



KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

December 20, 2019

Members of the Health Service Board
San Francisco Health Service System
Other Employee Benefit Trust Fund
San Francisco, California

Ladies and Gentlemen:

We have audited the financial statements of San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust) (also referred to as the Health Service System Trust Fund), as of June 30, 2019 and 2018 and for each of the years then ended, and expect to issue our report thereon under date of December 20, 2019. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audits.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of members of the Health Service Board, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (AICPA). In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or members of the Health Service Board of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the members of the Health Service Board in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Trust's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in Trust's Management's Discussion and Analysis, and no matters came to our attention that cause us to believe that such information, or its manner of



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presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies are described in Note 2 to the Financial Statements

Qualitative Aspects of Accounting Practices

We have discussed with management our judgments about the quality, not just the acceptability, of the Trust's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Trust's accounting policies and their application, and the understandability and completeness of the Trust's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the Trust to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management estimates of the reserve for claims for self-insured plans and the fair value of investments are described in the notes to the financial statements. We evaluated the key factors and assumptions used in the development of the reserve, including possible management bias in developing the estimate, in determining that the reserve is reasonable in relation to the financial statement as a whole.

Uncorrected and Corrected Misstatements

Uncorrected Misstatements

In connection with our audit of the Trust's financial statements, we have not identified any significant financial statement misstatements that have not been corrected in the Trust's books and records as of and for the year ended June 30, 2019.

Corrected Misstatements

In connection with our audit of the Trust's financial statements, we have not identified any significant financial statement misstatements related to accounts and disclosures that have been corrected in the Trust's books and records as of and for the year ended June 30, 2019.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the Trust's financial statements.

Management's Consultation 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 year ended June 30, 2019.



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Significant Issues Discussed, or Subject to Correspondence, with Management

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 you and management each year prior to our retention by you as the HSS' 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

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter, and
2. Management representation letter

Significant Difficulties Encountered During the Audit

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

Independence

Confirmation of Audit Independence

We hereby confirm that as of December 20, 2019, we are independent accountants with respect to the Trust under relevant professional and regulatory standards.

* * * * *

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

Very truly yours,

KPMG LLP



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Sacramento, CA 95814-4754

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September 16, 2019

City and County of San Francisco
Office of the Controller
1 Carlton B Goodlett Place, #304
San Francisco, CA 94102

Attention: Carmen LeFranc, Manager, Accounting Division, Controller's Office

This letter amends our engagement letter dated December 18, 2018, confirming our understanding to provide professional audit services to City and County of San Francisco ("the City"), specifically to "San Francisco Health Service System (HSS)" by substituting the attached Appendix I for the Appendix I originally attached to our engagement letter.

HSS agrees that KPMG may list HSS as a client in KPMG's internal and external marketing materials, including KPMG websites and social media, indicating the general services rendered (e.g., "HSS is an Audit client of KPMG LLP").

The parties agree that the disclosure in the engagement letter referencing "back-office administrative and clerical services" is revised to reference "back-office administrative and clerical, or analytical services."

For purposes of clarification, the paragraph contained in the "Other Matters" section of the engagement letter that addresses the use of services of KPMG Firms and third party service providers is revised to include the following and is subject to the representations and other protective provisions set forth in such paragraph: "In particular, KPMG's audit technologies, software productivity tools and certain technology infrastructure and, necessarily, your confidential information, may be hosted in cloud environments operated by KPMG Firms or such third party service providers. In addition, KPMG Firms may have access to certain of your information in respect to engagement acceptance and other KPMG professional responsibilities such as maintaining independence and performing conflict checks."

The parties further agree that the provision contained in the engagement letter that addresses the use of HSS' information for other purposes shall be revised in its entirety to read as follows: "You also understand and agree that the KPMG Firms, with the assistance of third parties as outlined in the engagement letter, may use all HSS' information for other purposes consistent with our professional standards, such as improving the delivery or quality of audit and other services or technology to you and to other clients, thought leadership projects, to allow you and other clients to evaluate various business transactions and opportunities, and for use in presentations to you, other clients and non-clients. When your information is used outside of the KPMG Firms or such third parties assisting them as outlined in the engagement letter, HSS will not be identified as the source of the information."

It may be necessary or convenient for HSS to use KPMG-owned or -licensed software, software agents, scripts, technologies, tools or applications (collectively "KPMG Technology") designed to extract data from HSS' electronic books and records systems or other systems (collectively, "Systems"), in connection with the audit. HSS understands and agrees that it is solely responsible for following appropriate change management policies, processes and controls relating to use of such technology (including without limitation appropriate backup of HSS' information and Systems) (collectively, "Change Management Processes") before such KPMG



City and County of San Francisco
September 16th, 2019
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Technology is utilized to extract data from the Systems. In the event HSS fails to use such Change Management Processes or if such Change Management Processes prove to be inadequate, HSS acknowledges that the Systems and/or KPMG Technology may not function as intended. In consideration of the foregoing, KPMG hereby grants HSS the right to use KPMG Technology solely to facilitate HSS' necessary or convenient provision of information to KPMG in connection with the audit, and this grant does not extend to any other purposes or use by third parties outside of your organization without our prior written approval, provided that third party contractors of HSS having a need to know in order to perform their services to HSS are permitted to use KPMG Technology to the extent necessary for such parties to perform such services, so long as HSS has technical, legal and/or other safeguards, measures and controls in place to protect such KPMG Technology and the KPMG confidential information therein from unauthorized disclosure or use. Other than as expressly permitted hereby, HSS agrees to keep KPMG Technology confidential, using no less than a reasonable standard of care to protect it from unauthorized disclosure or use, and to notify KPMG of any legal compulsions to disclose it, in accordance with the provisions governing legal demand of confidential information which appear in the engagement letter with respect to which the KPMG Technology is being used, mutatis mutandis. If the KPMG Technology is subject to any third party license terms and conditions before being provided to HSS, HSS may be required to accept such terms and conditions before using the KPMG Technology, in which case KPMG will provide such license terms and conditions to HSS in writing before HSS elects to use the KPMG Technology.

The attached Appendix I lists the services to be rendered and related fees to provide each specified service for the identified time period. Except as specified in this letter and in the Appendix I attached to this letter, all provisions of the aforementioned engagement letter remain in effect until either the City or we terminate this agreement or mutually agree to the modification of its terms.

In accordance with your instructions, we have forwarded a copy of this letter to Government and Oversight Committee of the Board of Supervisors.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign in the space provided and return the copy to us.



City and County of San Francisco
September 16th, 2019
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Very truly yours,

KPMG LLP

Lisa Avis
Managing Director

cc: Jocelyn Quintos
Carmen LeFranc

ACCEPTED

City and County of San Francisco

Authorized Signature

Title

Date

Appendix I

Reports, Services and Associated Fees

Based upon our discussions with and representations of the City, our fees for services we will perform are estimated as follows:

Audit of financial statements and related notes to the financial statements of HSS as of and for the years ended June 30, 2019 and 2018	\$91,144
As Needed Accounting and Auditing Services	\$75,000

The above estimates are based on the level of experience of the individuals who will perform the services. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.

All fees, charges and other amounts payable to KPMG under the engagement letter do not include any sales, use, excise, value added, income or other applicable taxes, tariffs or duties, payment of which shall be HSS' sole responsibility, excluding any applicable taxes based on KPMG's net income or taxes arising from the employment or independent contractor relationship between KPMG and its personnel.

SAN FRANCISCO HEALTH SERVICE SYSTEM

December 20, 2019

KPMG LLP
55 Second Street, Suite 1400
San Francisco, CA 94105

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of San Francisco Health Service System Other Employee Benefit Trust Fund (the Trust) (also referred to as the Health Service System Trust Fund), managed by the Health Service System (the System), a department of the City and County of San Francisco, California (the City), and the related notes to the financial statements as of and for the years ended June 30, 2019 and 2018, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in accordance with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of December 20, 2019:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated September 16, 2019, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements;
 - b. Additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence; and
 - d. All minutes of the meetings of the Health Services Board, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
3. Except as disclosed to you in writing, there have been no communications from regulatory agencies, governmental representatives, employees or others concerning noncompliance

with laws and regulations in any jurisdiction, or deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

4. There are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements
5. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
6. There are no side agreements or other arrangements (either written or oral).
7. All events subsequent to the date of the statement of net position and through the date of this letter for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
9. We are not aware of any pending or threatened litigation, claims, and assessments whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation, claims, or assessments.
10. There are no uncorrected financial statement misstatements that have been identified.
11. We acknowledge our responsibility for the design, implementation, and maintenance of programs and controls to prevent, deter, and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements, whether due to error or fraud. We understand that the term "fraud" is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception that results in a misstatement in financial statements that are the subject of an audit.
12. There are no deficiencies, significant deficiencies, or material weaknesses in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Trust's ability to initiate, authorize, record, process, or report financial data. We have applied the definitions of a "significant deficiency" and a "material weakness" in accordance with the definitions in AU-C Section 265.07, *Communicating Internal Control Related Matters Identified in an Audit*.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud affecting the Trust involving:
 - a. Management
 - b. Employees who have significant roles in internal control, or

- c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators, or others.
 16. We have no knowledge of any officer or members of the Health Services Board of the Trust, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
 17. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
 18. We have disclosed to you the identity of our related parties and all the related party relationships and transactions of which we are aware.
 19. The following have been properly recorded or disclosed in the financial statements:
 - a. The term "related party" refers to government's related organizations, joint ventures, and jointly governed organizations, as defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended; elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Related party relationships and transactions of which we are aware, in accordance with U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

- c. The existence of and transactions with joint ventures and other related organizations.
20. The Trust has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
 21. The Trust's reporting entity includes all entities that are component units of the Trust.
 22. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Trust's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the

application of these policies and practices will be material to the financial statements in future periods.

23. We acknowledge our responsibility for the presentation of the required supplementary information which includes, *Management's Discussion and Analysis*, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
- a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
 - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate.
24. The Trust is not subject to the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the Uniform Guidance) as it did not expend more than \$750,000 in federal awards during the year ended June 30, 2019.

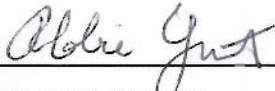
Very truly yours,

San Francisco Health Service System
Other Employee Benefit Trust Fund



Pamela Levin

Chief Financial Officer



Abbie Yant, RN, MA

Executive Director