HSSK

REPORT

FORENSIC ANALYSIS OF CCEMS – ESD11 FUNDING – 2016 AND 2017

Prepared For:

Board of Directors
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HSSK is not a CPA firm

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Section I
INTRODUCTION

HSSK was retained to review and analyze financial and non-financial documentation concerning the annual funding of Cypress Creek Emergency Medical Services (CCEMS) with Emergency Service District 11 (ESD11) tax generated funds. Specifically, this report addresses certain concerns of the funds provided by ESD11. ESD11 asked HSSK to provide the following services in response to the aforementioned concerns:

1. Verify the mathematical accuracy of the funds provided by ESD11 to CCEMS for years 2016 and 2017.
2. Verify that provided funds were spent as authorized/designated – were the uses of funds appropriate and as specified noting any malfeasants or red flags.
3. Verify that uses of funds designated as ESD11 costs are not overstated after considering CCEMS other sources of funding and CCEMS uses of funds. Stated differently, verify that expenses are correctly allocated between ESD11 and CCEMS after considering budgets and any related sources of funds.
4. Analyze the funding needs of CCEMS. We understood funding needs to mean determine why CCEMS could not become self-funded and why CCEMS continues to be more reliant on funds from ESD11. Therefore, the following was incorporated to analyze the funding needs:
    a. Quantify the driving forces for funding needs, if possible
    b. Determine possible increase/decrease to historical or proposed future funding.

This report and analyses are based solely upon the information that has been provided to me and described in this report. Possession of this report or a copy thereof does not carry with it the right of publication of all or part of it, nor may this report be used for any other purpose without the previous written consent, and in any event only with proper authorization. **Should additional information become available, I reserve the right to determine the impact, if any, the new information may have on my opinions and**

conclusions and to revise my opinions and conclusions if necessary and warranted.

Section II
CONCLUSIONS

1. The mathematical accuracy of ESD11 provided funds are correct for both years 2016 and 2017.

2. Uses of ESD11 funds as designated were tested and found to be properly categorized.

3. Uses of ESD11 funds as designated are not properly classified for expenses (1) Insurance – Health; (2) Wages – EMS; (3) Wages – Comm Center; and, (4) Social Security. Therefore, ESD11 is providing more than its share of funding.

4. CCEMS has excess funds (profit) over $2,937,000 and $2,671,000, respectively, for years 2016 and 2017.

5. CCEMS excess funds are due in part to the generation of other sources of funds and charging ESD11 for the related expenses (designating the uses of funds as ESD11).

6. The budget process of CCEMS does not incorporate historical uses of funds and any anticipated operational growth. Therefore, budgeted items are underfunded compared to historical actual results. However, by adding new expense line items to be funded by ESD11, the budgeting understatements are concealed or not readily known.

7. Collection of service fees has consistently declined since year 2010. Prior to 2010, collections were over 35%. Collection of service fees have declined to 22% through 2017. Had collections maintained a minimum collection rate of 35% from 2011 through 2017, CCEMS would have collected an additional $14,515,292 in funds (profits).

Section III
DISCUSSION

Throughout the analysis and examination several limitations were imposed by CCEMS:

1. CCEMS has undergone several recent investigations by federal agencies and therefore representatives of CCEMS were reserved in responding to data requests and answering interview questions.
2. Original data was limited to onsite analysis and could not be copied for off-site analysis or copied and held for support of our analysis.
3. Senior representatives of CCEMS believe funds generated by CCEMS belong to CCEMS and should fall outside the consideration and enquiries of ESD11 and therefore outside the scope of this examination. Funding generated by CCEMS includes services provided to other entities outside of ESD11, regardless if the generation of those funds increase the expenses funded by ESD11.
4. CCEMS senior representatives consider ESD11 as a subordinate organization, and its duties limited to providing tax generated funds. As a result, not all questions were answered and not all data requests were satisfied.

Historical Financials

CCEMS has reported a profit of about $7,000,000 for the period 2011 through 2017. Depreciation and interest expenses during the same period totaled about $9,900,000 ($7.5 MM depreciation and $2.4 MM in interest). Therefore, earnings before interest and depreciation (EBIDA) was about $16,900,000 for the 2011 through 2017 operating years.

During the years 2016 and 2017, CCEMS reported profits of about $5,600,000 ($2.9 MM and $2.7 MM, respectively). Depreciation and interest expenses during the same period totaled about $3,000,000 ($2.4 MM and $0.6 MM, respectively). Therefore, earnings before interest and depreciation was about $8,600,000 for 2016 and 2017 operating years in total.

ESD11 provided funds have exceeded $72,500,000 during the period of 2011 through 2017. In year 2015, ESD11 provided $10,726,000 in funds. ESD11 increased the funding to $13,327,000 in year 2016 or $2,511,000 in additional funding. For year 2017, funding was increased to $14,353,000 or by $1,116,000 over 2016 ($3,627,000 increase over the 2015 amount). The annual increases in ESD11 funding during years 2016 and 2017 exceed the reported profits realized by CCEMS as illustrated below:

Year	ESD11 Funding	Increase in Funding Amount	Increase in Funding Percent	Profits	Profits Without Increased Funds
2011-2014	$ 34,212,065			$ 407,898	
2015	10,725,665			963,653	
2016	13,237,052	**$ 2,511,387**	23%	**2,937,199**	$ 425,812
2017	14,352,828	**1,115,776**	8%	**2,671,078**	1,555,302
	$ 72,527,610	$ 3,627,163		$ 6,979,828	**$ 1,981,114**

Therefore, regardless of the ESD11 additional funding, CCEMS would have reported a profit.

Dispatch Report

CCEMS records calls and dispatches for the district and for others. We requested and were provided monthly dispatches for the three-year period of 2015 through 2018. We were instructed that calls designated as CCEMS were district calls regardless if there was a dispatch. Likewise, calls designated as Other were for calls outside the district of which CCEMS has an agreement to provide call/dispatch services.

We received data directly from Communications, from executive reports and from the Executive Director of CCEMS. It should be noted; all annual counts stated on the three source documents are different.

Year 2015 (executive report) states 37,512 EMS calls, Communications stated “the total number of calls or incidents that CCEMS ran in 2015 was 34,483.” Dispatch calls stated on document received from Executive Director indicates 37,732 CCEMS dispatch calls. For the purposes of this report, the information from CCEMS’ Executive Director was used.

Dispatch calls increased by 3.43% in 2016 and by 4.43% in 2017 as compared to prior year. Increase in Other dispatch calls and Total calls are illustrated below:

Year	CCEMS	Other	Total	Percent Increase Over Prior Year		
				CCEMS	Other	Total
2015	37,732	28,741	66,473			
2016	39,034	34,587	73,621	3.45%	20.34%	10.75%
2017	40,763	50,395	91,158	4.43%	45.71%	23.82%
	117,529	113,723	231,252			

Source: Cypress Creek EMS Other Comm Center Agency Incidents 2015-2017

Human Resources and Payroll Process

The Objectives in Human Resources (HR) and payroll processes were the following:

A. Determine if the Cypress Creek EMS HR and payroll processes are capturing accurate and complete information;
B. Determine if the Cypress Creek EMS routinely monitors, evaluates, and reports its HR and payroll costs and performance results; and,
C. Determine if the Cypress Creek EMS has developed and implemented written HR and payroll policies and procedures, and are operating in compliance with its policies and procedures, laws, regulations and/or guidelines.

We performed a walkthrough of the payroll and benefits (healthcare) process to facilitate the above objectives.

In addition, we interviewed the Human Resources ("HR") Manager to understand the hiring process. We did find basic segregation of duties controls in place. There was segregation between the authorization of employees and adjustment to employee pay, record keeping of hours worked, and access to sensitive employee information. We performed testing of the employees by performing analytics on the number of employees and the average salaries in relation to payroll expense. We gathered the following statistics during 2016, 2017, and through September of 2018.

Year	Average Number of Employees (Full-Time Regular Employees)	ESD11 Employees	CCEMS Employees	New Hires	Terminated Employees	Employee Turnover Ratio
2016	201	182	19	44	40	19%
2017	213	195	18	69	45	21%
2018	218	200	18	24	31	14%

Average number of employees has increased by 2-6% during the period and CCEMS considers (classifies) 90-92% of all employees to be ESD11 employees (to be funded by ESD11). Also, CCEMS considers no growth in number of employees for CCEMS employees (those employees wages for services not funded by ESD11).

We tested a sample of 69 employee files based on common indications of possible ghost employees such as address issues, low numbers of Paycom record changes, numerous Paycom record changes, etc. and found no evidence of ghost employees.

We tested a sample of 29 changes to employee pay based on the number of changes to the employee's file within the system (Paycom) during our scope period. In 97% of the cases, we found authorization of employee pay rate changes by way of employee evaluations, promotions, or rate adjustments as a result of a salary survey performed in May of 2018. We found one occurrence of a change without written documentation. In that case, the HR Manager made the change of $1.00 per hour based on verbal authorization from the Executive Director. We recommend all changes to employee salaries be supported with documentation.

During our interview of the HR Manager, we inquired into HR policies and procedures. We were informed that McGrath Consulting Group would prepare the policies and procedures for CCEMS. There were no policies and procedures shared with HSSK. We noted from CCEMS Board Meeting minutes that the policies and procedures were expected in August of 2018. In October of 2018, the new policies and procedures were not available to HSSK.

We analyzed the Employee Masterfile Change Report on multiple occasions - scope period of January 2016 through September 2018. Initially, we were not given permission to review any of the transactions for Administrative, Maintenance, and Supervisory staff. The purpose of evaluating the report was to determine if changes, particularly to payroll,

were supported. We were not provided with a copy of the report for our files. In lieu of a copy of requested data which could have been reformatted onto our workpapers electronically, we retyped selected data onto our spreadsheets in the offices of CCEMS – in many cases, we could not leave the HR department offices.

CCEMS ran a report of active employees during the scope period. Prior to our examination, the HR Manager removed the Administrative, Maintenance, and Supervisory staff. Subsequently on October 8, 2018, we were provided access to the complete list of active employees during the scope period.

Through testing of employee payroll changes, we learned that employee bonuses are not listed as a payroll change. There is also a holiday bonus paid to primarily EMS and Communication Center employees in the last weeks of December. We also learned that a pay scale was not utilized prior to May 2018. The effect of not using a pay scale is that some employees are over paid for their position. Employees outside of the pay-scale will be paid a lump-sum and/or longevity bonus based on their performance as opposed to an increase in their hourly wage.

CCEMS Payroll

We Interviewed and requested data through the Human Resources Generalist, (HR Generalist). The following are our general findings.

Payroll is run every two weeks on Tuesday and paid the following Thursday.

The Scheduler maintains hourly work records and calculates the (1) regular hours; (2) scheduled overtime (built-in overtime); and, (3) any extra overtime. Built-in overtime prevents CCEMS from finding/utilizing an automated system. Therefore, the scheduler manually inputs hours into the Paycom system before sending the information to the HR Generalist. The Scheduler also manually maintains a separate spreadsheet to capture leave (vacation or sick) time.

The HR Generalist will maintain an “active payroll” folder for each pay period where garnishments, child support, bonuses with mid-pay period adjustments and other adjustments are documented. Warning will be given by the system for large deductions,

deduction posted to the system versus actual deduction mismatch, address changes, and deposit changes. There are controls in place to alert the HR Generalist if the pay is unusual in the number of hours or in amount. An e-mail will be forwarded to the HR Generalist by the PayCom account specialist when payroll is ready to be processed (paid). A projected check registry is run and reviewed by the HR Generalist prior to finalizing payroll.

1099 payments were analyzed and found to be consistent during the scope period in both amount and individuals receiving checks. There are two 1099 payees – first payee is responsible for taking minutes at board meetings while the second is the Medical Director.

We selected seven payrolls to test the payroll process. We to traced the number of employees paid, the total number of hours, as well as we selected two employee's each from eight reported payrolls to trace (1) from the Scheduler's spreadsheet to the Paycom Payroll register; (2) to employee's paystub; and, (3) to the CCEMS general ledger.

In tracing payroll, the following documents were utilized:

A. Paycom Summary report with various deductions, gross pay, net pay, employer pay reports (source: HR Generalist);
B. Break-down of gross pay and employer taxes by department (source: HR Generalist); and,
C. Cash call from Paycom with information regarding what Paycom charged as well as details of the various taxes that were to be paid (source: Accounting Admin. Assistant).

Healthcare

Healthcare costs are posted to the General Ledger with the bank statement as support. We contacted Chris Charron, President of Benefit Design Consultants to obtain a summary of benefits charged to CCEMS by Cigna. These records are not maintained inhouse by CCEMS or were unavailable to HSSK through CCEMS.

We analyzed the employee health insurance payments to gain an understanding of healthcare charges (vendors) and amounts reported in the healthcare account (historical comparison). We were able to determine which costs are paid by the employee, the employer, and shared. We were also able to determine which costs are classified as CCEMS and which costs are classified as ESD11. CCEMS classifies $30,000 each month of the healthcare charges as CCEMS while the balance is classified consistently as ESD11 for all periods January 2016 through December 2017.

CCEMS's contract with Cigna begins on July 1 and concludes on June 30. To cover the scope period, we requested the contracts for 6/2015-5/2016, 6/2016-5/2017, 6/2017-5/2018, and 6/2018-5/2019 (four administrative and four stop loss contracts). HSSK was initially provided with Health Plan marketing materials for some of the years which were useless. After HSSK requested actual contracts, we received administrative and stop-loss contracts effective June 2016 and June 2017. We received a "Claim Doc" contract effective June 2018.

Medical Supply Inventory

CCEMS uses a perpetual inventory system known as Operative IQ. There are PAR[1] values set in the system for the trucks, stations, and main supply. The system also tracks the expiration dates of the inventory items where that is crucial. Usage is entered in the system at each of the three points - trucks, stations, and main supply.

Each station has a supply room which is under the control of the station captain. From shift to shift the station captains are responsible for performing cycle counts on the inventory.

Station Captains have the ability to adjust inventory weekly by category. Since there is not an "in transit" category, changes made by the station captains may conflict with the actual inventory levels of those items. The category that is inventoried rotates from one week to the next per a schedule.

[1] Point at which inventory is reordered.

Our analysis did not include observing narcotic inventory. It is our understanding there is a shift to shift inventory exchange for the narcotic inventory in accordance with the DEA regulations.

There are 13 stations in the system. A report is generated by the Logistics Manager's assistant on a daily basis of the items that need to be resupplied at the stations.

The Logistics Manager determines which companies will provide the medical supplies every year and a half based on a request for proposal (RFP). The Logistics Manager selects the vendors and signs contracts which does not commit CCEMS to one vendor.

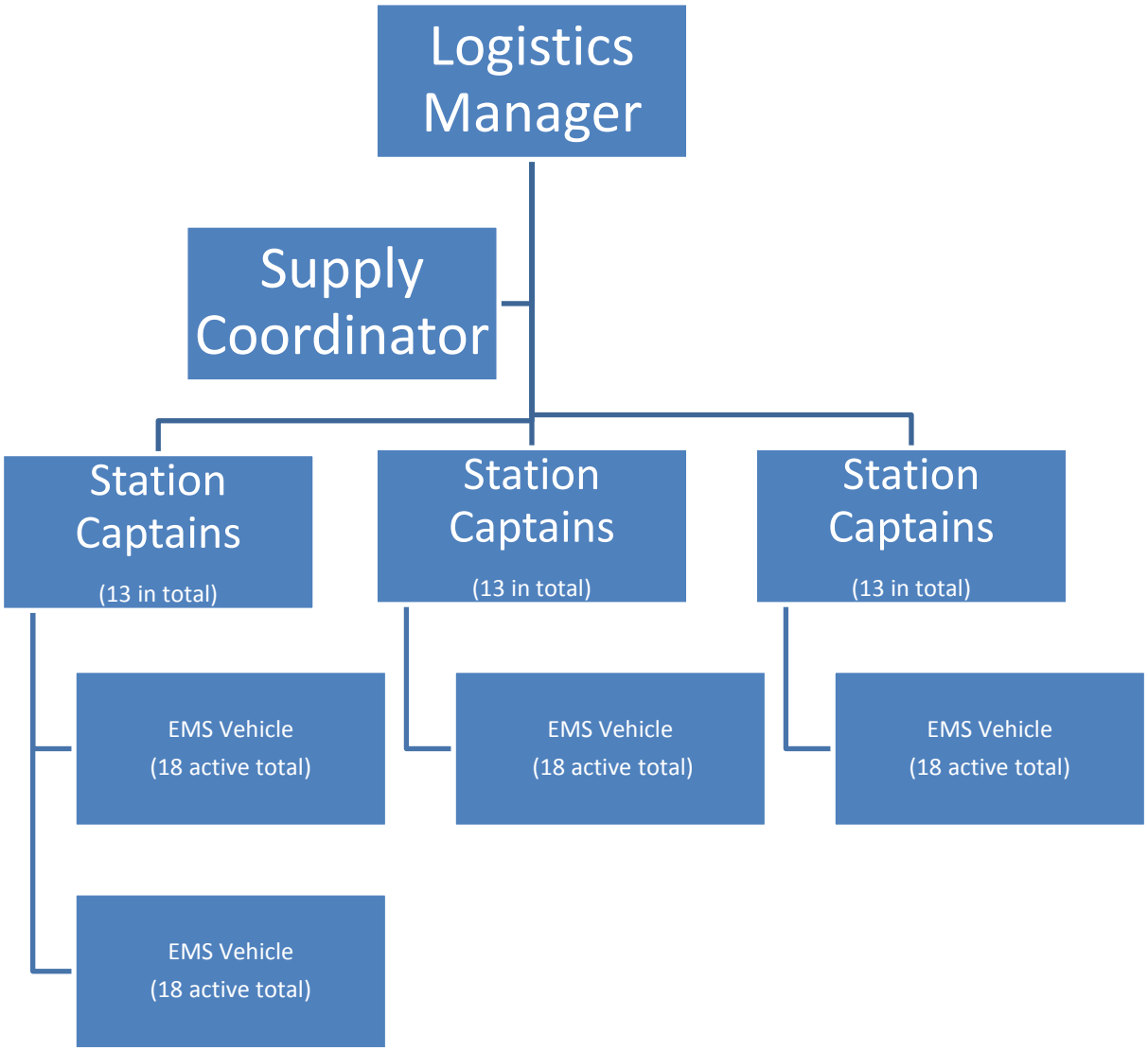
There is a three-way match process to get the invoices paid. Items are ordered by purchase orders issued by the Logistics Manager, receiving documents from main supply, and the invoices from the suppliers. All three document are matched up. For proper segregation of duties, authorization of purchase orders, receiving of supplies, and responsibility for getting invoices paid should be segregated. That is not the situation in place at CCEMS as invoices are returned to the Logistics Manager who also has control over the receipt of the inventory and creating purchase orders.

Per Operative IQ literature, all transactions, equipment logs, and inventory activity has an audit trail, empowering accountability throughout the organization. Every category is counted every couple of weeks. Per the Supply Coordinator, all the inventory can be counted in a day if needed. Adjustments are made to the PAR levels annually (in March) based on the historical usage of items.

Our examination noted the following:

1. Best practice of purchasing was not followed. Authorization of purchase orders, receiving of supplies, and responsibility for getting invoices paid should be segregated.
2. It is unclear through interviews if medical supplies consumed on calls are traced to the billing of services. Likewise, are medical supplies listed on billings for services (patient bills) traced back to purchases (inventory).

In addition, barcode readers are not used in the inventory control process. The use of the readers would increase efficiency, reduce manual paperwork, and could provide better control over the inventory.



Fuel

The Maintenance Manager is responsible for the administration and controls of the fuel. HSSK met and interviewed the Maintenance Manager. There are six location (fuel tanks) where ambulances and service vehicles re-fuel.

CCEMS contracts with a third-party vendor to supply fuel. Fuel tanks have electronic tank level indicators (TLIs) which are monitored by vendor. Vendor supplies the fuel to the six

tanks based on what is needed at each location. CCEMS does not have access to the TLIs and therefore relies on vendor to make deliveries as necessary.

The vendor will leave a delivery slips at the tank noting quantiles delivered and subsequently invoice CCEMS by sending an invoice to the accounting department for processing and payment.

The six locations are:

- Perry Road – Station 53, 1,000 gallons
- Five Forks – for EMS vehicles (i.e. ambulances), 2,000 gallons
- Five Forks – Emergency back-up generator, 1,000 gallons
- Holzwarth Road – Station 56, 1000 gallons
- Imperial Valley Road – Station 63, 1000 gallons
- Lee Road – Station 610, 1000 gallons

CCEMS can purchase fuel in the community via a credit card and PIN which is tied to each employee who has a credit card. In the event of an expected emergency event like a hurricane, ambulances will purchase fuel in the community and reserve the fuel in CCEMS' tanks in the event the community loses power or community fuel becomes depleted.

Physical controls of fuel purchases include keyed locks on the tanks. Records of withdrawals (fill-ups) are recorded and maintained in each service vehicle. CCEMS' accounting department maintains records of gallons purchased but not fuel usages. There was no indication that the volume of fuel purchased from vendor was compared to records of fuel withdrawn as would be reported on each vehicle log book.

CCEMS's accounting department also tracks fuel usage reported on credit card invoices. Although the credit cards are reported by employee (PIN number) and by vehicle (credit card number), prior to 2018 CCEMS would not update cardholder or vehicle as service vehicles where retired and new vehicles purchased resulting in any analysis by vehicle useless. Regardless, the controls established by credit card company are satisfactory.

ESD11 Funded Amounts

ESD11 funds CCEMS by way of identifying certain expenses of CCEMS and funding those expense items in total or in part. CCEMS will prepare a budget identifying the total expenses by agreed CCEMS expense category. Included in the CCEMS budget are amounts identified to be funded by ESD11 or funded by CCEMS through other sources. Although ESD11 funds are approved, there are conflicting views on what the funded amounts represents and how to account for actual results from operations.

1. Are the ESD11 funds a negotiated/firm amount allocated amongst certain agreed expense categories[2] of CCEMS regardless of any self-funded or other funding activities and the related resulting profits or losses.
2. Are the ESD11 funds provided limited to the agreed expense categories regardless of the financial needs of CCEMS. Any net amount of ESD11 funds over actual CCEMS expenses for agreed items are to be refunded to ESD11.
3. Are the ESD11 funds provided limited to the agreed expense categories but in consideration of the financial needs of CCEMS. Any net amount of ESD11 funds over actual CCEMS expenses for agreed items are to be refunded to ESD11. Also, profits generated by CCEMS should be considered as overfunding in total or in part.

The analyses for the funds provided by ESD11 and applied to specific expenses are below. The analyses share similar findings in that each budgeted item in year 2017 is less than the actual reported amount in year 2016.[3] However, additional expense items to be funded by ESD11 are added to minimize any shortfall. Also, the funding of selected expense items is shared between ESD11 and CCEMS. The allocation of the expenses between CCEMS and ESD11 is neither consistent with the budget nor are details documented with accounting support. Stated differently, accounting does not formulate the adjustment but rather is provided the adjustment amount.

[2] Line items, expense items
[3] Except for Social Security – a 2.5% increase over actual was budgeted.

Wages-EMS

CCEMS classifies the wages that relate to EMS services as ESD11. Other services are classified as Administration, Maintenance, Membership or other for the purposes of identifying wages to be assigned to CCEMS and not ESD11. For year 2017, CCEMS budgeted $7,950,000 for EMS wages or $7,412,300 to be funded by ESD11 and $537,700 classified as CCEMS.

	Budget		
Year	Total	CCEMS	ESD11
2015	$ 6,555,000	$ -	$ 6,555,000
2016	7,561,727	360,000	7,201,727
2017	7,950,000	537,700	7,412,300
	$22,066,727	$ 897,700	$21,169,027

Percent to Total			
2016	100.0%	4.8%	95.2%
2017	100.0%	6.8%	93.2%

	Actual		
	Total	CCEMS	ESD11
2015	$ 6,409,104	$ 15,826	$ 6,393,278
2016	7,651,860	-	7,651,860
2017	8,365,164	559,734	7,805,430
	$22,426,128	$ 575,560	$21,850,568

Percent to Total			
2016	100.0%	0.0%	100.0%
2017	100.0%	6.7%	93.3%

	Actual Over/(Under) Budget		
	Total	CCEMS	ESD11
2015	$ (145,896)	$ 15,826	$ (161,722)
2016	90,133	(360,000)	450,133
2017	415,164	22,034	393,130
	$ 359,401	$ (322,140)	$ 681,541

Percent to Total			
2016	100.0%	-399.4%	499.4%
2017	100.0%	5.3%	94.7%

As shown above, the actual amounts over budget for 2017 are primarily assigned to ESD11. In year 2016, no amount was classified as CCEMS although CCEMS had budgeted $360,000 in this category. Adjustments of total charges for those amounts to be classified as CCEMS are provided to accounting by the Executive Director. Human Resources/Payroll identifies employees that are in the ESD departments, but do not identify those employees that should be classified as ESD11 or CCEMS.

Wages-Comm Center

Wages for the Communication Center are accounted similar to EMS wages. CCEMS classifies the wages that relate to EMS services as ESD11. Wages are classified as CCEMS or ESD11. Again, adjustments for CCEMS wages are budgeted and provided to accounting by the Executive Director. Also, amounts that exceed total budget are primarily classified as ESD11. In addition to the above, CCEMS receives funds from outside districts to manage the outside districts' dispatch calls. The cost to perform these services are charged to ESD11 or affect the amount classified as ESD11 responsible charges.

As shown above, CCEMS dispatch calls have increase over prior years by 3.45% to 4.43% for years 2016 and 2017 while "Other" dispatch calls have increase by 20.34% to 45.71% during the same period. "Other" dispatch calls exceed CCEMS dispatch calls for year 2017. Wages have increased in this category by about 17% - ESD11 cost have been increasing while CCEMS cost have been decreasing, as a percent of total expenses. ESD11 assigned cost represent over 86% of all cost for year 2017.

While Communication Center wages increased in year 2016 and again in 2017, CCEMS budget for year 2017 was less than actual 2016.

Social Security

Social Security is a payroll tax and based upon employer's payroll tax obligation. For years 2016 and 2017, CCEMS tax percentage averaged 7.36%. CCEMS assigned

7.69% to 8.00% to ESD11 during the same period. Before consideration of any other adjustments, Social Security assigned to ESD11 is overstated by $93,500.

While Social Security expenses have increased yearly along with payroll, CCEMS perpetually underbudgets the future year's obligations.

Insurance - Health

Expenses for Health Insurance are accounted similar to EMS and Communication Center wages. CCEMS classifies expenses as ESD11 or CCEMS. Again, adjustments for CCEMS are budgeted and provided to accounting by the Executive Director. Also, amounts that exceed total budget are primarily classified as ESD11.

Health insurance expense have increased by 11.6% and 18.5% for years 2016 and 2017 while the consumer price index shows increase of 6.6% and 1.6%, respectively during the same period. Included in the 11.6% and 18.5% expense increase factors is net growth in personnel of about 2.0% to 6.0%.

While Health Insurance has increased yearly, CCEMS perpetually underbudgets future years obligations.

Medical Supplies

Medical Supplies are classified as ESD11. Therefore, no CCEMS classification of Medical Supplies. CCEMS reports Medical Supplies increase year over year by at least 8.0% during years 2014 through 2017. Medical Supplies increased by 12.0% in year 2016 and by 17.5% in year 2017. For the same period, the consumer price index has not exceeded 4.8%.

Insurance Recovery

Besides receiving funds directly from ESD11 through tax collections, CCEMS's other major source of funds is through billing for emergency services. CCEMS has engaged Koronis Revenue Solutions (Koronis) since late 2010 to provide billing and collections.

Koronis offers billing solutions to EMS, Hospitals, Surgical Facilities and Physicians. Ms. Susan Nealy is owner and V.P. of Operations of Koronis an was interviewed by HSSK. It should be known that Ms. Nealy is related to a senior executive/supervisor at CCEMS. Although the senior executive/supervisor was not in a position of influence in late 2010, his current position is at a senior level and may affect the retention of Koronis going forward.

Service Process

1. EMS (CCEMS) enters the services performed including the medical equipment used and medical supplies consumed (Patient Care Record – PCR).
2. The information is downloaded through the ESO (computer) system to Koronis.
3. Koronis sends the information through an insurance "scrub" to identify insurance information and coverage. CCEMS do not collect insurance information, therefore, Koronis researches databases, clearing houses, and hospitals to locate insurance data. Ms. Nealy states that Koronis is 97% effective.
4. Koronis will code the information and send the bill.
5. Payments are received via lock box at Frost Bank. Frost Bank will send an electronic file noting the Explanation of Benefits (remittance advice).
6. CCEMS enters deposits daily

The EOB are sent through Trizetto and paid through Trizetto. Trizetto is a clearing house for bills.

Write-offs, Bad Debts, and Administrative Adjustments

Koronis (CCEMS) does not have agreements or contracts with insurance providers. If an EOB is reduced by an insurance provider (not Medicaid/Medicare), the responsibility of payment falls to the patient. This is true for adjustments such as deductibles and co-insurance as well as adjustments noted as contract adjustments (providers that limit

coverage on certain procedures and expenses). The amount due is a receivable, and if not paid, will be a bad debt.

Medicaid and Medicare adjustments to patients' bills will be classified as insurance adjustments. Should an adjustment to a bill be necessary at a later date, the adjustment will be classified as an administrative adjustment (lawsuits, special circumstances).

Koronis tracks the number of physical accounts and corresponding write-offs and bad debts amounts. Based upon information provided by Ms. Nealy, Medicaid and Medicare represent 75% of CCEMS' billings. Collection on Medicaid and Medicare equates to 17%. The balance of the billings for services are to private/commercial insurance providers. Collections related to private and commercial insurance is 50%.

Ms. Nealy states that CCEMS can verify information in real time using the same program. However, Ms. Nealy does not know if CCEMS currently takes advantage of the service. CCEMS accounting does prepare a summary of collection at the end of the month and reconciles accounts using bank data and information provided directly from Koronis.

History

Ms. Nealy was working for FMA Alliance for 18 years prior to forming Koronis. FMS Alliance provided billing recovery services for the medical industry including CCEMS. In late 2010, Koronis was awarded the CCEMS collections contract. Subsequently and before the end of 2010, Koronis was awarded the billing contract. Koronis currently has both the billing and collection contract.

Collection percentages (collections/billings) were reported in years 2003 through 2010 at a rate greater than 35% for all years. Since, 2011, collection percentages have been declining consistently to a current collection percent of 22% for year 2017. The positives are that billings and amounts collected by Koronis have increase each year. Unfortunately, amounts collected are not meeting historical collection percentages. Had Koronis collected billing at a rate of 35% of billings, CCEMS would have collected more than $14,500,000 for services provided during years 2011 through 2017. Year 2017 collections would have been more than $6,100,000 if Koronis would have collected at 35%.

Although CCEMS is expecting more EMS dispatch calls in year 2018, the budget amount for Koronis' recovery of insurance billings is shown decreasing from actual collections in 2017. Again, 2017 had a 22% collection rate.

Inconsistencies – Interviews and Financial Records

Multiple CCEMS representatives interviewed by HSSK have stated that the practice is to declare bad debts at 90 days. Therefore, accounts receivables considered collectible should not exceed 25% of annual billings. CCEMS representatives have stated that bad debts relate to private and commercial insurance providers and excludes Medicare and Medicaid. Assuming total billings of at least $46 MM (2017 billings), accounts receivable should not be more than $3 MM ($46 total billings x .25 private/commercial billings to total x .25 90 days). Accounts receivable on December 31, 2017 was reported to be $7.8 MM.

Based upon the same interviews, insurance adjustments are the adjustments to Medicare and Medicaid and should equate to 12-15% of all billings. If billings are $46 MM, then Medicare/Medicaid billings would be about $35 MM (75% of billings). With expected collections of less than 20%, insurance adjustments would be at least $28 MM (80% of billings). Reported insurance write-offs were near $18 MM; a $10 MM difference.

Future Analysis

Because of the limits place on HSSK by CCEMS, the analysis of insurance recovery is incomplete. The following are suggested future analyses and procedures:

1) Collection write-offs for Medicare and Medicaid need to be tested.
2) Bad debts need to be verified and tested.
3) Administrative adjustments need to be verified and tested. Specially, verify reason for write-offs and that the write-off is prior to receiving funds.
4) Identify reasons for the declining collections percentages.

In addition, the following procedures are suggested:

1) CCEMS prepare reconciliations, prior to receiving Koronis data.
2) CCEMS periodically test collections, write-offs, billings and accounts receivables.

Section IV

GRAPHS

1. 2015 – 2017 Stacked Budget vs. Actual Expenses
2. Number of Dispatched Calls and Percentage Growth
3. Dispatch Fee Revenue
4. Communication Center Wages
5. Medical Supplies Expense Per Year and Percentage Growth
6. Insurance Recovery Dollars (2004-2017)
7. Insurance Recovery Dollars (35% Recovery)
8. Insurance Recovery Dollars (Difference from 35% Recovery)
9. Insurance Recovery Percentage

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Section V

ATTACHMENT AND EXHIBITS

Available Upon Requests