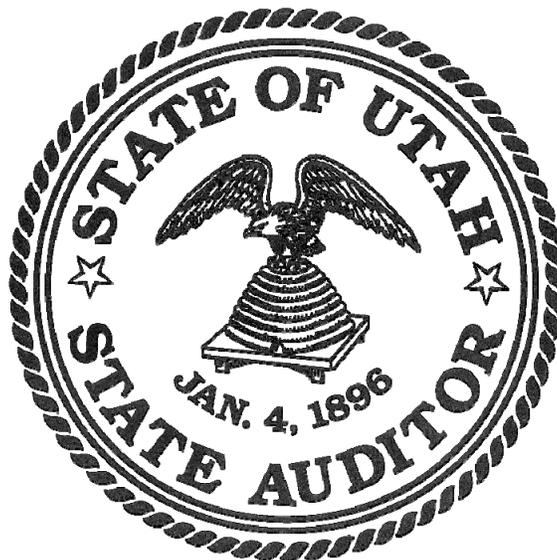


PUBLIC EMPLOYEES HEALTH PROGRAM

Single Audit Management Letter
For the Year Ended June 30, 2019

Report No. 19-21



**OFFICE OF THE
STATE AUDITOR**

AUDIT LEADERSHIP:

John Dougall, State Auditor
Gregg Hastings, CPA, Audit Manager
Andrew Driggs, Audit Senior

PUBLIC EMPLOYEES HEALTH PROGRAM

**Single Audit Management Letter
FOR THE YEAR ENDED JUNE 30, 2019**

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OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 19-21

December 12, 2019

Mr. R. Chet Loftis, Director
Public Employees Health Program
560 East 200 South
SLC, Utah 84102-2099

Dear Mr. Loftis:

This management letter is issued as a result of the Public Employees Health Program's (PEHP's) portion of the statewide single audit for the year ended June 30, 2019, for which we tested PEHP's working capital reserves. Our final report on compliance and internal control over compliance issued to meet the reporting requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is issued under separate cover.

In planning and performing our audit of working capital reserves, we considered PEHP's compliance with the types of compliance requirements subject to audit as described in the *OMB Compliance Supplement* for the year ended June 30, 2019. We also considered PEHP's internal control over compliance with the requirements described above that could have a direct and material effect on working capital reserves in order to determine the auditing procedures that were appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of PEHP's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct on a timely basis noncompliance with a type of compliance requirement of a federal program. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to be reported under Uniform Guidance.

Our consideration of internal control over compliance was for the limited purposes described in the second paragraph and was not designed to identify all deficiencies in internal control over

compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in PEHP's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

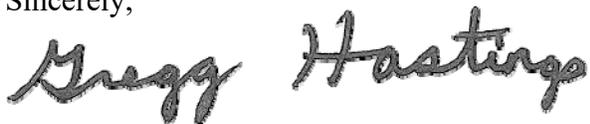
We identified an instance of noncompliance which we are required to report under Uniform Guidance. This matter is described in the accompanying finding and recommendation.

PEHP's written response to and Corrective Action Plan for the finding identified in our audit were not subjected to the audit procedures applied in our audit and, accordingly, we express no opinion on them.

The purpose of this communication is solely to describe the scope of our testing of internal control over compliance and the results of that testing. Accordingly, this communication is not suitable for any other purpose. However, pursuant to *Utah Code* Title 63G Chapter 2, this report is a matter of public record, and as such, its distribution is not limited.

We appreciate the courtesy and assistance extended to us by the personnel of PEHP during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Gregg Hastings". The signature is written in a cursive, slightly slanted style.

Gregg Hastings, CPA
Audit Manager
801-808-0293
ghastings@utah.gov

cc: Rob Dolphin, CPA, CGMA, Chief Financial Officer, PEHP
John Reidhead, Chief Financial Officer, State Division of Finance

WORKING CAPITAL RESERVES IN EXCESS OF FEDERAL GUIDELINES

Federal Agencies: **Various**

CFDA Numbers and Titles: **Various**

Federal Award Numbers: **Various**

Questioned Costs: **Undeterminable**

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Numbers: **2018-036; 2017-023; 2016-039; 2015-050; 2014-042; 2013-050; 12-53; 11-58**

As of June 30, 2019, the Public Employees Health Program (PEHP) held working capital reserves in excess of federal guidelines as follows:

<u>Program</u>	<u>Excess # of Days in Reserve</u>	<u>Excess Amount in Reserve</u>
State Medical	28	\$ 25,259,543
State Dental	17	\$ 813,689
Long-Term Disability	193	\$ 3,496,800
Medicare Supplement	145	\$ 18,989,366

2 CFR part 200, Appendix V, paragraph G.2, generally allows for a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes. It is inherently difficult to accurately estimate expenses and their effect on working capital reserves when setting rates. Excess reserves could result in a federal liability since federal programs share an interest in the reserves.

Recommendation:

Depending on the business requirements, we recommend that PEHP reduce excess working capital reserves or obtain a waiver from the federal cost negotiator allowing for an increase in the number of days of working capital allowed to comply with federal guidelines.

PEHP's Response:

PEHP agrees that reserves are in excess of the federally allowed guidelines.

Corrective Action Plan:

PEHP plans to issue a \$30 million experience dividend from the State Medical program to participants in May 2020 to bring this program's reserves down to the federally allowed amount. The Division of Finance will calculate the federal portion of the State of Utah's share of this experience dividend and submit it to Cost Allocation Services (CAS) for approval.

PEHP has also requested the Division of Finance calculate the federal portion of the excess reserves balance as of June 30, 2019 in the State Dental program and submit it to CAS for

PUBLIC EMPLOYEES HEALTH PROGRAM

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approval. Once approved, PEHP will refund the federal portion amount for the State Dental program excess reserves.

PEHP recently refunded the federal portion of the Long-term Disability program excess reserve balance as of June 30, 2018. Because Long-term Disability claims fluctuate each year, PEHP will request approval from CAS for an additional year to study long-term disability liabilities, premiums, and claim trends. However, if material excess reserves still exist in this program at fiscal year ending June 30, 2020, PEHP will refund the federal portion of the excess reserves as of that date.

As a result of the Medicare Supplement program experiencing favorable claim loss ratios and receiving pharmacy subsidies greater than the expected amounts, PEHP will request approval from CAS for an additional year to study the liabilities and expected claims in this program. However, if material excess reserves still exist in this program at June 30, 2020, PEHP will refund the federal portion of the excess reserves as of that date.

*Contact Person: Robert Dolphin, Chief Financial Officer, 801-366-7429
Anticipated Correction Date: June 30, 2021*