



Jerry E. Abramson
Mayor

26 Member
Metro Council

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Office of Internal Audit

Emergency Medical Services

Billing and Collection
Activity



Audit Report

Office of Internal Audit

Emergency Medical Services

Billing and Collection Activity

July 2007



Emergency Medical Services

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Activity

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Transmittal Letter

July 12, 2007

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Audit of Emergency Medical Services' Billing and Collection Activity

Introduction

The operating records and procedures for Louisville Metro Emergency Medical Services' (EMS) billing and collection activity were examined. The primary focus of the audit was the operational and fiscal administration of the activity. This included how EMS processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for the Emergency Medical Services' billing and collection activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed for transactions from January 2007 through March 2007. Activity reviewed included billing and collection system reports, ambulance run reports, bank statements, and Metro financial system postings.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not reveal all issues because it was based on selective review of data.

Opinion

It is our opinion that the administration of Emergency Medical Services' billing and collection activity is weak. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen the administration of EMS' billing and collection activity were noted in several areas. Examples of these include the following.

- **Segregation of Duties.** There is not always proper segregation of duties with regards to the processing and reconciliation of billing and collection activity. The person performing daily reconciliations is often involved in the processing of daily activity (i.e. refund activity). This increases the risk that inappropriate activity could occur and go undetected.
- **Monitoring.** There is no supervisory oversight to ensure bad debt write-offs are processed appropriately. Without proper oversight, write-offs could be processed for inappropriate reasons and go undetected, resulting in lost revenue.

The implementation of the recommendations in this report will help strengthen the internal control structure and effectiveness of the administration of EMS' billing and collection activity.

Corrective Action Plan

Representatives from the Louisville Metro Emergency Medical Services have reviewed the results and are committed to addressing the issues noted. EMS' corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with EMS to ensure the actions taken are effective to address the issues noted.

Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Director of Public Protection
Director of Emergency Medical Services
Louisville Metro's External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<i>Issues</i>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

Louisville Metro Emergency Medical Services (EMS) provides 24 hours-a-day, 7-days-a-week pre-hospital emergency medical services to those who live and work in the 386 square mile Metro Louisville area. Services include basic and advanced life support emergency medical care, ambulance transport and technical rescue to the sick and injured. EMS is committed to training, education, quality assurance, and providing medical direction and integrated response with Fire / First Responder services.

EMS has set fees associated with the levels of services it provides. The billing and collection of fees is performed both in-house and through a contractor. As of March 2007, EMS has collected approximately \$8.7 million for emergency medical services during the fiscal year.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed any previous reviews of Louisville Metro Emergency Medical Services billing and collection activity.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

A formal study of the internal control structure was conducted in order to obtain a sufficient understanding to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials/Action Plan

A draft report was issued to Emergency Medical Services on June 15, 2007. An exit conference was held at Emergency Medical Services on June 27, 2007. Attending were Marlene Ater and Michelle Brumleve representing Emergency Medical Services; Kimberly Bates and Michael Norman representing Internal Audit. Final audit results were discussed. A final draft report was issued to Emergency Medical Services on July 2, 2007.

The views of Emergency Medical Services officials were received on July 11, 2007 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Emergency Medical Services’ response was provided within this required timeframe.

Observations and Recommendations

Scope

Emergency Medical Services' (EMS) procedures for administering billing and collection activity were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This included the processing, recording, and monitoring of the activity. Applicable personnel were interviewed in order to gain a thorough understanding of the processes.

A sample of client payments was judgmentally selected from the population of revenue received for the period January 1, 2007 through March 31, 2007. The review focused on the information recorded in the EMS billing and collection system, ambulance run reports, bank statements, and Metro financial system postings. The information was reviewed to ensure activity was processed accurately and appropriately. The review would not reveal all issues because it was based on selective review of data.

Observations

Some issues were noted with the general administration of EMS' billing and collection activity. As a result, the internal control structure is weakened and its effectiveness is impaired. Specifics include the following.

- **Segregation of Duties.** There is not always proper segregation of duties with regards to the processing and reconciliation of billing and collection activity. The person performing daily reconciliations is often involved in the processing of daily activity. Though there is some oversight by an individual that is not directly involved in the processing, the oversight does not include detailed reviews of all billing and collection activity areas.
 - For example, refund requests are generated and payments received by one individual. Since this process is not monitored by another, this could allow for inappropriate activity to occur and go undetected (i.e. funds could be requested and diverted for personal benefit).

- **Monitoring.** There is no supervisory oversight to ensure bad debt write-offs are processed appropriately. Write-offs are processed by various individuals for reasons such as bankruptcy or accounts having no payment activity for a specific period of time. Without proper oversight, write-offs could be processed for inappropriate reasons and go undetected, resulting in lost revenue.

- **Data Entry Delays.** It appears that EMS may be experiencing some data entry delays. For ten transactions reviewed, the number of days between the date of service and entry into the billing system ranged from 14 to 47 days. Data entry delays in turn delay billings. This could delay collection efforts and result in lost revenue, since generally older receivables are less likely to be collected. In addition, some providers discount their payments when claims are not submitted within a designated timeframe.
- **Billing Vendor System Security.** Some EMS billings are processed through a contracted vendor. EMS uploads billing information from their system to the contractor's system so that invoices can be printed and mailed. Though one employee is mostly responsible for the upload process, two EMS employees have the capability and share a single login and password to access the vendor's system. Shared account information lessens individual accountability for activity and weakens effectiveness of internal controls.
- **Processing Insufficient Funds Fees.** EMS does not post the fee payments associated with insufficient funds to the correct revenue account as indicated in Metro Finance's cash management policies. EMS personnel stated it is not easy to identify when the fees are being paid because they are received in normal payment envelopes, and various system screens would have to be accessed to identify when a payment is including the fee. Therefore, EMS posts the fees to their normal revenue account. This practice is misstating financial statement revenue activity, though amounts are likely immaterial.

Recommendations

Appropriate personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Segregation of duties should be incorporated into EMS' billing and collection activity processing. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform reconciliation functions. In cases where complete segregation is not feasible (e.g., staff constraints), appropriate compensating controls should be practiced, such as monitoring or oversight by someone independent of the billing and collection process.
- ✓ A major component of any reporting system is proper monitoring and reconciliation. It is essential that EMS billing write-offs be closely monitored for appropriateness. This will help lessen the risk that write-offs could be processed unnecessarily or for inappropriate reasons.

- ✓ EMS should establish timeframes or goals by which to have ambulance runs keyed into the billing and collection system. Some items to consider when establishing goals include staffing resources, benchmarking statistics, and probability of collection. Establishing defined goals for data entry helps promote efficiency and should improve the overall effectiveness of the collection process.
- ✓ EMS should establish separate user accounts and passwords for each individual accessing a system and processing activity. This will help ensure accountability is maintained and strengthen the effectiveness of internal controls.
- ✓ EMS should consider modifying their processes regarding insufficient fund payments in order to comply with Metro policy. Ideally, it would be best if the billing and collection system could flag a transaction so that it is easily identifiable as having an insufficient funds fee added to it. If this is not feasible, then manual measures may be necessary. For example, described processes indicated that a folder is maintained of support documentation whenever client payments are returned for insufficient funds. The folder could be monitored periodically (e.g. monthly) to determine if client payments were received. A journal voucher could be completed for those transactions where a client payment was received to transfer the funds to the proper revenue account.

Emergency Medical Services' Corrective Action Plan

The following corrective actions will be implemented to address the issues associated with EMS' billing and collection activity.

- With the implementation of the electronic Patient Care Reporting System (ePCR) many of the job duties will be changing in the Billing Office. EMS plans to move the business functions and the opportunity to segregate the duties for reconciliation and collections activity will move under the business office duties at this time. Implementation begins August 2007, interface to billing department will begin approximately January 2008.
- The Billing Supervisor will print a daily "Bad Debt Journal by Date" report from the billing software and monitor any "unusual" patterns of write-offs by users. Routine spot checks will be conducted to discourage any wrongful write offs.
- Performance standards already in place to benchmark data entry and other billing job duty goals, and are used in employee reviews. However, EMS believes the new ePCR wireless electronic patient care reporting system that is currently being implemented will significantly decrease delays in data processing in the billing department. This system will allow providers to record patient information in the field and upload that information directly to the Billing databases.
- Each employee now has their own login and password through the contract vendor.
- The insufficient funds process has been modified, and EMS is now flagging the return envelopes so that insufficient funds can be identified before posting to the patient's account.
- Billing will continue to verify / process paper run reports pursuant to current procedures, and will also continue to pursue policies that will reduce the number of missing / incomplete forms, as EMS has for the past few months. The new ePCR system currently being implemented will have a great effect on capturing data, because patient information must be completely filled out by emergency personnel in the field, then it can be uploaded seamlessly to the Billing interface.