

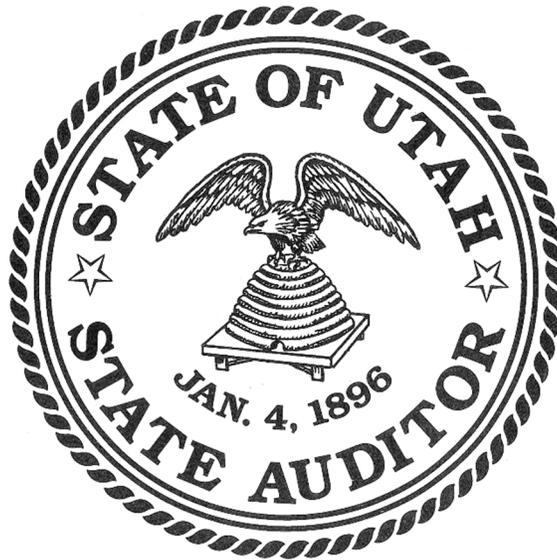
# **PUBLIC EMPLOYEES HEALTH PROGRAM**

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Single Audit Management Letter  
For the Year Ended June 30, 2020

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Report No. 20-23



**OFFICE OF THE  
STATE AUDITOR**

**AUDIT LEADERSHIP:**

John Dougall, State Auditor  
Doug Seager, CPA, Audit Director  
Jordan Kattelman, CPA, Audit Senior

# **PUBLIC EMPLOYEES HEALTH PROGRAM**

## **Single Audit Management Letter FOR THE YEAR ENDED JUNE 30, 2020**

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Finding Type:

SD Significant Deficiency of Internal Control  
RN Reportable Noncompliance or Illegal Acts

Applicable To:

s State Financial Statements  
f Federal Program



OFFICE OF THE  
STATE AUDITOR

**SINGLE AUDIT MANAGEMENT LETTER NO. 20-23**

January 26, 2021

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, 2020, 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, 2020. 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, appearing to read 'Doug Seager', with a long horizontal line extending to the right.

Doug Seager, CPA  
Audit Director  
801-808-0507  
dseager@utah.gov

cc: Rob Dolphin, CPA, CGMA, Chief Financial Officer, PEHP  
Patricia Nelson, Assistant State Comptroller, 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: **2019-026; 2018-036; 2017-023; 2016-039; 2015-050; 2014-042; 2013-050; 12-53; 11-58**

As of June 30, 2020, the Public Employees Health Program (PEHP) held working capital reserves in excess of federal guidelines as follows below. The audited PEHP statements include a one-time negative expense amount for the Long-Term Disability program, and therefore no useful calculation of excess days could be performed for that program.

<u>Program</u>	<u>Excess # of Days in Reserve</u>	<u>Excess Amount in Reserve</u>
State Medical	30	\$27,151,980
Dental	57	\$2,552,212
Long-Term Disability		\$18,235,342
Medicare Supplement	119	\$17,171,729

2 CFR part 200, Appendix V, paragraph G.2, generally allows a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes. The excess reserves were due to the inherent difficulty of accurately estimating expenses. 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 an increase in the number of days of working capital allowed to comply with federal guidelines.**

**PEHP's Response & Corrective Action Plan:**

***State Medical*** –Due to the unknown nature and risks associated with health care costs due to the COVID-19 pandemic, PEHP will request Cost Allocation Services (CAS) allow an additional two years to study claims and health care cost trends related to COVID-19. Although we have promising news regarding vaccines, it remains very unclear how effective they will work and how many people are willing to get them and any long-term side effects. It also remains very unclear how long it will take for medical procedures to resume at normal levels. If reserves in this program are still above federally allowed amounts as of June 30, 2022, PEHP will either issue a refund to employers and subscribers or refund the federal portion.

**State Dental** – PEHP had previously agreed with CAS if there were excess reserves at June 30, 2019, PEHP would refund the federal portion. This agreement, however, was made prior to the COVID-19 pandemic. Due to COVID-19, dental claim costs were well below expectations due to guidance given from the CDC regarding delaying elective procedures, surgeries, and non-urgent outpatient visits. The expected outlook is unclear as it relates to expected dental claims due to the delay of non-urgent care dental visits. PEHP will request Cost Allocation Services (CAS) allow an additional two years to study claims and dental costs trends related to COVID-19. If reserves in this program are still above federally allowed amounts as of June 30, 2022, PEHP will either issue a refund to employers and subscribers or refund the federal portion.

**Long-term Disability** – The COVID-19 pandemic may cause several of our insureds to become disabled and thus cause a large increase in claims and a severe reduction in the reserves of this program. Therefore, PEHP will request CAS allow an additional two years to study claim and health care cost trends related to COVID-19. If reserves still exist above the federally allowed amounts as of June 30, 2022, PEHP will either issue a rebate to subscribers or refund the federal portion.

**Medicare Supplement** – PEHP had previously agreed with CAS if there were excess reserves at June 30, 2020, PEHP would refund the federal portion. This agreement, however, was made prior to the COVID-19 pandemic. This program is for people age 65 and older and these insureds, due to their age and higher likelihood of having serious medical conditions, are at greater risk of becoming seriously ill and incurring large medical claims if they are infected with COVID-19. Because of this, PEHP will request CAS allow an additional two years to study Medicare supplement claims and health care cost trends related to COVID-19. If reserves still exist above the federally allowed amounts as of June 30, 2022, PEHP will either issue a rebate to subscribers or refund the federal portion.

Contact Person: Rob Dolphin, PEHP Chief Financial Officer  
Anticipated Correction Date: June 30, 2022