



Health Service System Trust Fund Audit results

City and County of San Francisco

Board Presentation for the fiscal years ended June 30, 2017

December 14, 2017

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Audit Results



- No corrected audit misstatements identified during the audit.
- No uncorrected audit misstatements identified during the audit.
- No control deficiencies identified during the audit.

Significant findings



Skepticism

Management override of controls

Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that appear to be operating correctly.

Significant risk of fraud

The risk

- 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.

Our response

Internal controls

- Assessed management's design and implementation of controls over journal entries and post-closing adjustments
- Assessed management's design and implementation of the review of accounting estimates for evidence of management bias

Substantive procedures

- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the appropriateness of the accounting for significant transactions that are outside the component's normal course of business or are otherwise unusual. (None noted)
- Perform Journal Entry testing as a part of financial reporting process.
- Tested post-close adjustments
- Read board minutes to identify any unusual transactions.

Significant findings



Skepticism



Specialists

Significant accounting estimate – Blue Shield Claims Reserve

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.

Management process used to develop significant accounting estimate

- HSS third-party actuary Aon Hewitt calculates claims reserve at year-end. Management reviews and reconciles.
- No changes in methodology identified from prior year.

Significant assumption used that have a high degree of subjectivity

- Historical claim data

Our response

Internal controls

- Control S3 Blue Shield SSAE 16
- Control S4 Management review of claims reserve

Substantive procedures

- Underlying detail testing of claims data
- Reconciliation between lag triangles to general ledger
- Engaged KPMG actuary to perform independent reserve estimate and review estimates
- Engaged KPMG actuary to perform hindsight analysis







Our findings

- No findings noted
- Assumptions and inputs appear reasonable based on evidence obtained
- Concluded on the claims reserve estimate
- Concluded on hindsight analysis
- No disconfirming evidence noted.

Significant accounting practices

Significant accounting policies and practices	Results of evaluation and conclusions about the qualitative aspects
Described in Note 2 to the financial statements	In accordance with generally accepted accounting principles and consistent with industry practices and standards

Required communications and other matters

Type	Response
Related parties	 Related parties include other entities within CCSF. KPMG did not note any related party transactions outside of normal course of business.
Illegal acts or fraud	 No actual or suspected fraud involving HSS's management, employees with significant roles in HSS's internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	 None noted.
Modifications to auditor's report	 None.
Subsequent events	 None noted.
External confirmations (if relevant)	 No matters to report

Type	Response
Other information	 No material inconsistencies were identified related to other information in the annual report.
Significant difficulties encountered during the audit	 No matters to report.
Disagreements with management or scope limitations	 No matters to report.
Management's consultation with other accountants	 No matters to report.
Significant issues discussed, or subject to correspondence with, management	 No matters to report.
Difficult or contentious matters for which the auditors consulted	 No matters to report.
Material Written Communications between KPMG and Management	 Engagement letter & Management representation letter to be requested upon request.
Other matters (if relevant)	 None.

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
- Ensuring that the Trust's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Trust's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming 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.
- 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 the Trust's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud.

Responsibilities (continued)



The Health Service Board is responsible for:

- Oversight of the financial reporting process and oversight of internal control over financial reporting (ICOFR).
- Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

Management and the Health Service Board 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 Health Service Board of their responsibilities.

Responsibilities (continued)



KPMG is responsible for:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Health Service Board are presented fairly, in all material respects, in conformity with GAAP
- An audit of the 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.
- Communicating to the Health Service Board all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and the Health Service Board in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the System's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to the Health Service Board circumstances that affect the form and content of the auditors' report, if any.

Responsibilities for other information in documents containing audited financial statements



Reporting

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or the Health Service Board to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.
- We have performed the following procedures with respect to other information in documents:
 - 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.



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