



January 18, 2001

**Internal Audit Report 2001-1  
Emergency Medical Services (EMS)  
Billing and Collections  
Anchorage Fire Department**

**Introduction.** In December 1999, a contract for providing ambulance billing and collections administration was awarded to Fosselman & Weiland CPA's Ambulance Billing Service (Contractor). The Contractor is required to prepare and submit invoices to patients' private insurance companies, Medicare or Medicaid; complete claim forms; handle patient inquiries regarding billing and collection problems; and provide any necessary training to the Anchorage Fire Department (Fire Department) personnel. The Contractor is paid a fee based on a percentage of what is collected, with the exception of Medicare where they are paid a flat fee per transport.

**Scope.** The objective of this audit was to determine whether the Contractor was complying with the terms of the contract and to determine if the contract has been economically advantageous to the Municipality of Anchorage (Municipality). The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of October through November 2000. The audit was requested by the Fire Department.

**Overall Evaluation.** Fire Department personnel indicated that they were very pleased with the service being provided by the Contractor, especially their assistance providing information on regulatory changes. The reports provided to the Fire Department were detailed and accurate. However, the Contractor did not always bill within 72 hours of receiving transport data and did not always perform collection follow-up within 60 days of invoicing as required. We also found that

the Fire Department did not always obtain patient billing authorization signatures and insurance information and did not report transports to the Contractor in a timely manner.

The average collection rate by the Contractor was significantly lower than the rate assumed in the contract proposal (69.25% vs. 80%). While this collection rate was more than the rate achieved by the Municipality when billing and collection were done in-house (69.25% vs. 68%), due to the Contractor's higher expenses, we estimated the net contribution to be slightly lower.

## **FINDINGS AND RECOMMENDATIONS**

### **1. The Contractor Did Not Invoice and Begin Follow-up Procedures Timely.**

- a. **Finding.** The Contractor did not invoice and begin follow-up procedures timely. Our sample of 90 invoices revealed that in 27 instances (30.0%), the Contractor did not do the initial invoicing within 72 hours of receiving patient billing information from the Fire Department as required by the contract. All 17 transports on May 16, 2000, were invoiced late. We also noted that 5 of 63 transports (7.9%) did not have claims follow-up done within 60 days of invoice as required by the contract. Late invoices and follow-up could affect the success rate of the collection efforts.
- b. **Recommendation.** The Fire Department should require the Contractor to invoice and begin follow-up within the time frame specified by the contract.
- c. **Management Comments.** Management concurred and stated, "While this part of the audit is a significant finding it also appears that the contract requirement wasn't accurately estimated with the actual system that is used at this time. When the RFP was written it was anticipated that AFD would have an automated Records Management System (RMS) in place as an ideal model for contract requirements. In 2001 AFD will be working towards being able to electronically send all transport

reports to ABS on the next working day by having a script in place that would send all required billing records by the push of a button. Currently, all of this is done manually by one person that has several other responsibilities besides record processing and has no replacement in the event of her being absent. AFD anticipates that RMS will be totally functional by summer of 2001. Additionally, a modification of the scope of services should be done to change the 72-hour requirement to reflect accurately how the system actually performs."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 2. **Patient Signatures and Insurance Information Not Obtained.**

- a. **Finding.** The Fire Department was not consistently obtaining patient insurance information and patient signatures authorizing billing and release of medical information. Our sample of 91 Prehospital Medical Reports revealed that 73 (80.2%) did not have signatures authorizing billing and release of medical information, and 66 (72.5%) did not have insurance information. In instances where the patient is unable to sign, a witness (this includes ambulance personnel), guardian, relative or friend can sign in their place as long as it is clearly documented why the patient was unable to sign. The Fire Department quality control function was not reviewing for these attributes. The result was the Contractor could not file insurance claims since they had to contact the patients to get the authorizations and insurance information.
- b. **Recommendation.** The Fire Department should require paramedics to complete the patient signature and insurance information sections of the Prehospital Medical Reports. Management should also add this to their quality control function.

- c. **Management Comments.** Management concurred and stated, "2001 regulatory requirements will mandate AFD to comply with signature requirements. AFD is currently establishing 2001 requirements for signatures and insurance information. The new RMS will help with quality control for compliance. ABS will also generate a monthly report that will reflect compliance with the requirements."
  - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.
3. **Transports Were Not Being Submitted to The Contractor In a Timely Manner.**
- a. **Finding.** Transports were not being reported to the Contractor in a timely manner by the Fire Department. Our sample of 70 days of transports revealed that it took an average of over four business days from the date of transport to the date the information was submitted to the Contractor and that 12.9% (9 of 70) of the time it took seven or more days. The Contractor cannot start the billing and collections process until the transports are reported to them.
  - b. **Recommendation.** The Fire Department should ensure that transports are submitted to the Contractor in a timely manner. We believe that two or three business days should be the expected standard.
  - c. **Management Comments.** Management concurred and stated, "AFD anticipates that the new RMS will significantly decrease the amount of time that it's now taking to forward transport billing authorizations to the Contractor."
  - d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **The Actual Collection Rate Was Below the Anticipated Rate and Less Than the Breakeven Point.**

- a. **Finding.** The actual collection rate by the Contractor was below the anticipated rate for the contract and less than the estimated breakeven point. The six-month average collection rate for the period April through September 2000 was 69.25%, almost 11% less than the 80% rate anticipated by Management. The 69.25% Contractor collection rate was also 1% less than the estimated contract breakeven rate of 70.34%. While this difference is small, this is the rate needed for the Contractor to net the same percentage of the billings as was done in-house by the Municipality in 1998. As a result, the estimated net funds received by the Municipality are less under contract than if the billing and collections had remained in-house. (See Attachments A and B.)
- b. **Recommendation.** The Fire Department should continue to monitor the collection rate and work with the Contractor to increase the collection rate.
- c. **Management Comments.** Management concurred and stated, "AFD accepts the report findings relative to evaluating the period examined and will continue to monitor the Contractor's performance closely with regard to improving the actual collection rate and therein achieving a net cash flow to the Municipality which exceeds the referenced breakeven point. AFD feels that the Contractor's ability to meet anticipated contract objectives in CY 2000 was somewhat hindered by an extended transition period and the resulting delay in planned efforts to institute desired performance parameters and processing procedures."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on December 1, 2000.

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## Average Collection Rate

Per the Activity Summary Reports							
	April	May	June	July	August	September	Total
Gross Charges	\$294,060.00	\$298,788.00	\$339,800.00	\$337,436.00	\$348,562.00	\$349,808.00	\$1,968,454.00
Adjustment (1)	\$37,337.89	\$41,486.51	\$36,766.65	\$34,132.49	\$56,986.82	\$39,225.97	\$245,936.33
Net Charges	\$256,722.11	\$257,301.49	\$303,033.35	\$303,303.51	\$291,575.18	\$310,582.03	\$1,722,517.67
Pmts Received (2)	\$176,484.39	\$209,466.07	\$171,157.27	\$202,408.63	\$234,617.74	\$198,656.02	\$1,192,790.12
Collection Rate (3)	68.75%	81.41%	56.48%	66.73%	80.47%	63.96%	
	<b>Average Collection Rate</b>						<b>69.25%</b>

Note: 1st Quarter figures were excluded since they were skewed due to start-up and the normal lag in collections.

- (1) these are adjustments for the difference between the standard transport rate and the set rates government agencies such as medicare & medicaid will pay
- (2) total of all types of payments received during that month
- (3) payments received/net charges

## Breakeven Calculation

	MOA In-House	ABS Per Proposal	Breakeven	Extrapolation of 2000 Data
Billed	\$3,629,776.00 a	\$3,629,776.00 a	\$3,629,776.00 a	\$3,445,034.00 e
Collection Rate	<u>68.37%</u>	<u>79.62%</u>	<u>70.34%</u>	<u>69.25%</u>
Total Collected	\$2,481,670.36 a	\$2,890,000.00 b	\$2,553,184.44	\$2,385,580.00 e

### COLLECTIONS BY TYPE

Non-Medicare < 1 Year	\$1,966,289.36 a	\$2,374,619.00 b	\$2,022,951.75 c	\$2,161,191.94 e
Non-Medicare > 1 Year	\$126,197.00 a	\$126,197.00 b	\$129,833.61 c	\$0.00 e
Medicare	<u>\$389,184.00 a</u>	<u>\$389,184.00 b</u>	<u>\$400,399.08 c</u>	<u>\$224,595.24 e</u>
	\$2,481,670.36 a	\$2,890,000.00 b	\$2,553,184.44	\$2,385,787.18

### COST OF COLLECTIONS

Non-Medicare < 1 Year (13.5%)		\$320,574.00 b	\$273,098.49 d	\$291,760.91 d
Non-Medicare > 1 Year (25%)		\$31,549.00 b	\$32,458.40 d	\$0.00 e
Medicare (\$29.60/Claim)		<u>\$46,679.20 b</u>	<u>\$48,023.88 d</u>	<u>\$26,937.96 d</u>
		\$398,802.20 b	\$353,580.77	\$318,698.87
Reduction in Finance Budget	\$282,070.00 b			
<b>Net to MOA</b>	\$2,199,600.36 b	\$2,491,197.80 b	\$2,199,603.67	\$2,067,088.31
<b>Net Rate</b>	60.60%	68.63%	60.60%	60.00%

a - 1998 Actual

b - Per proposal

c - Total collected x percentage based on 1998 MOA actual

d - Collection (by type) x fee rate. (Est Medicare \$ collected/\$246.79 per transport) x \$29.60  
\$249.76 per transport = \$389,184/1577 = Actual 1998 medicare pmts/the number of transports

e - April-Sept 2000 data extrapolated for a 12-month period

(1<sup>st</sup> quarter data was not used because it was skewed due to start-up and the normal lag in collections.)