



OFFICE OF THE
STATE AUDITOR



◦ STATE OF UTAH ◦

Public Employees Health Program

Audit Management Letter

For the year ended June 30, 2023

Report No. 23-19

March 14, 2024

Office of the State Auditor

Audit Leadership:

John Dougall, State Auditor

Doug Seager, CPA, Audit Director

Davis Wesche, CPA, Audit Senior

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OFFICE OF THE
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Management Letter No. 23-19

March 14, 2024

Chet Loftis, Director
Public Employees Health Program
560 East 200 South
Salt Lake City, UT 84102

Dear Director Loftis:

This management letter is issued as a result of our audit of the State of Utah's basic financial statements as of and for the year ended June 30, 2023. It is also issued as a result of the Public Employees Health Program's (PEHP) portion of the statewide federal compliance audit (Single Audit) for the year ended June 30, 2023. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our final reports on internal controls and on compliance required under *Government Auditing Standards* and federal *Uniform Guidance* will be issued under separate cover. These reports will also provide further detail as to considerations made during the course of the audit regarding internal controls and compliance, both at the financial statement and at the federal program level, and the limited purposes of those considerations. The purpose of this letter is to communicate with PEHP management concerns identified during the course of our audit.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or to detect and correct on a timely basis misstatements, errors, or instances of noncompliance. A material weakness in internal control is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that material misstatements, errors, or noncompliance are not prevented or are not detected and corrected on a timely basis.

Based on the audit procedures performed, we identified Finding 1 as an instance of noncompliance which we are required to report under *Uniform Guidance*.

PEHP's written response to and Corrective Action Plan for this finding will be included in the final reports identified in the second paragraph above.

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 and not to provide an opinion on the effectiveness of the PEHP's internal control over compliance. 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 PEHP personnel extended to us during the course of our audit, and we look forward to a continuing professional relationship. If you have any questions, please contact me.

Sincerely,



Doug Seager, CPA

Audit Director

801-808-0507

dseager@utah.gov

cc: John West, Controller, PEHP
Rob Dolphin, Chief Finance Officer, URS
Patricia Nelson, Assistant State Comptroller, Department of Governmental Operations

Findings & Recommendations

Finding 1. Working Capital Reserves in Excess of Federal Guidelines

(Finding Type: Reportable noncompliance)

Federal Agency: Various

Assistance Listing Number and Title: Various

Federal Award Number: Various

Questioned Costs: Undeterminable

Pass-through Entity: N/A

Prior Year Single Audit Report Finding Number: 2022-028; 2021-026; 2020-039; 2019-026; 2018-036; 2017-023; 2016-039; 2015-050; 2014-042; 2013-050; 2012 12-53; 2011 11-58

As of June 30, 2023, PEHP held working capital reserves in excess of federal guidelines as follows below.

Program	Excess # of Days in Reserve	Excess Amount in Reserve
Long-Term Disability	12,241	\$35,894,901
Medicare Supplement	154	\$23,721,833
Dental	3	\$133,840

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 inherent difficulty of accurately estimating expenses led to excess reserves. Excess reserves could result in a federal liability since federal programs share an interest in the reserves.

Recommendations:

Depending on the business requirements, we recommend that PEHP reduce excess working capital reserves to a level allowed by federal regulations.¹

¹ We have previously recommended PEHP attempt to obtain a waiver from the federal cost negotiator to allow for an increase in the number of days of working capital reserves. Based on our understanding, this remedy has been attempted in the past with no success.

PEHP's Response:

Long Term Disability

We agree that the program holds working capital reserves more than the federal guidelines.

State Dental

We agree that the program holds working capital reserves more than the federal guidelines.

Medicare Supplement

We agree that the program holds working capital reserves more than the federal guidelines.

Corrective Action Plan:

Long Term Disability

PEHP will work with State Finance to determine the federal portion of the excess reserves on June 30, 2024, and refund it by June 30, 2025.

State Dental

PEHP will work with State Finance to determine the federal portion of the excess reserves on June 30, 2024, and refund it by June 30, 2025.

Medicare Supplement

PEHP will work with State Finance to determine the federal portion of the excess reserves on December 31, 2023, and refund it by June 30, 2025.

Contact Person: Rob Dolphin, Chief Finance Officer, URS, rob.dolphin@urs.org

Anticipated Completion Date: June 30, 2025