



Health Service System Other Employee Benefit Trust Fund

Financial statements for the year ended June 30, 2019

Audit results

January 9, 2020

Introduction

To the members of the Health Service Board (the Board) for the Health Service System Other Employee Benefit Trust Fund

We are pleased to have the opportunity to meet with you on January 9, 2020 to discuss the results of our audit of the financial statements of San Francisco Health Service System Other Employee Benefit Trust Fund (SFHSS) as of and for the year ended June 30, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated September 16, 2019.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our GAO audit plan, presented on October 23, 2019. We will be pleased to elaborate on the matters covered in this document when we meet.

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Audit results required communications and other matters summary

Communication topic	Response
Scope of audit	Our audit of the financial statements of San Francisco Health Service System Other Employee Benefit Trust Fund (SFHSS) as of and for the year ended June 30, 2019, was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits under <i>Government Auditing Standards</i> .
Changes to our planned risk assessment and planned audit strategy	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on October 23, 2019.
Auditors' report	On December 20, 2019, we issued an unqualified opinion on the financial statements of SFHSS and reported no deficiencies or instances of non-compliance on the <i>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)</i> .
Significant accounting policies	Significant accounting policies and practices relate to: Cash and Investments Held by the City Contributions Refer to slide 8 for further detail and our response.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Significant accounting estimates	Significant accounting estimates relate to: <ul style="list-style-type: none"> • Reserve for Claims for Self-Insured Plans Refer to slides 10 for further detail and our response.
Significant financial statement disclosures	Significant financial statement disclosures relate to: <ul style="list-style-type: none"> • Postretirement Health Benefits • Commitments and Contingencies Refer to slide 11 for further detail and our response.
Significant risks and other significant audit matters	Significant risks and other significant audit matters relate to: <ul style="list-style-type: none"> • Management Override of Controls Refer to slide 12 for further detail and our response.
New accounting pronouncements	Refer to slide 13 for future pronouncements.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Uncorrected misstatements	No matters to report.
Corrected misstatements	No matters to report.
Financial presentation and disclosure omissions	No matters to report.

Audit results required communications and other matters summary (continued)

Communication topic	Response
Control deficiencies	There are no matters to report.
Related parties	No significant findings or issues arose during the audit in connection with SFHSS' related parties.
Audit quality & transparency	Refer to slide 16 for our internal quality control documents.

Audit results required communications and other matters summary

Communication topic	Response
Illegal acts or fraud	No actual or suspected fraud involving management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.
Noncompliance with laws and regulations	No matters to report.
Going concern	No matters to report.
Non-GAAP	No matters to report.
Subsequent events	No matters to report.
Other findings or issues	No matters to report.

Communication topic	Response
Significant difficulties encountered during the audit	No matters to report.
Disagreements with management	No matters to report.
Significant findings or issues discussed, or the subject of correspondence, with management	No matters to report.
Management's consultation with other accountants	No matters to report.
Material written communications	Engagement letter, management representation letter, including summary of uncorrected misstatement available upon request.

Required inquiries

The following inquiries are required in accordance with AU-C 260:

Audit Committee inquiries	<ul style="list-style-type: none">— Is the Audit Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations?— What are the Audit Committee’s views about fraud risks in SFHSS?— Does the Audit Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting SFHSS?— Who is the appropriate person (Audit Committee chair or full committee) for communication of audit matters during the audit?— How are responsibilities allocated between management and the Audit Committee?— What are SFSS’ objectives and strategies and related business risks that may result in material misstatements?— Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken?— Is the Audit Committee aware of any significant communications with regulators?— What are the Audit Committee’s attitudes, awareness, and actions concerning (a) SFHSS’ internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?— Is the Audit Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters?— Have there been any actions taken based on previous communications with the auditor?
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These inquiries will be discussed in the executive session with the Audit Committee

Significant accounting policies and practices

Description of significant accounting policies and practices

- Cash and Investments Held by the City are reported as part of City and County of San Francisco's (the City) internal pool of investments.
- There are no changes to management's policy in the current year.

Audit findings/results

Qualitative aspects

- Management has no cash and investments outside of City's pooled investment.
- Management follows GASB 72 *Fair Value Measurement and Application*.
- Concluded the valuation and presentation of investments are reasonable.

Significant accounting policies and practices

Description of significant accounting policies and practices

- Management receives both employer and member contributions to pay for health benefits of its members. Employer contributions are determined in accordance with the Charter requirements and member contributions are determined by the Health Service Board.
- There are no changes to management's policy in the current year.

Audit findings/results

Qualitative aspects

- Contributions are consistent year over year. The increase is due to increase in rates and membership.
- Reviewed membership and rates for each health plan (medical and dental), noting no issues.
- Reviewed the accounts on an analytical basis, noting no issues.

Significant accounting estimates

Description of significant accounting estimates

- Reserve for Claims for Self-Insured Claims is a reserve based on an actuarially determined estimate. The reserve represent an estimate of claims reported and in process of payment and estimates of claims incurred but not yet reported.
- There are no changes to management's policy in the current year.

Audit findings/results

Management's process used to develop the estimates

- Management utilizes Aon Hewitt as primary actuary to determine the reserve. Management meets with the actuary on a regular basis to discuss the claims factors and assumptions.

Audit Results

- Reviewed the SSAE 16 Blue Shield Report,
- Tested the underlying claims data,
- Reconciliation between lag triangles to general ledger, and
- Engaged KPMG actuary to perform independent review of reserve estimate and hindsight analysis.

Conclusions

- No exceptions noted. The assumptions used appeared reasonable. There are no disconfirming evidence or evidence of management bias identified.

Significant financial statement disclosures

Description of significant financial statement disclosures

- Postretirement Health Benefits
- Commitments and Contingencies

Audit findings/results

Qualitative aspects

- No issues noted.
- Performed an analytical review over the break out of the postretirement health benefits between the City and San Francisco Unified School District and San Francisco Community College District.
- Assessed the commitments and contingencies and obtained the relevant support; no issues noted.

Significant risks and other significant audit matters

Our audit response and findings

Significant risks	Our audit response and findings
Management override of controls	<ul style="list-style-type: none">• Performed design and implementation of the journal entry process and assess if there is appropriate segregation of duties.• Tested post close adjustments (no exceptions noted)• Audited significant accounting estimates (no exceptions noted)• Audited significant unusual transactions (none noted)• Read board minutes <p>No findings noted.</p>

Newly effective accounting standards

Standards	Effective for years ending June 30		
	2019	2020	2021
GASB Statement No. 84, <i>Fiduciary Activities</i>		✓	

** Management is currently evaluating the impact it will have on its financial statements.

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 reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable. 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.



Appendix

Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- **Audit Quality Report**
- **Transparency Report**
- **Transparency Report – Supplement: Assisting Audit Committees in Meeting NYSE Rules on Auditor Communications**

The firm's internal quality control documents are available at

<https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html>



Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"> — Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by us are immaterial, both individually and in the aggregate, to the financial statements taken as a whole
Management responsibilities – ICFR	<ul style="list-style-type: none"> — 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
Management responsibilities – Other	<ul style="list-style-type: none"> — To provide us with: <ol style="list-style-type: none"> 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; 2) additional information that we may request from management for the purpose of the audit; and 3) unrestricted access to persons within SFHSS from whom we determine it necessary to obtain audit evidence — Identifying and ensuring that SFHSS complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations — Providing us 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"> 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect SFHSS’s financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none"> — Oversight of the financial reporting process and internal control over financial reporting (ICFR) — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud

The financial statement audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

Management and the Audit Committee responsibilities	<ul style="list-style-type: none"> — Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that SFHSS’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 SFHSS’s financial statements.
KPMG – Audit objectives	<ul style="list-style-type: none"> — Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	<ul style="list-style-type: none"> — 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 — Performing an audit of financial statements includes consideration of ICFR 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 SFHSS’s ICFR
KPMG responsibilities – Other information in documents containing financial statements	<ul style="list-style-type: none"> — The auditors’ report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information — Our responsibility is to make appropriate arrangements with management or the Audit Committee 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 — 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 us modifying or withholding the auditors’ report or withdrawing from the engagement — Communicate any procedures performed relating to the other information and the results of those procedures.

Responsibilities (continued)

<p>KPMG responsibilities – Communications</p>	<ul style="list-style-type: none"> — Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee 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 Audit Committee — Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential — Communicating to management and the Audit Committee 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 SFHSS’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 the Audit Committee 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 the Audit Committee 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 SFHSS, 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 our professional judgment, relevant to the responsibilities of the Audit Committee — Communicating significant findings and issues arising during the audit in connection with SFHSS’s related parties — Communicating conditions and events, considered in the aggregate, that raise substantial doubt about SFHSS’s ability to continue as a going concern for a reasonable period of time
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Questions?

For additional information and Audit Committee resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

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