the last five fiscal years, the Authority has expended more than revenue it has received.

Effect: The Authority has had a deficit fund balance for the last five years:
Fiscal Year 2012-13: $(6,610,313)
Fiscal Year 2013-14: $(6,851,838)
Fiscal Year 2014-15: $(8,027,567)
Fiscal Year 2015-16: $(4,771,571)
Fiscal Year 2016-17: $(2,252,337)

Cause: There is no management plan or policy in place to eliminate the deficit balance or an individual identified to monitor the deficit.

Criteria: California Government Code Section 13401 (a)(6) states reports regarding the continuing adequacy of the systems of internal accounting and administrative control of each state agency are necessary to enable the executive branch, the Legislature, and the public to evaluate the agency's performance of its public responsibilities and accountability.

Recommendation: We recommend the Authority implement a plan or policy to eliminate the deficit balance and appoint an individual to monitor the deficit. In addition, the Authority should produce monthly budget to actual reports, and provide them to the Authority's Board of Directors, so financial decisions can be made in a timely manner.

Responsible Officials' Response: Implemented. Management continues to implement a plan to eliminate the deficit balance, and the Executive Director is the appointed individual to monitor the deficit as directed in Resolution 99-03. Furthermore, information related to these plans and projects are outlined annually in the Authority's budget, presented the Board of Directors in April and May of each year. Additionally, updates related to these budgets are provided monthly, as financial reports, in the consent calendar of each meeting's agenda. For those months in which Board meetings are not held, two months of financial information are presented the following meeting. These financials compare current activity to budget estimates and provide updates on staff's intentions and estimates of the success of project planning outlined in the annual budget.

With the full closure of the Cummings Road Landfill, cleanup and acquisition of the Recology Forest Property adjacent to the Landfill, and the continued management and reduction of the Authority's long-term debt – as restructured in 2015 – staff anticipates the continued, gradual decline of its remaining deficit over the coming years. Consistent reduction of the Landfill post-closure liability and continued payments against the restructured long-term debt will both contribute significantly to this year-to-year deficit decline. Combined, these two items will reduce approximately $1 million annually in outstanding Authority liabilities.

Additionally, implementation of the Authority's Capital Improvement Plan, including purchase of the Recology Forest Property, will continue to improve and update the Authority's asset profile and strengthen long-term financial strength for implementation of future facility upgrades and diversion programs. The Authority's recently revised reserve fund policies improve stability during these improvements and reduce impacts to the Waste Management Tip Fees, which have seen minimal volatility in recent years. Future projects are being planned such that these impacts remain minimal and provide the Authority's Member Agencies with confidence in implementing long-term solid waste management programs with their franchise hauling companies; further, the Authority is strengthening its relationships with those franchise haulers to better approach waste management solutions efficiently region-wide, to the benefit of all participants – ratepayers, haulers, and the Authority itself.

Finding 2014-01

Waste Works Audit Trail

The Authority's prior auditor recommended assessment of software updates to determine if someone can initiate a transaction and then delete it without generating a record for the transaction. In addition, the recommendation included maintaining two attendants in the scale house where the software is used.

Responsible Officials' Response:

Agree. Management continues to research viable update strategies for its multiple software platforms, and intends to implement updates in the coming year as part of the expansion of capital improvement projects.

Status: In process, seeking alternative software solutions for the 2017-18 fiscal year.

Finding 2014-02

Cash Handling – Hazardous Waste

The Authority's prior auditor recommended implementation of the use of pre-numbered receipts to reconcile cash received to collect household hazardous waste.

Responsible Officials' Response:

Agree. Pre-numbered receipts for commercial transactions of hazardous waste continue to be provided as proof of each commercial disposal of hazardous waste. Due to the physical and digital constraints of household hazardous waste events, staff is continuing to develop an implementation plan, and associated costs, with providing the hazardous waste facility with a mobile solution to record residential hazardous waste disposal.

Status: Implemented

Finding 2013-01, 2011-1

Accounting Staff Training

The Authority's prior auditor recommended ensuring the accounting support staff be adequately trained for general accounting and grant activity.

Responsible Officials' Response: Agree. Staff is working with the Authority's current auditor to create a more robust grant management policy; additionally, the Director of Finance and Administrative Services will be undertaking a more significant load of training and education opportunities in the coming years, as new systems for budgeting, audits, and financial reporting have reduced time constraints and allow for greater flexibility in scheduling for training events.

Status: Implemented