



INTERNAL AUDIT REPORT

DATE: March 27, 2019

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Kenneth Armstrong, Commissioner of Public Safety
William O'Mara, Commissioner of Finance & Administration
Kristin Chilton, Fire Chief
Rusty Cook, Director of Revenue
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Teresa Gipson, CFE, Internal Auditor

RE: Fire & Emergency Services (EMS) Billing Audit

Background

The Lexington Division of Fire and Emergency Services (Fire EMS) provides advanced life support and ambulance transport services within Lexington and Fayette County. Fire EMS is the first and only accredited fire-based paramedic program in the Commonwealth of Kentucky and received their official accreditation from the Commission on Accreditation of Allied Health Education Programs. Fire EMS



responded to approximately 60,000 total incidents last year with over 48,000 of those being for EMS incidents resulting in hospital transports. Fire EMS has contracted with Medical Compliance Services, Inc. to provide consultant services in compliance with the Office of Inspector General's guidance for ambulance suppliers.

For EMS billing purposes, the LFUCG has contracted with Ambulance Medical Billing (AMB) to provide billing and collection for EMS services, and Professional Recovery Consultants, Inc. and Municipal Services Bureau for delinquent account collection services on AMB and older EMS accounts, respectively. During the audit period, the Division of Revenue (Revenue) was the only Division with access to AMB's billing system, and served as the liaison between AMB and Fire EMS.

When an EMS vehicle responds to a call, the EMS crew examining the person selects their clinical findings from a drop down list included in ESO Solutions software that EMS uses for electronic patient care reports. The EMS crew must also complete a narrative section of the event using this EMS software. This information becomes part of the patient's medical records. ESO Solutions software also serves as the medical service billing software. This information is then provided to Certified Coders at AMB, who use the information to enter the appropriate billing codes and generate charges in the AMB billing system. If the AMB Certified Coder identifies data deficiencies in the information provided by the EMS crew, AMB will contact EMS personnel within the responsible Battalion Chief's office in the Division of Fire through AMB's secure network to obtain the correct data in order to complete the billing and generate the invoice. According to the Battalion Chief responsible for EMS, the vast majority of such deficiencies occur when patients are unable or unwilling to provide information.

In addition to the process described above, the AMB Operations Director informed us that if there is a denial for non-covered service (e.g., patient coverage is terminated, patient cannot be identified as insured, or there is missing information necessary to complete the billing), AMB will utilize its eligibility tools in an attempt to locate other patient insurance information. The AMB Operations Director stated that AMB has a team of analysts who work with denied claims, and will attempt to identify and fix patient demographic, coding, and/or claim formatting errors (when appropriate), and then refile the claim before assigning all the costs to the patient.



Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Fire EMS is complying with the billing function guidelines in the OIG Compliance Program for Ambulance Suppliers
- Billable ambulance runs are billed to insurance carriers and/or patients by the third party biller AMB
- Collection processes of the third party biller AMB are adequate to account for revenue collected
- Invoices from AMB are adequately supported and correctly calculated
- Denied claims and outstanding billings are monitored, corrected, and resubmitted by AMB when appropriate
- ESO Solutions system components used by Fire EMS demonstrate basic application-based controls as defined in the Institute of Internal Auditors Global Technology Audit Guide on Information Technology Controls
- Audit reports of the third party biller AMB do not contain material weaknesses
- Debt collection activity is sufficient to collect outstanding EMS aged invoices

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of review for our audit included transactions from June 1, 2016 through April 30, 2018.

AUDITOR'S NOTE: Due to the concern of the Chief Administrative Officer and at her request, the Office of Internal Audit will perform a Management Action Plan Progress Review within the next year to determine the status of the management action plans included in this report.



Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that most of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.



SUMMARY OF AUDIT FINDINGS

Finding #1: Internal Oversight of the Billing Process is Not Sufficient **Priority Rating: High**

Condition:

LFUCG did not have sufficient oversight for the billing process and relied solely on third party contractor AMB to provide billing, coding, and collection activity, including a third party consultant who also provided additional assurance that the billed claims were correct according to Medicare policies and procedures. There was insufficient and inconsistent collaborative efforts between Revenue and Fire EMS to adequately monitor the third party contractor for their billing and collection activity.

There was some confusion within the management of each Division regarding the responsibility of billing oversight. Fire EMS management understood their role was to solely provide patient care and demographic information and that the billing and collection process was entirely the responsibility of Revenue. However, Revenue management indicated that they do not have the information or expertise to determine if all billable EMS runs are billed, and believe their only responsibility is to handle collection activity.

Effect:

EMS revenues may not be accurate due to a lack of oversight of the billing process.

Recommendation:

Fire EMS and Revenue should both take a more active role in monitoring the billing and collection process to ensure all billable Fire EMS runs are billed, collected, and accurately posted to LFUCG financials and to patient accounts through monitoring of the third party vendor. There should be a collaborative effort between both Divisions that may require communication on behalf of the management teams in sharing data to ensure the third party vendor is billing and collecting for all eligible EMS services provided.

Director of Revenue Response:

I agree with the recommendation of Internal Audit that there needs to be a more collaborative effort between both Divisions. The Division of Revenue has committed to oversight of the billing process. The Divisions of Revenue and Fire have met



multiple times to discuss our future oversight. The Division of Fire has been added to monthly meetings that Revenue has been having with AMB, which will provide both Divisions and AMB time to discuss any billing issues. Fire has also been given access to the Billing portal that will allow them to see unbilled runs and research and correct the runs that have not been billed.

Chief Administrative Officer Response:

I concur with the responses of Revenue, Fire, and Commissioner of Public Safety.

Fire Chief Response:

The Division of Fire is committed to increasing communication with the Division of Revenue to ensure improvement in EMS collections. Fire has already met with Revenue to discuss this matter. It was mutually decided to have regular meetings and for the Division of Fire to generate a report of EMS run numbers so that the Division of Revenue could compare runs made to runs billed.

Commissioner of Public Safety Response:

Such meetings should increase communication between the two Divisions, which will assist in identifying and addressing issues as they occur.

Finding #2: Some EMS Hospital Transports Were Not Billed

Priority Rating: High

Condition:

Fire EMS had 28,834 billable hospital transports from June 1, 2017 through April 30, 2018. Of those hospital transports, 1,133 (3.9%) were not coded and billed to insurance and/or patients by LFUCG's third party billing agency AMB. After working with Fire EMS management, we determined the issue was caused by the incident number not being unique to each patient transport. This caused certain billable EMS runs to be flagged as duplicates by third party billing agency AMB and not billed. Prior to the end of fieldwork, Fire EMS management stated they had implemented a solution which involves electronically replacing the incident number with the unique run number for all future ESO reports that are submitted to AMB. The impact of this change will result in ESO reports being identified by the run number instead of the incident number. ESO is also making a change in their software so that only the billable runs are submitted to AMB. These combined changes should resolve the non-billing issue; however, this should be monitored closely. The list of hospital transports not billed



was provided to AMB prior to the end of fieldwork, and they indicated they would promptly process all unbilled transports and issue billings.

We subsequently extracted billing data from AMB to determine the status of the above-mentioned non-billed hospital transports and noted that 1,030 of these hospital transports had subsequently been billed with total payments posted of \$131,222 and a remaining balance of \$332,460 still to be collected. At that time, there remained 103 hospital transports that were not billed. These hospital transports have been forwarded to AMB for review.

We did not review individual claim activity; however, we noted a significant amount of adjustments in the amount of \$410,597 were made for these claims. According to the AMB Operations Director, these adjustments reflect any type of write off on the cost of the EMS run. The adjustments could be contractual, a discount, bad debt, or a full adjustment on the EMS charge due to some non-billable reason.

We also extracted all billed amounts below the LFUCG ordinance approved rate to determine that all ambulance transports were adequately charged. We noted that two of six ambulance transports were not coded as emergent transport and therefore, deemed not billable by the agency. The AMB Operations Director has informed us that both claims were corrected and rebilled. One account has not been paid and has been referred to Collections, and the other account has been paid.

Effect:

When billable ambulance transports are not billed and/or correctly coded, LFUCG revenue is affected.

Recommendation:

The Divisions of Fire and Revenue should work together to ensure that the solutions to the billing issues noted above are fully implemented. This should include reviewing the changes made by Fire EMS to import billable transports to ensure the process is adequate to include the entire billable transport population. Additionally, the billing and collection process as performed by AMB should be periodically monitored to ensure the entire population of EMS transports are billed. The medical consultant contract should be expanded to include a claim adjustment review to provide reasonable assurance that claim adjustments are appropriate and justified.



Director of Revenue Response:

In discussions with Fire and as noted in the finding, there was a previously unknown technical error affecting the import of EMS data to the AMB. This error has been permanently corrected. Per Fire, the solution involved replacing the incident numbers that were submitted with run numbers. This provides a unique number for each transport and eliminates billable runs from getting flagged as duplicates. Fire also updated the EMS software, ESO Solutions, to only send billable runs to AMB. Prior to the change AMB would have to determine whether a run was billable or non-billable.

A third measure that has been taken is the Division of Fire has been given access to the billing portal and are able to run a query that shows accounts that have not been billed. This will allow them to accurately bill accounts that should have been billed but were not complete. As part of the Division of Revenue's oversight, we will review a report monthly that is produced by AMB (EMS Billing Agent) and correspond with Fire on any open runs in question that have not been billed monthly. Issues with runs would be discussed during the monthly meetings.

Chief Administrative Officer Response:

I concur with the recommendation and responses.

Fire Chief Response:

As noted in the Condition section of this Finding, there was a previously unknown technical error affecting the import of EMS data to the billing company (AMB). This error has been permanently corrected. The solution involved replacing the incident numbers that were submitted with run numbers. This provides a unique number for each transport and eliminates billable runs from getting flagged as duplicates.

A further measure that was implemented was having the EMS software company, ESO Solutions, only send billable runs to AMB. Prior to this change the billing company would have to determine if a run was billable or non-billable. The result is an elimination of AMB's human analysis of whether to bill or not bill. This greatly simplifies the process for AMB because now every run AMB receives is a billable run.

Medical Compliance Services was contacted regarding the evaluation of adjustments and it was confirmed that they provide this service. The direct response regarding this matter from Nancy Horn (President) Medical Compliance Services, Inc. is as follows: Adjustments are always extremely high just due to Medicare and Medicaid adjustments as well as the Jane/John Doe that eventually get adjusted. People who are not familiar



with Medical do not realize adjustments are always going to be high - it is just the nature of the beast - however - I do know what to look for so can assure LFUCG if all are appropriate adjustments or if there is cause for concern.

Commissioner of Public Safety Response:

These two changes should properly address billable incident related issues and should increase efficiency in this area very quickly.

Finding #3: Reconciliation Needed Between Payments Received by LFUCG and Payments Posted to AMB Patient Accounts
Priority Rating: High

Condition:

The majority of EMS payments are submitted to LFUCG through the ACH process and posted to PeopleSoft Financials as directed by contractual agreement with AMB. However, payments are also submitted directly to AMB and to our collection agencies. Reconciliations were not performed to ensure that EMS payments received and posted in PeopleSoft matched to AMB's patient account payments. In our communication with AMB, they stated they would provide reconciliation services; however, LFUCG must provide their cash ledger of EMS payments. We submitted a detailed copy to AMB of all payments received and posted in PeopleSoft for January 2017. AMB provided a detailed reconciliation with notations indicating the dates that payments were posted to patient accounts, which aided in our reconciliation as some payments were posted by AMB in previous months.

Effect:

If payments to accounts are not accurately and timely posted, accounts receivable reporting may not be accurately reflected in the financials.

Recommendation:

The Division of Revenue should amend the agreement with AMB to require they perform a monthly reconciliation between payments received and posted in PeopleSoft with payments posted to patient accounts by AMB. Revenue should provide detailed ledger documentation to include the ACH number and insurance agency information. The AMB reconciliation should be returned to Revenue personnel for their review and verification of completeness of all reported revenues and to accurately report the information.



Director of Revenue Response:

The Division of Revenue agrees with the recommendation by Internal Audit on the reconciliation process. Revenue will provide a report to AMB monthly that will allow them to perform the reconciliation. This process is estimated to be implemented by the end of June 2019.

Chief Administrative Officer Response:

I concur with the recommendation and response of Revenue.

Finding #4: Payment Made for AMB Services Rendered Without Supporting Documentation**Priority Rating: High****Condition:**

LFUCG's contractual agreement with AMB requires a 4.6% commission fee be paid to AMB for all payments received as a result of their billing services. We were able to verify that AMB's commission amounts were accurately calculated based on AMB's monthly invoices submitted to Revenue. However, supporting documentation for the monthly collection amount was not provided for Revenue's review and verification of the calculated percentage.

Effect:

Payment of commissions without supporting documentation may lead to over/under payment.

Recommendation:

AMB should provide supporting documentation to Revenue through their software in a secure monthly file. Revenue should review the supporting documentation file for completeness and verify that the invoiced amounts correctly reconcile to payments received in PeopleSoft.

Director of Revenue Response:

The invoice that is provided by AMB currently includes the billing calculation (Payments received multiplied by a percentage Fee). Revenue will compare the monthly invoiced amount to the amount noted on the monthly financials as well as monthly payment detail. This process is currently being implemented.



Chief Administrative Officer Response:

I concur with the recommendation and response of Revenue.

Finding #5: Deficiency Reports and Denied Claims Percentages Should be Monitored**Priority Rating: High****Condition:**

A monthly Deficiency Run report is provided to LFUCG through the AMB software portal. This file details comments from AMB coders regarding billable transports that may need additional information before insurance will pay them, or it may contain notations regarding missing patient demographic information. This report was not monitored internally by Revenue or Fire EMS (Fire EMS did not have access to the AMB billing system during audit fieldwork).

Using the Financial Summary reports provided by AMB, we also calculated the monthly percentage of denied claims. We determined the percentage of denied claims reported by AMB for 2017 and 2018 significantly exceeded the historical baseline of 10% used by the Centers for Medicare and Medicaid Services published in a 2015 report. The monthly percentage of denied claims reported by AMB for calendar 2017 ranged from 20% to 49%. From January 2018 through April 2018 the monthly percentage of denied claims reported by AMB ranged from 24% to 31%.

Effect:

Claim deficiencies and denied claims may decrease payment for EMS services rendered.

Recommendation:

The Deficiency Run report and denied claims percentages should be reviewed on a monthly basis by Fire EMS to provide any additional demographic information as requested by AMB. The Division of Revenue should monitor deficiency numbers and denied claim percentages on a monthly basis for reasonableness to ensure they do not increase significantly from month to month without reasonable justification, since increases in deficient and denied claims may decrease payment for EMS services rendered. Significant monthly variances should be promptly examined with the assistance of AMB personnel. The results of such examination should be reviewed by both Fire and Revenue for any corrective actions, and all actions pertaining to programmatic issues, billing, and collection should be resolved by the responsible Division. Fire EMS should also consider using these reports for educational and



training purposes to ensure EMS personnel gather complete and accurate demographic information to assist in billing processing.

Director of Revenue Response:

The Division of Revenue is committed to monitor deficiency numbers and denied claim percentages during their monthly meeting. Fire has updated their ESO Solutions software to require the collection of patient demographic information. This information must be included in an EMS report before it can be submitted. LFD also had two department wide training sessions to specifically address EMS reporting to ensure that claims percentages are reasonable.

Chief Administrative Officer Response:

I concur with the recommendation and responses.

Fire Chief Response:

The Division of Fire is dedicated to continuous improvement. Based on deficiency reports and conversations with the AMB, the LFD has taken action for improvement. At the request of the LFD, ESO solutions software now has mandatory reporting requirements to collect patient demographic information. This information must be included in an EMS report before it can be submitted. In addition, the entire Division has had two department wide training sessions this year that specifically addresses EMS reporting.

Commissioner of Public Safety Response:

Agree with action taken and what should be its positive affect on future operations.

Finding #6: Bad Debt Write-off Accounts Not Submitted to LFUCG

Priority Rating: Moderate

Condition:

We reviewed AMB's monthly Financial Summary for debt write-off to determine the effectiveness of the collection process. We noted that AMB wrote off \$54,644 in patient accounts from January 2017 through April 2018 (this does not include adjustments made to accounts). According to Revenue personnel, AMB is not authorized to write off bad debt. Revenue personnel thought that only the Department of Law could authorize the write off of bad debt. AMB provided the list of written off accounts and this information was submitted to Revenue for their documentation.



Effect:

EMS bad debt accounts should only be written off after proper authorization is given by LFUCG management.

Recommendation:

We were informed by the Commissioner of Law that it is not necessary to consult the Department of Law regarding the write-off of EMS bad debt. Therefore, AMB should periodically provide a list of patient accounts suggested for write off to bad debt to the Division of Revenue for approval.

Director of Revenue Response:

The Division of Revenue agrees that bad debt accounts should receive proper authorization by Revenue. AMB will provide a list of accounts they suggest to be written off to the Revenue Supervisor that will be submitted to the Director of Revenue for authorization. This will be implemented immediately.

Chief Administrative Officer Response:

I concur with the recommendation and the response.

RISK OBSERVATION

Standards for the professional practice of internal audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with the EMS billing process but does not represent a violation of statutes, policies, or procedures. It is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

Community Education on Fire EMS Services Recommended

According to AMB's monthly reports for the period June 1, 2016 through April 30, 2018, 12.51% of EMS billings listed Self-Pay patients as the current payer. Since EMS fees could have a significant financial impact on some of the most vulnerable clients served, we recommend that LFUCG conduct a campaign to educate the citizens of Fayette County on the use of ambulances, their associated expense, and the importance of providing all necessary demographic information and all medical insurance information to EMS personnel either at the scene or immediately after medical care has



been provided. Such education regarding the use of Fire EMS services would also promote the productive use of available resources and help control costs.

Fire Chief Response:

It is generally not in the best interest of the citizens to suggest a cause for not calling 911. However in many situations an ambulance is not needed. To address this issue the Division enacted a Community Paramedicine program. This program operates based on referrals from other responders to intervene when individuals erroneously use or over use the EMS system. Through proactive measures the Community Paramedicine personnel have been able to educate and provide alternatives to calling for an ambulance for many of our most vulnerable citizens. These proactive measures include: Helping navigate a complex healthcare system by helping find/fund less expensive medications, organizing transportation to non-emergent medical appointments, etc.

Commissioner of Public Safety Response:

The Community Paramedicine program has had a direct impact on “unnecessary or excessive” use of EC services and continued education of extreme users should have a sustained positive impact.

