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CERTIFIED PUBLIC ACCOUNTANTS

December 8, 2014

To the Board of Directors and Management
Humboldt Waste Management Authority

We have audited the basic financial statements of Humboldt Waste Management Authority as of and for the year ended June 30, 2014, and have issued our report thereon dated December 8, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 16, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Humboldt Waste Management Authority are described in Note A to the financial statements. GASB 65 was implemented during this fiscal year and the application of existing policies was not changed during 2014. We noted no transactions entered into by Humboldt Waste Management Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's 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 significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the closure and post-closure costs is based on the engineer's report. We confirmed the engineer's expertise and independence from the Authority in determining that it is an unbiased opinion.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

Landfill closure and post-closure cost estimates in Note E to the financial statements due to the inherent nature of uncertainty related to estimates.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 8, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

During our audit, we noted issues regarding segregation of accounting duties. In assessing the overall control environment, we noted that management is originating, reconciling and reviewing accounting transactions due to a lack of adequately trained accounting staff. There should be proper segregation related to assignment of different individuals to authorize transactions, record transactions, and maintain custody of assets. Segregation of duties is critical to effective internal controls to reduce the risk of both erroneous and inappropriate transactions. We suggest that the Authority ensure it has adequately trained accounting support staff in order to provide control segregation.

We also suggest that every invoice and payroll show evidence of approval by the department manager or the Executive Director before payment is made.

We recommend that management devote more resources to the proper accounting of grants.

We recommend that our clients have a mechanism in place for employees to report suspected fraud, such as a fraud hotline or a suggestion box. We suggest that all employees, on an annual basis, provide written affirmation of their understanding of the fraud reporting mechanism.

During our fieldwork, we were made aware of fraud that was reported. We made several suggestions to management to improve internal controls immediately while a more permanent and comprehensive plan can be implemented. We suggested that there always be two scale house attendants, that a cash register be used, install signs that indicate a customer should report if they do not get a receipt, replace software, install cameras inside the scale house and pursue reimbursement from the employee dishonesty insurance.

In the household hazardous waste department, we suggest that a cash register be used, a reconciliation is performed for cash, and that medications are secured in locked bins.

In the recycling department, we suggest there be two attendants at all times including when cash is being counted.

We suggest that an ongoing inventory be kept of tools and other smaller items.



We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,

Demello, McAuley, McReynolds & Holland, LLP

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