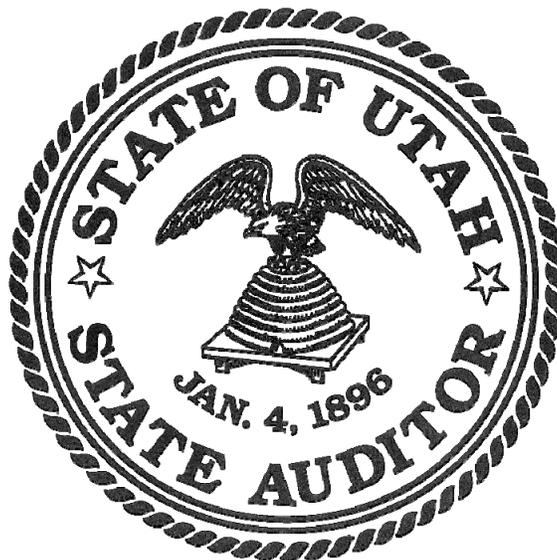


PUBLIC EMPLOYEES HEALTH PROGRAM

Single Audit Management Letter
For the Year Ended June 30, 2017

Report No. 17-17



**OFFICE OF THE
STATE AUDITOR**

AUDIT LEADERSHIP:

John Dougall, State Auditor
Gregg Hastings, CPA, Audit Supervisor
Sean Clayton, Audit Senior

PUBLIC EMPLOYEES HEALTH PROGRAM

**Single Audit Management Letter
FOR THE YEAR ENDED JUNE 30, 2017**

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OFFICE OF THE
STATE AUDITOR

SINGLE AUDIT MANAGEMENT LETTER NO. 17-17

December 13, 2017

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 federal compliance audit for the year ended June 30, 2017, 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 applicable types of compliance requirements as described in the *OMB Compliance Supplement* for the year ended June 30, 2017. 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 merit attention by those charged with governance. We did not identify any deficiencies in PEHP's internal control that we consider to be material weaknesses.

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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

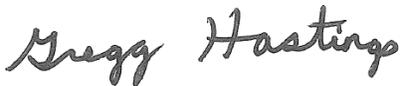
We identified an instance of noncompliance which we are required to report under Uniform Guidance. This matter is described in the accompanying finding and recommendation.

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.

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 cursive script that reads "Gregg Hastings".

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

cc: Kim Kellersberger, PEHP Finance Director
John Reidhead, Director, 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: **2016-039; 2015-050; 2014-042; 2013-050; 12-53; 11-58**

As of June 30, 2017, 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	18	\$ 15,021,838
Long-Term Disability	29	\$ 880,959
Medicare Supplement	74	\$ 9,130,303

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. 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 for an increase in the number of days of working capital allowed to comply with federal guidelines.

PEHP's Response:

We agree the State Medical, Long-Term Disability and Medical Supplemental programs have reserves in excess of the federal guidelines. PEHP's plans to reduce the reserves over multiple years is going forward as approved by the Division of Cost Allocation.

Corrective Action Plan:

State Medical - We agree and will refund the federal portion within 10 days of the corrective action plan being accepted by Cost Allocation Service.

Long-Term Disability – Plans are currently being discussed with the external actuary (Milliman) to bring the reserves within the acceptable limits by the agreed June 30, 2018. A \$5.5 million experience dividend and adverse claim experience reduced the reserve by \$8.8 million.

PUBLIC EMPLOYEES HEALTH PROGRAM

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Medicare Supplemental – A premium holiday is being considered to bring the reserves within the limits by the agreed June 30, 2019.

Contact Person: Kim Kellersberger, Finance Director, 801-366-7457
Anticipated Correction Date: June 30, 2019