

CITY AND COUNTY OF SAN FRANCISCO

Report to Government Audit and Oversight Committee

Year Ended June 30, 2021



Certified
Public
Accountants

CITY AND COUNTY OF SAN FRANCISCO
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Government Audit and Oversight Committee
Mr. Ben Rosenfield, Controller
City and County of San Francisco
San Francisco, California

We have audited the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2021, and have issued our report thereon dated February 2, 2022. Our report includes a reference to other auditors that audited the financial statements of the San Francisco County Transportation Authority, San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, Municipal Transportation Agency, and San Francisco Wastewater Enterprise, as described in our report on the City's financial statements dated February 2, 2022. This communication does not include results of the other audits that are reported on separately by those auditors.

Professional standards require that we advise you of the following matters relating to our audit.

1. Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 1, 2021, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the City solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

2. Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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3. Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence

4. Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the City is included in Note 2 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the year ended June 30, 2021. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the City's financial statements are:

- a) Fair value of investments (including investment derivatives) and related net appreciation in the fair value of investments in the City Treasurer's investment pool and the pension trust fund;
- b) Accrual of claims liabilities;
- c) Estimated contractual adjustments and bad debt allowances for patient accounts receivable;
- d) Cost report settlement receivables and payables;
- e) Estimated bad debt allowance for accounts and loans receivable;
- f) Division of short term and long term accrued liabilities for compensated absences;
- g) Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable properties;
- h) Pension plans' employer and employee contribution requirements, the net pension liability of the pension plans and related deferred outflows and inflows of resources; and
- i) Other postemployment benefits (OPEB) plans contribution requirements, the net OPEB liability of the OPEB plans and related deferred outflows and inflows of resources.

Management's estimates were based on the following:

- a) Management's estimate of the fair value of investments in the City Treasurer's investment pool and the pension trust fund is discussed in Note 2(c) to the financial statements.

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- b) Liabilities for workers' compensation and general liability claims were based on actuarial evaluations using historical loss and other data. Other claims liabilities were estimated based on the City Attorney's judgment about the ultimate outcome of the claim.
- c) Estimated bad debt allowances for patient accounts receivable were based on historical experience. See d) below for basis for contractual adjustments.
- d) Estimated contractual adjustments for patient accounts receivable and cost report receivables and payables were based on prior cost report adjustments, previous regulatory settlements, and potential future retrospective adjustments.
- e) Estimated bad debt allowance for accounts receivable was based on historical experience and loans receivable was based on the type of loan (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.
- f) Accrual of compensated absences is based on unused employee sick leave and vacation and the employees' pay rates at year-end and includes the City's share of social security and Medicare payments made on behalf of employees, calculated at the current social security and Medicare with holding rates of 6.2% and 1.45% respectively. Current vested sick leave is estimated by multiplying the probability of RID (Reduce Infection Deaths), which was actuarially developed, with the value of the vested sick leave liability. The current portion of accrued vacation leave is estimated based on the maximum amount of vacation time a City employee is permitted to take in one year.
- g) Useful lives for depreciable property were determined by management based on the nature of the capital asset. The City uses the straight line method of depreciation and three different conventions for the amount of first-year depreciation based on the departments that purchased the capital assets.
- h) Pension plans' employer and employee contribution requirements, the net pension liability of the pension plans and related deferred outflows and inflows of resources are based on actuarial calculations performed by the City's and California Public Employees' Retirement System's independent actuaries.
- i) OPEB plans' employer and employee contribution requirements, the net OPEB liability of the OPEB plans and related deferred outflows and inflows of resources are based on actuarial calculations performed by the City's independent actuaries.

We evaluated the key factors and assumptions used to develop these accounting estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the City's financial statements relate to pension and other postemployment benefits. The disclosures about pension and other postemployment benefits in Note 9 to the financial statements are based on actuarial valuations.

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5. Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

6. Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

7. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the City's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

8. Representations Requested from Management

We have requested certain written representations from management, which are included in the management representation letter dated February 2, 2022.

9. Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

10. Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the City, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the City's auditors.

11. Other Information in Documents Containing Audited Financial Statements

Pursuant to professional standards, our responsibility as auditors for other information in documents containing the City's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we applied certain limited procedures to management's discussion and analysis, the pension plans schedules of the City's proportionate share

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of the net pension liability, changes in net pension liability and related ratios, changes in total pension liability and related ratios, and employer contributions, the postemployment healthcare benefits plans schedules of changes in net OPEB liability and related ratios and employer contributions and budgetary comparison schedule – General Fund, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual fund financial statements and schedules and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the basic financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the basic financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the basic financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

This report is intended solely for the information and use of the Government Audit and Oversight Committee, Board of Supervisors, City management, and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
February 2, 2022

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CURRENT YEAR RECOMMENDATIONS

None reported.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Reference Number:	2020-001
	Internal Controls Over Evaluation of Credit Balances – Zuckerberg San Francisco General Hospital <i>Significant Deficiency in Internal Controls over Financial Reporting</i>
Audit Finding:	Zuckerberg San Francisco General Hospital (ZSFG) derives a significant portion of its charges for services revenues from patient service charges. For financial reporting, patient accounts receivable are recorded net of estimated allowances, which include allowances for contractual adjustments and bad debt. These allowances are based on current payment rates, including per diems, diagnosis-related group (DRG) reimbursement amounts and payment received as a percentage of gross charges. Given the volume of transactions, hospitals must continuously reconcile patient accounts receivable with payments and credit adjustments, and evaluate negative patient receivable accounts that often result from overpayments, differences in coding classifications with insurance providers, incorrect or adjusted rates in the billing system, and other reasons. While negative patient receivable accounts resulting from overpayments represent a liability to the hospital, negative balances resulting from coding or other adjustments improperly understate patient accounts receivable. The evaluation of negative patient receivable accounts is a necessary and universal practice to the healthcare industry, and often involve coordination with external parties such as insurance providers. As of June 30, 2020, ZSFG's net patient accounts receivable of \$65.6 million includes credit balances of \$31.3 million, which represents an 81% increase from the credit balance of \$17.3 million as of June 30, 2019. As of January 2021, ZSFG's analysis of these negative patient receivable accounts identified approximately \$21.6 million of the \$31.3 million credit balances to have resulted from coding and other adjustments. A similar analysis of credit balances as of June 30, 2019 identified \$8.0 million of adjustments. These adjustments were posted to the Epic electronic health record system, and subsequently to the PeopleSoft financial management system, during the months of correction in the subsequent fiscal year. As a result, the estimated net impact to ZSFG's financial statements is \$8.0 million of understated net position as of June 30, 2019, \$13.6 million of understated patient services revenues in fiscal year 2019-20 revenues, and \$21.6 million of understated patient accounts receivable as of June 30, 2020.
Status of Corrective Action:	Corrective action was implemented.

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STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

Reference Number:	2020-002
	Disaster Grants – Public Assistance (Presidentially Declared Disasters)
	Assistance Listing Number 97.036
	Period of Performance
	<i>Material Noncompliance and Material Weakness in Internal Controls over Compliance</i>
Audit Finding:	The City claimed various non-labor expenditures for the fiscal year ended June 30, 2020 under the Disaster Grants – Public Assistance (Presidentially Declared Disasters) program which fell outside of the period of performance specified through the award agreements noted above. Specifically, a total amount of \$8,108,482 in non-labor costs claimed for the program was identified as being unallowable, of which \$6,081,362 was the federally claimed portion. This City subsequently corrected its schedule of expenditures of federal awards for the year ended June 30, 2020, reducing the reported total for the program by this amount.
Status of Corrective Action:	Corrective action was implemented. Additionally, the grant awards for the program were retroactively extended and the period of performance was modified to encompass the time frames that gave rise to the finding for the year ended June 30, 2020. As such, the noncompliance identified under finding 2020-002 related to the period of performance is effectively obsolete with these retroactive extensions.

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UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

			STATEMENT OF NET POSITION					STATEMENT OF CHANGES IN NET POSITION				
Index	Opinion Unit	Description	Assets	Deferred Outflows	Liabilities	Deferred Inflows	Net Position	Revenues	Expenses			
			DR (CR)	DR / (CR)	DR (CR)	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)			
GOVERNMENTAL ACTIVITIES												
GA1	Governmental Activities	Net Position	\$	-	\$	-	\$	-	\$	-		
	Governmental Activities	Construction in progress (To eliminate duplicated recording of capital assets.)	(64,805,327)	-	-	-	-	-	-	-		
GA2	Governmental Activities	Deferred Outflows related to pensions	\$	-	\$	(16,423,000)	\$	-	\$	-		
	Governmental Activities	Deferred inflows related to pensions	-	-	-	5,731,000	-	-	-	-		
	Governmental Activities	Pension expense (To adjust pension related balances.)	-	-	-	-	-	-	-	10,692,000		
		TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (64,805,327)</u>	<u>\$ (16,423,000)</u>	<u>\$ -</u>	<u>\$ 5,731,000</u>	<u>\$ 64,805,327</u>	<u>\$ -</u>	<u>\$ 10,692,000</u>			
GOVERNMENTAL ACTIVITIES												
BA1	Business-Type Activities	Effect of net adjustments from SF General Hospital (see below)	\$	1,934,341	\$	-	\$	(1,186,255)	\$	(748,086)	\$	-
BA2	Business-Type Activities	Effect of net adjustments from Laguna Honda Hospital (see below)		660,351		-		(61,002)		(599,349)		-
		TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$</u>	<u>2,594,692</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>(1,247,257)</u>	<u>\$</u>	<u>(1,347,435)</u>	<u>\$</u>	<u>-</u>
SAN FRANCISCO GENERAL HOSPITAL												
SFGH1	San Francisco General Hospital	Net patient services revenue	\$	-	\$	-	\$	-	\$	(748,086)	\$	-
	San Francisco General Hospital	Receivables - Charges for Services		1,934,341		-		-		-		-
	San Francisco General Hospital	Net Position - beginning (To record patient services revenues and receivables in the proper fiscal year.)		-		-		(1,186,255)		-		-
SFGH2	San Francisco General Hospital	Other expenses	\$	-	\$	-	\$	-	\$	-	\$	4,154,859
	San Francisco General Hospital	Contractual services		-		-		-		-		(3,306,647)
	San Francisco General Hospital	Materials and supplies (To properly record capitalized expenses against the respective expense classifications.)		-		-		-		-		(848,212)
		TOTAL SAN FRANCISCO GENERAL HOSPITAL	<u>\$</u>	<u>1,934,341</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>(1,186,255)</u>	<u>\$</u>	<u>(748,086)</u>	<u>\$</u>	<u>-</u>
LAGUNA HONDA HOSPITAL												
LHH1	Laguna Honda Hospital	Net patient services revenue	\$	-	\$	-	\$	-	\$	(599,349)	\$	-
	Laguna Honda Hospital	Receivables - Charges for Services		660,351		-		-		-		-
	Laguna Honda Hospital	Net Position - beginning (To record patient services revenues and receivables in the proper fiscal year.)		-		-		(61,002)		-		-
		TOTAL LAGUNA HONDA HOSPITAL	<u>\$</u>	<u>660,351</u>	<u>\$</u>	<u>-</u>	<u>\$</u>	<u>(61,002)</u>	<u>\$</u>	<u>(599,349)</u>	<u>\$</u>	<u>-</u>