



# Health Service System Trust Fund

## Audit results

**City and County of San Francisco**

**Board Presentation for the year ended June 30, 2018**

February 14, 2019

# Reports Issued

- Independent Auditors' Report on the financial statements:
  - Unqualified (clean) opinion
- 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

# Emphasis of Matter Paragraph

Excerpt from the Independent Auditors' Report:

*“As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2018 and 2017, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S generally accepted accounting principles. Our opinion is not modified with respect to this matter.”*

The emphasis of matter paragraph is a result of standard language in accordance with auditing standards.

# Audit misstatements

No corrected audit misstatements identified during the audit.

No uncorrected audit misstatements identified during the audit.

# Significant accounting policies

## Description of significant accounting policies

- Basis of Presentation
- Cash and Investments Held by the City
- Unearned Contributions
- Use of Estimates

Consistent with industry practices and standards

Note: The list above are several of the significant accounting policies we considered important and are in accordance with generally accepted accounting principles (GAAP), industry practices, and standards.

# Significant Judgments and Accounting Estimates

## Description of significant judgment and accounting estimates

- Blue Shield Claims Reserve
- Reserve is based on actuarial estimates and involves high degree of judgment. The inherent risk is assessed as significant.

## Audit Results

- Third party actuary, Aon Hewitt, calculates claims reserves at year-end.
- No changes in methodology identified from prior year.
- Audit procedures included –
  - Reviewed Blue Shield SOC I Report
  - Underlying detail testing of claims data,
  - Reconciliation between lag triangles to general ledger, and
  - Engaged KPMG actuary to perform independent review of reserve estimate and hindsight analysis.
- No findings noted.
- Assumptions and inputs appear reasonable.

# Management Override of Controls

## Risk of Fraud

- 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 effectively.
- Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities.

## KPMG Response

- Assessed management's design and implementation of controls over journal entries and post-closing adjustments.
- Tested post-close adjustments, audited significant unusual transactions (non noted), read board minutes.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

# Internal control related matters

## KPMG responsibilities

- The purpose of our audit was to express an opinion on the financial statements
- Our audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of internal control.
- We are not expressing an opinion on the effectiveness of internal control
- Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

## Material weakness

A deficiency, or a combination of deficiencies, in internal control over financial reporting, 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 reasonably possibility exists when the likelihood of an event occurring is either reasonably possible or probably. Reasonably possible is defined as the chance of the future event or events occurring is more than remote but less than likely. Probable is defined as the future event or events are likely to occur.

## Significant deficiency

A deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness yet important enough to merit attention by those charged with governance.



# Significant deficiencies and material weaknesses in internal control

## Material weaknesses

Description	Potential effects	Status
<i>None Identified</i>	<i>None Identified</i>	<i>None Identified</i>

Description	Potential effects	Status
<i>None Identified</i>	<i>None Identified</i>	<i>None Identified</i>

# Required communications and other matters

Type	Response
<b>Related parties</b>	No significant findings and issues arising during the audit in connection with the entity's related parties.
<b>Fraud</b>	No actual or suspected fraud involving HSS management, employees with significant roles in internal control, or others when fraud results in a material misstatement in the financial statements were identified during the audit.
<b>Noncompliance with laws and regulations</b>	No matters to report.
<b>Subsequent events</b>	No matters to report.
<b>Other information</b>	Independence – In our professional judgement, we are independent with respect to the City and County of San Francisco (CCSF), as that term is defined by the professional standards.

Type	Response
<b>Significant difficulties, if any, encountered during the audit</b>	No matters to report.
<b>Disagreements with management, if any</b>	No matters to report.
<b>Significant findings or issues discussed, or the subject of correspondence, with management</b>	No matters to report.
<b>Management's consultation with other accountants</b>	No matters to report.
<b>Other findings or issues</b>	No matters to report.
<b>Written representations</b>	<ul style="list-style-type: none"> <li>- We received representation letters provided to us by management.</li> <li>- Engagement Letter with CCSF documenting the audit relationship.</li> </ul>

# Responsibilities

<b>Management responsibilities – Financial statements</b>	<ul style="list-style-type: none"> <li>— Preparation and fair presentation of the financial statements, including disclosures in conformity with U.S. GAAP</li> <li>— Adjusting the financial statements to correct material misstatements and affirming in the representation letter 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</li> </ul>
<b>Management responsibilities – ICFR</b>	<ul style="list-style-type: none"> <li>— 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</li> </ul>
<b>Management responsibilities – Other</b>	<ul style="list-style-type: none"> <li>— To provide the auditor with:               <ol style="list-style-type: none"> <li>1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;</li> <li>2) additional information that the auditor may request from management for the purpose of the audit; and</li> <li>3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence</li> </ol> </li> <li>— Identifying and ensuring that the Company complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations</li> <li>— Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management’s:               <ol style="list-style-type: none"> <li>1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company’s financial reporting</li> <li>2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud</li> </ol> </li> </ul>
<b>Those Charged with Governance Responsibilities</b>	<ul style="list-style-type: none"> <li>— Oversight of the financial reporting process and ICFR</li> <li>— Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud</li> </ul>
<b>Management and the Those Charged with Governance Responsibilities</b>	<ul style="list-style-type: none"> <li>— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards</li> <li>— Ensuring that the entity’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 entity’s financial statements.</li> </ul>

The audit does not relieve management or Those Charged with Governance of their responsibilities.

# Responsibilities (continued)

<b>KPMG – Audit objectives</b>	<ul style="list-style-type: none"> <li>— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of Those Charged with Governance are prepared, in all material respects, in accordance with U.S. GAAP</li> </ul>
<b>KPMG responsibilities – Audit</b>	<ul style="list-style-type: none"> <li>— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement</li> <li>— Performing 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</li> </ul>
<b>KPMG responsibilities – Other information in documents containing financial statements</b>	<ul style="list-style-type: none"> <li>— The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information</li> <li>— The auditor’s responsibility is to make appropriate arrangements with management or the Those Charged with Governance to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts</li> <li>— Any material inconsistencies or misstatement 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</li> <li>— Communicate any procedures performed relating to the other information and the results of those procedures.</li> </ul>

# Responsibilities (continued)

## **KPMG responsibilities – Communications**

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Those Charged with Governance in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Those Charged with Governance
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential
- Communicating to management and the Those Charged with Governance in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated 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 Company's internal control
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy
- Communicating to Those Charged with Governance circumstances, if any, that affect the form and content of the auditors' report
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal
- Communicating to Those Charged with Governance if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement
- Communicating if we have identified or suspect fraud involving; (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of Those Charged with Governance
- Communicating significant findings and issues arising during the audit in connection with the entity's related parties.
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. NDPP 759131

The KPMG name and logo are registered trademarks or trademarks of KPMG International.