



# Health Service System Trust Fund

## City and County of San Francisco

Board Presentation for the fiscal years ended June 30, 2016 and 2015

December 8, 2016

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# Agenda

- Scope of Audit
- Responsibilities
- Risk Assessment
- Financial Statement Highlights
- Auditors' Required Communications

# Scope of the Audit

## **Audit of the financial statements of the Health Service System (HSS) in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS)**

—Purpose of an audit is to:

- Obtain reasonable (not absolute) assurance about whether the financial statements are free from material misstatement
- Assess accounting principles used and significant estimates made by management
- Evaluate the overall financial statement presentation

# Scope of the Audit (continued)

## Reports Issued

- Independent Auditors' Report (opinion) on the financial statements
  - Unmodified (clean) opinion issued
- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (GAS Report)
  - No reported deficiencies or instances of non-compliance

# Responsibilities

## **Management is responsible for:**

- Adopting sound accounting policies
- Fairly presenting the financial statements, including disclosures, in conformity with Generally Accepted Auditing Standards (GAAS)
- Establishing and maintaining effective internal control over financial reporting (ICFR), including internal controls to prevent, deter, and detect fraud
- Identifying and ensuring that Health Service System (HSS) complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations
- Making all financial records and related information available to the auditor
- Providing unrestricted access to personnel within the entity from whom the auditor determines it necessary to obtain audit evidence

## Responsibilities (continued)

- Adjusting the financial statements to correct material misstatements
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
  - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect HSS's financial reporting
  - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud; and
  - Affirmation that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole

## Responsibilities (continued)

### **The Board of Directors is responsible for:**

- Oversight of the financial reporting process and oversight of Internal Control over Financial Reporting
- Oversight of the establishment and maintenance of programs and internal controls designed to prevent and detect fraud

### **Management and the Board of Directors are responsible for:**

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards

**The audit of the financial statements does not relieve management or the Board of Directors of their responsibilities.**

# Responsibilities (continued)

## **KPMG is responsible for:**

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Directors are presented fairly, in all material respects, in conformity with GAAS
- Planning and performing the audit with an attitude of professional skepticism
- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of the California Board of Accountancy
- Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's



## Responsibilities (continued)

- Communicating to management and the Board of Directors all required information, including significant matters
- Communicating to management and the Board of Directors in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention

# Risk assessment

Based on our risk assessment procedures, the following are significant risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such significant risks:

## **Significant Risks: Due to Fraud**

- Risk of management override of controls – Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.
- Reserves for Claims – Blue Shield – IBNR reserve is based on actuarial estimates and involves high degree of judgment. The inherent risk is assessed as significant. Reserves are impacted by processing trends and environmental factors.

# Financial Statement Highlights

## Financial Statement Highlights

- Reserved for claims - Consistent to prior year - Increased .01%
- Premiums payable – decreased 53% mainly due to HSS made a capitation payment in June instead of July resulting a \$9.5M decrease in premiums payable.
- Cash and Investment – decreased 20% mainly due to HSS withdrawal of cash to fund the claim stabilization reserve

# Auditors' Required Communications (AU 260)

## **Our Responsibility under Generally Accepted Auditing Standards (GAAS)**

- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control
- Design and implement audit procedures based on our understanding of HSS to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements
- Perform tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts
- Opine on financial statements based on our audit

## Auditors' Required Communications (cont.)

—Apply certain limited procedures to MD&A (management's discussion and analysis) as it is required to be presented to supplement the basic financial statements. No opinion is expressed and no assurance is provided on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Significant Accounting Policies**

—HSS' significant accounting policies are described in Note 2 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards

—GASB Statement No. 34 requires HSS to present management's discussion and analysis in the financial statements

—GASB No.72 is a new accounting standard adopted in 2016. This new standard did not have an impact on HSS.

# Auditors' Required Communications (cont.)

## Management Judgments and Accounting Estimates

- Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. 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 from management's current judgments.
  - Reserve for Claims
    - Management's estimate of the Reserve for Claims for the City Health Plan, Blue Shield, and Delta Dental Plan is based upon an actuarial analysis of the claim history and projected claims incurred but not reported
- This estimate appears adequate and falls within a reasonable range allowed by generally accepted accounting principles.

# Auditors' Required Communications (cont.)

## **Audit Adjustments**

- There were no uncorrected misstatements identified during the audit
- There were no control deficiencies identified during the audit

## **No Disagreements or Difficulties with Management**

- There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our report on HSS' financial statements, nor were there significant difficulties in dealing with management in performing our audit.

## **No Consultations with Other Accountants**

- To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the applicable fiscal year.

## Auditors' Required Communications (cont.)

### **No Major Issues Discussed with Management Prior to Retention**

—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 City and County of San Francisco auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Material Written Communications**

- Management representation letter has been provided
- Engagement letter documenting audit relationship





# Thank you!

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



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