



City and County of San Francisco Health Service System

Presentation of Audit Results

November 12, 2009

AUDIT

Agenda

- **Scope of Audit**
- **Auditors' Required Communications**

Scope of Audit

- **We have performed an 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 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

- **Reports Issued**
 - Independent Auditors' Report (opinion) on the financial statements
 - 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)

Auditors' Required Communications (SAS 114)

- **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

- **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
- Discussion of qualitative aspects of accounting practices
- GASB Statement No. 34 requires HSS to present management's discussion and analysis in the financial statements

Auditors' Required Communications (SAS 114)

- **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 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 (SAS 114)

- **Audit Adjustments**

- In connection with our audit of the HSS financial statements, we have not identified any significant financial statement adjustment in the HSS books and records as of and for the year ended June 30, 2009 and have communicated that finding to management.

Auditors' Required Communications (SAS 114)

- **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 past year that were subject to the requirements of AU 625, *Reports on the Application of Accounting Principles*.

- **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**

- Attached to this outline, please find a copy of the representation letter provided to us by management.

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.



October 26, 2009

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 the City and County of San Francisco – Health Service System (the System), as of and for the years ended June 30, 2009 and June 30, 2008, for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the statement of net assets available for health benefits, and the statement of changes in net assets available for health benefits, in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation in the statement of net assets available for health benefits and the statement of changes of net assets available for health benefits in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

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, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All financial records and related data.

- b. All minutes of the meetings of the System, or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by SFAS No. 5.
 - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
 - e. Events that have occurred subsequent to the date of the statement of net assets and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. There were no known uncorrected financial statement misstatements.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud. We understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an

entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
9. The System has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
10. We have no knowledge of any officer of the System, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
11. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions including, if applicable, sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.

The term "related party" refers to affiliates of the enterprise; entities for which investments in their equity securities would be required to be accounted for by the equity method by the enterprise; trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; principal owners of the enterprise; its management; members of the immediate families of principal owners of the enterprise and its management; and other parties with which the enterprise may deal if one party controls or 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.

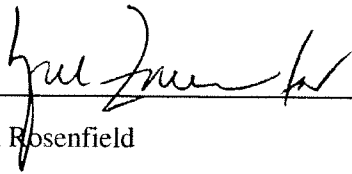
- b. Guarantees, if any, whether written or oral, under which the System is contingently liable.
 - c. Arrangements with financial institutions, if any, involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - d. Changes in accounting principle affecting consistency, if any.
12. The System has complied, in all material respects, with applicable laws, regulations, contracts, and grants that could have a material effect on the financial statements in the event of noncompliance.
13. Management is responsible for the compliance with all aspects of the laws, regulations, and provisions of contracts and grant agreements applicable to the System. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
14. The System has identified and properly accounted for all non-exchange transactions.
15. 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 System'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 Statement on Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit.

16. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net assets and have been appropriately reduced to their estimated net realizable value.
17. The System is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The amounts reported represent the System's best estimate of fair value of investments required to be reported under the Statement. The System also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.
18. We believe that all material expenditures that have been deferred to future periods will be recoverable.
19. Deposits and investment securities are properly classified and reported.
20. We believe that the actuarial assumptions and methods used to measure the incurred by not reported service claims liabilities and costs for financial reporting purposes are appropriate in the System's circumstances.
21. The System has no:
 - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
 - b. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
22. Additions and deductions are appropriately classified in the statement of changes of net assets available for health benefits.
23. There are no indications that may pose a threat to the System's ability to continue as a going concern.
24. The System has no derivative instruments and therefore, has no items to be disclosed in accordance with GASB Technical Bulletin 03-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*.

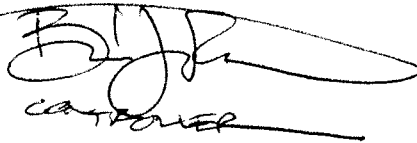
25. We agree with the findings of specialists in evaluating the incurred by not reported service claims liabilities and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
26. There are no 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 (GAAP).
27. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
28. Net asset components (restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
29. The System has complied with all tax limits.
30. The System has presented all required supplementary information. This information has been measured and prepared within prescribed guidelines.
31. The System has complied with all applicable laws and regulations in adopting, approving and amending budgets.
32. There are no special and extraordinary items.
33. Management has a process to track the status of audit findings and recommendations.
34. We confirm that the representations made to you in writing in the form of the System's policy over the relationship of benefit coverage periods to the contribution collection periods for covered members, including both active employees and retirees, accurately reflects the timing of benefit coverage from both an operation and financial perspectives of the System.


Very truly yours,

The City and County of San Francisco – Health Service System



Ben Rosenfield
Controller


Catherine Dodd



Catherine Dodd

Catherine Dodd
Interim Executive Director, Health Service System (*effective October 5, 2009*)



Tess Navarro

Tess Navarro
Chief Financial Officer (*through October 26, 2009*)