



July 1, 2020

Ben Rosenfield, Controller  
Office of the Controller  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Pl.  
San Francisco, CA 94102

Dear Mr. Rosenfield,

The following represents our understanding of the services we will provide the City and County of San Francisco (City).

You have requested that we audit the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City as of June 30, 2020, and for the year then ended and the related notes, which collectively comprise the City's basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit applicable to those basic financial statements.

In addition to our audit of the basic financial statements of the City, we will also perform the following:

1. Audit and separately report on the individual financial statements of the San Francisco City and County Employees' Retirement System, the Successor Agency to the Redevelopment Agency, the Health Service System, Port of San Francisco, the San Francisco Finance Corporation, and the Retiree Health Benefit Trust.
2. Audit and separately report on compliance with federal award programs in accordance with Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* set forth in Title 2 CFR, Subtitle A, Chapter II, Part 200 (Uniform Guidance).
3. Separately audit the San Francisco General Hospital and the San Francisco Laguna Honda Hospital enterprise major funds. Separate stand-alone reports are not required by the City.
4. Agreed-upon procedures to review compliance with appropriations limit requirements of Section 1.5 Article XIII B of the California Constitution (commonly referred to as the Gann Limit) in accordance with the procedures agreed to management and recommended by the California Committee on Municipal Accounting (as presented in the CCMA White Paper titled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII B of the California Constitution*).
5. Audit and separately report on the Statements of Source and Status of Cash and the related Statements of Budget and Cumulative Expenditures of the Automobile Insurance Fraud Program and the Workers' Compensation Insurance Fraud Program that are funded by grants from the State of California Department of Insurance.
6. Audit and separately report on the financial statements of the Local Transportation Fund and on compliance in accordance with applicable statutes, rules and regulations of the Transportation Development Act (TDA), including section 6661 of Title 21 of the California Administrative Code.
7. Audit and separately report on the financial statements of TDA grant funds from the Metropolitan Transportation Commission and on compliance with applicable statutes, rules and regulations of the TDA, including section 6664 of Title 21 of the California Code of Regulations, and the allocation instructions and resolutions of the Metropolitan Transportation Commission.

Accounting principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information (RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. The following RSI will be subjected to certain limited procedures but will not be audited:

1. Management's Discussion and Analysis
2. Pension Plans – Schedule of the City's Proportionate Share of the Net Pension Liability
3. Pension Plans – Schedule of Changes in Net Pension Liability and Related Ratios
4. Pension Plans – Schedule of the Employer Contributions
5. Other Postemployment Healthcare Benefits Plan – Schedule of Changes in the Net OPEB Liability and Related Ratios
6. Other Postemployment Healthcare Benefits Plan – Schedule of the Employer Contributions
7. Budgetary Comparison Schedule - General Fund

Supplementary information other than RSI will accompany the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

1. Combining and individual fund financial statement schedules
2. Schedule of expenditures of federal awards

The City's Comprehensive Annual Financial Report (CAFR) will also include introductory and statistical sections prepared by the City that will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

### **Auditor Responsibilities**

We will conduct our audit in accordance with U.S. GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements. If appropriate, our procedures will therefore include tests of documentary

evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards*.

In making our risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the basic financial statements 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 the City's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

### **Compliance with Laws and Regulations**

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

### **Management Responsibilities**

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
3. To provide us with:
  - a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
  - b. Additional information that we may request from management for the purpose of the audit; and
  - c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

4. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the entity's auditor;
5. For identifying and ensuring that the City complies with the laws and regulations applicable to its activities;
6. For adjusting the basic financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole;
7. For acceptance of nonattest services, including identifying the proper party to oversee nonattest work;
8. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets;
9. For informing us of any known or suspected fraud affecting the City involving management, employees with significant role in internal control and others where fraud could have a material effect on the financials; and
10. For the accuracy and completeness of all information provided.

With regard to the supplementary information referred to above, you acknowledge and understand management's responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

## **Reporting**

We will issue a written report upon completion of our audit of the City's basic financial statements. Our report will be addressed to the Mayor and the Board of Supervisors. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control will not be an objective of the audit and, therefore, no such opinion will be expressed.

We will also report on internal control over compliance related to major programs and provide an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting

package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with management the electronic submission and certification. If applicable, we will provide copies of our report for management to include with the reporting package management will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period.

We will provide copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

### **Provisions of Engagement Administration, Timing and Fees**

We understand that City employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

During the course of the engagement, we may communicate with City personnel via fax or e-mail, and the City should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Macias Gini & O'Connell LLP (MGO) uses cloud-based computing services, including the storage of data and files, at third party, offsite, secure facilities. In that regard, the City agrees that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions and cloud-based computing, including any direct or indirect damages that may result from any inadvertent or unanticipated disclosure of confidential or proprietary information, or disclosure through third party criminal conduct (e.g., hackers or hacking activities).

Our firm may transmit confidential information that the City provides us to third parties in order to facilitate delivering our services to you. For example, such transmissions might include, but not be limited to actuaries or investment valuation specialist engaged to assist with our audits. We have obtained confidentiality agreements with all our service providers to maintain the confidentiality of the City's information and we will take reasonable precautions to determine that they have the appropriate procedures in place to prevent the unauthorized release of confidential information to others. We will remain responsible for the work provided by any third-party service providers used under this agreement. By your signature below, you consent to having confidential information transmitted to entities outside the firm. Please feel free to inquire if you would like additional information regarding the transmission of confidential information to entities outside the firm.

MGO is the U.S. firm of our network of separate and independent MGO firms. MGO may, in its discretion, draw on resources of its subsidiaries, its affiliates, and/or third-party contractors, in each case within or outside the United States, in connection with the provision of services. The City agrees that MGO may provide access to information it receives in connection with this agreement to our other resources. MGO maintains all of the City's data within the U.S. and represents that it has internal policies, procedures, and safeguards to protect the security and confidentiality of City's information. MGO will be solely responsible for the provision of the services.

With respect to any nonattest services we perform, the City's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal

controls, including monitoring ongoing activities. *Government Auditing Standards* require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any nonattest service.

The timing of our services will be scheduled for completion as follows:

1. City's basic financial statements, including the hospitals..... November 27, 2020
2. Employees' Retirement System..... October 31, 2020
3. Successor Agency to the Redevelopment Agency..... October 31, 2020
4. Port of San Francisco ..... October 31, 2020
5. Finance Corporation..... October 31, 2020
6. Retiree Health Benefit Trust ..... October 31, 2020
7. Health Service System ..... October 31, 2020
8. Single Audit Reports..... January 31, 2021
9. Agreed-upon procedures on the Appropriations Limit ..... October 31, 2020
10. State of California Department of Insurance grants..... October 31, 2020
11. Local Transportation Fund..... March 31, 2021
12. Transportation Development Act..... March 31, 2021

Annie Louie is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising MGO's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report. MGO is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Therefore, depending on the nature of the services being provided, non-CPA owners may be involved in providing certain services hereunder.

Our fees are based on the audit agreement dated July 1, 2016, as amended. Invoices will be rendered monthly and are payable upon presentation. We will notify you immediately of any circumstances we encounter that could significantly affect the fees. Whenever possible, we will attempt to use the City's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

At the conclusion of our audit engagement, we will communicate to Board of Supervisors (through the Government Oversight and Audit Committee) the following significant findings from the audit:

1. Our view about the qualitative aspects of the City's significant accounting practices;
2. Significant difficulties, if any, encountered during the audit;
3. Uncorrected misstatements, other than those we believe are trivial, if any;
4. Disagreements with management, if any;
5. Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
6. Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
7. Representations we requested from management;
8. Management's consultations with other accountants, if any; and

9. Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release date or for any additional period requested by the City's cognizant agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation. Upon expiration of the seven-year period, MGO will be free to destroy our records related to this engagement. However, MGO does not keep any original client records, so we will return those to management at the completion of the services rendered under this engagement. When records are returned to management, it is management's responsibility to retain and protect the records for possible future use, including potential examination by any government or regulatory agencies.

The audit documentation for this engagement is the property of MGO and constitutes confidential information. However, we may be requested to make certain audit documentation available to certain regulators, such as the City's cognizant agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office, pursuant to authority given to them by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of MGO's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these regulators. The regulators may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

With regards to the electronic dissemination of audited financial statements, including financial statements published electronically on the City's website, management understands that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the City in the performance of our services. Any discussions that the City has with personnel of our firm regarding employment could pose a threat to our independence. Therefore, the City agrees to inform us prior to any such discussions that we can implement appropriate safeguards to maintain our independence.

Our 2018 peer review report is provided for your reference.

### **Engagement with MGO Affiliates**

If the City has or expects to engage an affiliate of MGO (see list of affiliates below) to perform services during the audit and professional engagement period (as defined below), the City must notify MGO prior to entering into such engagement with the MGO affiliate. In addition, prior to signing this engagement letter, the City must notify MGO of any service an MGO affiliate has performed prior to the audit and professional engagement period in order for MGO to ensure our independence in relation to this engagement. The City will also be required to provide such representation within the management representation letter prior to the issuance of our report.

Audit and professional engagement period includes both:

1. The period covered by any financial statements being audited or reviewed (the "audit period"); and
2. The period of the engagement to audit or review the audit client's financial statements or to prepare a report to be issued (the "professional engagement period"):

- a. The professional engagement period begins when MGO either signs an initial engagement letter (or other agreement to review or audit a client's financial statements) or begins audit, review, or attest procedures, whichever is first; and
- b. The professional engagement period ends when the audit client or MGO terminate the engagement and the audit client is no longer a client of MGO.

**MGO Affiliates:**

- |                                    |                                     |
|------------------------------------|-------------------------------------|
| 1. MGO Group LLC                   | 8. ELLO LLC                         |
| 2. MGO Realty Advisors, Inc.       | 9. ELLO Capital, LLC                |
| 3. MGO India Private Limited       | 10. ELLO Advisors, LLC              |
| 4. MGO Wealth Advisors, LLC        | 11. Fiorello, LLC                   |
| 5. MGO Technology Group, LLC       | 12. IntelliBridge Partners LLC      |
| 6. MGO Risk Management Group LLC   | 13. Sands Lane Capital Fund I, L.P. |
| 7. Cresta Management Services, LLC | 14. Sands Lane Capital GP I, L.L.C  |

**Potential Impact of the Coronavirus (COVID-19) Outbreak**

Notwithstanding the unprecedented circumstances resulting from the COVID-19 outbreak, we continue to have a professional obligation to gather sufficient appropriate audit evidence in support of the City's financial statements. Travel restrictions, actual or suspected infections, work from home requirements, changes – such as work force reductions – made to accommodate the current business environments, or other similar matters may result in delays in the City's employees' ability to provide us the necessary audit evidence on a timely basis or at all. Similarly, such matters may impact our own ability to collect or appropriately assess necessary audit evidence on a timely basis or at all.

Should such events occur, the City and MGO will make good faith efforts to complete alternative procedures to gather and assess necessary audit evidence. Such procedures might include, but not be limited to, our respective employees working from home, transferring more audit information via electronic modes (preferably through our secure MGO Exchange portal), and meeting virtually rather than in-person. As to audit evidence transferred via electronic modes, the City is responsible to ensure that such evidence is authentic, complete, and accurate for the purposes it is meant to serve. MGO will perform, as it deems necessary, incremental procedures to validate the authenticity, completeness, and accuracy of such audit evidence.

Should impacts from the COVID-19 outbreak impede the ability to provide full cooperation and access, the City will instead work with us in good faith to make alternative arrangements to accomplish the objectives of our audit. As necessary, we will notify the City if such alternative procedures require additional efforts and, if possible, an estimate of the additional cost.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,



Macias Gini & O'Connell LLP





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## Report on the Firm's System of Quality Control

October 25, 2018

To the Partners of  
Macias Gini & O'Connell LLP  
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2018. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary). The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

### **Firm's Responsibility**

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

### **Peer Reviewer's Responsibility**

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

**Required Selections and Considerations**

Engagements selected for review included an engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; an audit of an employee benefit plan and an examination of a service organization, SOC 1 engagement.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

**Opinion**

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell LLP engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2018, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias Gini & O'Connell LLP has received a peer review rating of *pass*.

*Watson Coon Ryan, LLC*

Watson Coon Ryan, LLC