SALT LAKE COMMUNITY COLLEGE

Single Audit Management Letter
For the Year Ended June 30, 2018

Report No. 18-41

OFFICE OF THE
STATE AUDITOR

AUDIT LEADERSHIP:
John Dougall, State Auditor
Hollie Andrus, CPA, Audit Director
Ryan Roberts, CPA, Audit Supervisor

SALT LAKE COMMUNITY COLLEGE
FOR THE YEAR ENDED JUNE 30, 2018

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SINGLE AUDIT MANAGEMENT LETTER

February 8, 2019

To the Board of Trustees, Audit Committee
and
Dr. Deneece Huftalin, President
Salt Lake Community College

This management letter is issued as a result of our review of Salt Lake Community College's (College's) self-insurance reserves and compliance with federal regulations for the year ended June 30, 2018. Because of the timing of this letter, the results of our review may be included in 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) for the year ending June 30, 2019.

In planning and performing our review, we considered the College's compliance with self-insurance reserve requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2018. We also considered the College's internal control over compliance with the types of requirements described above that could have a direct and material effect on the 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 the College'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 merit attention by those charged with governance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Given these limitations, we did not identify any deficiencies in the College's internal control that we consider to be material weaknesses.

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.

The College'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.

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

Sincerely,

Hollie Andrus

Hollie Andrus, CPA
Audit Director
801-808-0467
handrus@utah.gov

cc: Jeffrey J. West, Vice President for Finance and Administration
Debra Glenn, Controller

EXCESSIVE SELF-INSURANCE RESERVES

Federal Agency: **Various**
CFDA Numbers and Titles: **Various**
Federal Award Numbers: **Various**
Questioned Costs: N/A
Pass-through Entity: N/A
Prior Year Single Audit Report Finding Number: N/A

As of June 30, 2018, the College's self-insurance cash reserve was in excess of actuarially recommended levels by 2.09 months or approximately $3.1 million. The College's actuarial study indicated that an adequate self-insurance cash reserve would be 6 months average of claim expenses or approximately $9.1 million, whereas the reserve was approximately 8.09 average months of claim expenses or $12.2 million. According to federal regulations (2 CFR section 200.447(d)), contributions to reserves must be based on sound actuarial principles, using historical experience and reasonable assumptions. An unforeseen reduction in actual medical expenses used in the monitoring of reserves resulted in the excessive reserves. Excessive reserves could result in a federal liability since federal programs share an interest in the reserves.

Recommendation:

We recommend the College reduce excessive self-insurance reserves as necessary to be in compliance with federal regulations.

College's Response:

We are in agreement with this finding.

Corrective Action Plan:

Upon receipt of the College's incurred but unpaid claims liability on September 4, 2018 from Regence BlueCross BlueShield of Utah, management re-evaluated the reserve balance and noted the excess. Consequently, on October 29, 2018, the College reimbursed the excess and will continue to monitor the balance on a monthly basis to ensure that reserves remain at a maximum of 6 months. The College also intends to process an additional reimbursement in April or May 2019 for any additional excess. The College will continue to utilize actuarial services on a biennial basis to monitor the reasonableness of the recommended reserve balance as well as maintain a fiscally prudent reserve as recommended by the health plan consultant, HUB International.

Contact Person: Debra Glenn, Controller/Assistant Vice President, 801-957-4084
Anticipated Correction Date: June 30, 2019