



OFFICE OF THE
UTAH STATE AUDITOR



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Public Employees Health Program

Audit Management Letter

For the year ended June 30, 2024

Report No. 24-32

Office of the State Auditor

Audit Leadership:

Tina Cannon, State Auditor

Doug Seager, CPA, Audit Director

Davis Wesche, Audit Senior

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OFFICE OF THE
UTAH STATE AUDITOR

Management Letter No. 24-32

March 31, 2025

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, 2024. 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, 2024. 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 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: 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, other)

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: 2023-021; 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, 2024, the Public Employees Health Program (PEHP) held working capital reserves in excess of federal guidelines as follows below.

Program	Excess # of Days in Reserve	Excess Amount in Reserve
Medical	5	\$6,413,144
Long-Term Disability	2314	\$46,164,709
Medicare Supplement	146	\$23,716,830

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.

Recommendation:

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

PEHP's Response:

State Medical

We agree the PEHP State Medical Program holds excess reserves above the 60-day allowance on June 30, 2024.

Long-Term Disability

We agree the PEHP Long-Term Disability Program holds excess reserves above the 60-day allowance on June 30, 2024.

Medicare Supplement

We agree the PEHP Medicare Supplement Program holds excess reserves above the 60-day allowance on December 31, 2023.

Corrective Action Plan:

State Medical

Given that the PEHP State Medical Program reserves are just over 60 days, our corrective action plan focuses on continuous monitoring and financial stewardship to ensure compliance with reserve requirements while maintaining the program's financial health. The program was below 60 days on June 30, 2023. There are inherent variabilities and risks associated with medical claims, and reserve fluctuations are expected due to factors such as claim experience, utilization trends, and cost variations. We do not anticipate issuing a refund unless there is a long-term trend of excess reserves over the next three years. PEHP will continue to track performance and adjust necessary to maintain levels.

Long-Term Disability

After the measurement date of June 30, 2024, the PEHP Board of Directors approved a refund of excess reserves of \$3,468,201.87 to the state of Utah. PEHP issued a check on September 12, 2024, and requested State Finance to calculate the federal portion of the refund and distribute it appropriately to the federal government. Additionally, our corrective action plan focuses on ensuring financial stability while evaluating the impact of recent plan modifications introduced by Senate Bill 21 from the 2025 Utah Legislative Session. The bill introduced specific changes to the LTD program that may impact claims experience and long-term reserve requirements. A thorough actuarial analysis is underway to assess how these modifications will affect future liabilities. While excess reserves still exist, it is prudent to allow for the recent changes to fully materialize before making any further financial adjustments or refunds. PEHP closely monitors how these modifications affect benefit, utilization, and reserve levels.

Medicare Supplement

While PEHP did acknowledge we would issue a refund last year, the overall trend of the Medicare reserve is moving in the opposite direction. In fact, as of December 31, 2024, the preliminary calculated reserve has experienced a notable decrease compared prior year levels due to PEHP's proactive efforts to manage and optimize reserve levels. These efforts have focused on aligning reserves with claim experience, refining cost management strategies, and ensuring long-term sustainability. One such

effort relates to recent Medicare Part D Program changes that eliminated the donut hole, reducing plan options from three to one. PEHP is year one of a three-year transition to a single Part D rate that will continue to draw reserves. We believe allowing these changes to fully materialize before any further financial adjustments or refunds is prudent.

Responsible Person:

Rob Dolphin, Chief Finance Officer, URS (rob.dolphin@urs.org)

Anticipated completion date of corrective action plan:

Medical: The expected duration of the corrective action plan for Medical is three years from the baseline date of June 30, 2024, with an anticipated completion date of June 30, 2027.

Long-Term Disability: Given the long-term nature of the LTD claims and the impact of recent legislative changes, the corrective action plan is expected to take up to five years, with a target completion date of June 30, 2029, to allow for credible evaluation and appropriate adjustments.

Medicare Supplement: The expected three-year transition period for financially smoothing the elimination of the Medicare Part D coverage gap (“donut hole”) is anticipated to be concluded by December 31, 2027; however, additional time will be needed for stabilization and evaluation of long-term impacts, resulting in an anticipated corrective action plan completion date of December 31, 2028.