

City of Austin



**A Report to the  
Austin City Council**

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**Mayor Pro Tem**  
Sheryl Cole

**Council Members**  
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AUDIT REPORT

# Austin-Travis County Emergency Medical Services (EMS) Collection Controls Audit

October 2012



## REPORT SUMMARY

Material weaknesses exist in controls over the process EMS uses to safeguard payments for services and EMS is not complying with the City's Cash Handling Policy. Further, the department does not deposit all collections intact and deletes payments from patient accounts without supervisory reviews, increasing the risk of errors or irregularities. As a result, EMS management cannot provide assurance that the department is depositing all revenue it receives.

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**GOVERNMENT AUDITING STANDARDS COMPLIANCE**

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We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**AUDIT TEAM**

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Walton Persons, CPA, Assistant City Auditor  
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October 2012



## Audit Report Highlights

### Why We Did This Audit

This audit was conducted as part of the Office of the City Auditor's Fiscal Year (FY) 2012 Strategic Audit Plan.

### What We Recommend

EMS should address the risks and consequences of experiencing losses related to collections. In addition, EMS should deposit collections intact and discontinue its practice of taking certain checks from collections and returning them to payers. EMS should research alternative options for providing insurers with clean bills without deleting payments.



For more information on this or any of our reports, email [oca\\_auditor@austintexas.gov](mailto:oca_auditor@austintexas.gov)

# AUSTIN-TRAVIS COUNTY EMERGENCY MEDICAL SERVICES (EMS) COLLECTION CONTROLS AUDIT

Mayor and Council,

I am pleased to present this audit on Austin-Travis County EMS Collection Controls.

## BACKGROUND

EMS provides services to all of Travis County. EMS charges a user's fee for its services. EMS can also bill a patient's insurance provider, Medicare, Medicaid, Medical Assistance Program, or workers' compensation directly. EMS billing services are done by EMS employees.

## OBJECTIVE AND SCOPE

To determine whether EMS is collecting what it is entitled to collect.

The audit scope included the processing of payment remittance transactions and their associated controls for FY 2011.

## WHAT WE FOUND

We found that material weaknesses exist in controls over the process EMS uses to safeguard payments received for services. The department does not comply with the City of Austin's Cash Handling Policy regarding segregation of duties and the receipt, transfer, and deposit of payments.

Further, EMS practices, such as returning checks to payers prior to deposit and deleting payments for third party billing, increase the risk that errors or irregularities could occur without detection.

As a result, EMS management cannot provide assurance that the department is depositing all revenue it receives.

We issued three recommendations to address weaknesses identified during the course of the audit.

We appreciate the cooperation and assistance we received from EMS employees during this audit.

  
Kenneth J. Mory, City Auditor

Austin-Travis County  
October 2012

## BACKGROUND

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Austin-Travis County EMS provides services to all of Travis County. EMS charges a user's fee for its services. EMS can also bill a patient's insurance provider, Medicare, Medicaid, Medical Assistance Program, or workers' compensation directly. EMS billing services are done by EMS employees.

In 2010, EMS started using the Electronic Patient Care Reporting (ePCR) system, which interfaces with EMS billing software. The ePCR is a mobile tablet computer EMS personnel carries when out in the field. The ePCR wirelessly uploads completed records directly to a server where data is accessible for billing and analysis. EMS uses the RescueNet system for processing and recording billing and collections.

EMS billed approximately \$112 million during Fiscal Years (FY) 2010 through 2011, and net payments for the same period totaled \$33 million for a collection rate of 29%. Daily cash and check collections for EMS averaged approximately \$66,000 and ranged from approximately \$15,000 to \$500,000.

## OBJECTIVE, SCOPE, AND METHODOLOGY

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The EMS Collection Controls Audit was conducted as part of the Office of the City Auditor's (OCA) FY 2012 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee.

### Objective

The objective of the audit was to determine whether EMS is collecting what it is entitled to collect.

### Scope

The audit scope included a review of processing of payment remittance transactions and their associated controls and documentation as they relate to cash handling, deletions, write-offs, and refunds in FY 2011.

### Methodology

To accomplish our audit objectives, we performed the following steps:

- Conducted interviews with EMS employees in the Billing and Finance Offices.
- Observed EMS operations through a ride-along with field employees.
- Reviewed applicable laws, policies, and procedures associated with billing and collection activities.
- Reviewed and evaluated the processing of collections and applicable supporting documentation.
- Selected and tested a judgmental sample of 60 patient accounts and associated credit transactions for appropriateness and supporting documentation (these 60 accounts included 99 deleted payments).
- Selected and tested a judgmental sample of 40 payments with refund check transactions for appropriateness and supporting documentation.
- Considered the risk of fraud, waste, or abuse occurring that would be significant within the context of the audit objectives.
- Considered the reliability of information systems determined to be significant to the audit objectives.

## AUDIT RESULTS

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Material weaknesses exist in controls over the process EMS uses to safeguard payments received for services. The department does not comply with the City of Austin's Cash Handling Policy regarding segregation of duties and the receipt, transfer, and deposit of payments. Further, EMS practices such as returning checks to payers prior to deposit and deleting payments for third party billing increase the risk that errors or irregularities could occur without detection. As a result, EMS management cannot provide assurance that the department is depositing all revenue it receives.

### **Finding 1: Material weaknesses exist in controls over the process EMS uses to safeguard payments received for services.**

The City's Cash Handling Policy requires City departments to have specific procedures in place for the receipt, processing, and deposit of payments for services. EMS is not in compliance with this policy. The department does not have written policies and procedures for the receipt and processing of payments from EMS customers. During 2010 through 2011, EMS received approximately \$33 million in payments.

EMS management may be underestimating the risks and consequences of experiencing losses related to collections. EMS management does not consistently hold employees accountable for ensuring controls over collections are sufficient and in adherence with the Cash Handling Policy. EMS management also does not review and update internal control activities to ensure their relevance, effectiveness, and adherence to City policies. Because of these weaknesses, EMS is at risk of experiencing:

- a loss of funds;
- a loss of interest income due to deposit delays;
- an inability to detect missing funds;
- an inability to determine who is responsible for losses; or
- an inability to investigate losses.

Additional information on deficiencies in specific control areas, such as receiving and safeguarding funds, is detailed below.

#### **Receiving Funds**

The City's Cash Handling Policy indicates that mail should be opened in the presence of two employees. EMS uses two employees to open the mail. However, auditors observed that these employees work back-to-back; one opens mail that contains remittances while the other works separately opening other mail. The employee working the mail remittances records the payments in a log and generates an adding machine tape showing the total remitted. The other employee does not review or sign off on the log or the total. As a result, the advantage of having two employees open the mail is lost and the risk of misappropriated funds increases.

#### **Safeguarding of Funds**

The City's Cash Handling Policy requires departments to maintain strict control over access to funds. City employees should never leave cash or checks unattended and unsecured. During periods when access to cash is not required, the Policy directs departments to store all funds in a locked safe or secured cash storage drawer.

EMS employees responsible for cash handling store undeposited collections in sealed bags, which are then placed in an open and unattended plastic storage container in the department's Billing Office while awaiting pick-up by armored truck personnel (See Exhibit 1). Billing employees have easy access to the undeposited funds, which provides an opportunity for theft. Other EMS employees, besides Billing Office employees who enter the Billing Office, can also access undeposited collections in the open and unattended plastic storage container. Auditors performing a walk-through of the Billing Office found \$208,128 undeposited in the open container, including \$679 in cash. On another day, auditors found cash of \$801 in the open container.

#### **EXHIBIT 1**

#### **Photo of Plastic Storage Container with Undeposited Collections**



**SOURCE:** OCA photo taken inside the EMS Billing Office on July 26, 2012 at around 10:00AM.

#### **Transferring Funds**

The City's Cash Handling Policy states that a cash count and reconciliation should occur whenever City funds change hands. Both the relinquishing and receiving custodian of the funds should sign off on the cash count and reconciliation to complete the transfer of funds. However, EMS employees who handle cash are not required to conduct cash counts, reconciliations, or sign-offs for the custody of cash when undeposited collections change hands.

#### **Segregation of Duties for Handling and Recording Funds**

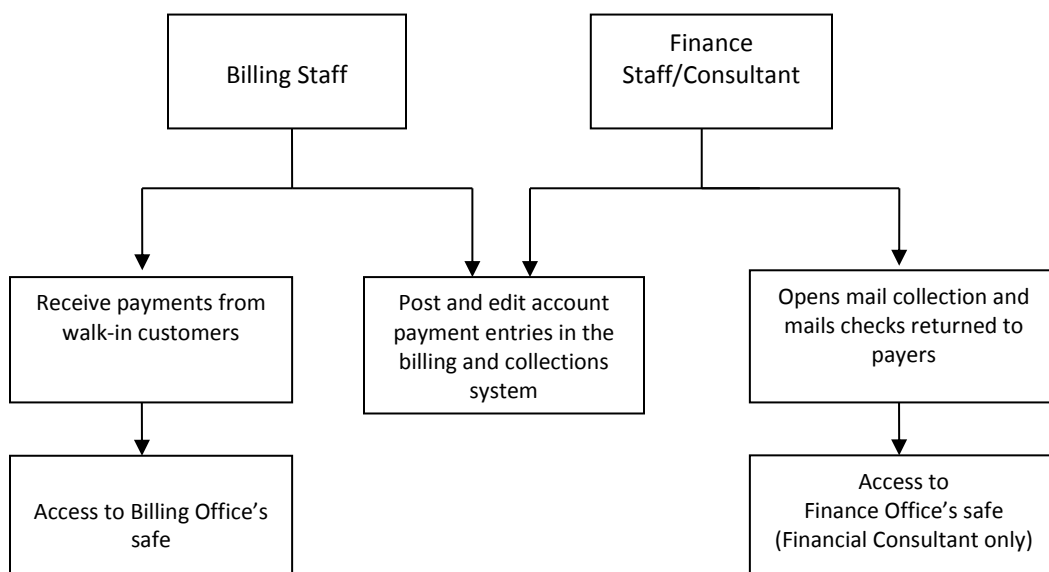
The City's Cash Handling Policy indicates that the following four basic functional categories should be performed by different people within a cash handling operation:

- authorization or approval of transactions;
- recording of transactions;
- custody of funds; and
- monitoring to ensure compliance with control procedures.

The policy also requires that if it is not practical to maintain strict segregation of duties, the department should compensate with additional control measures.

EMS Billing Office employees who have access rights to post and edit payments in the RescueNet system are authorized to receive payment remittances from walk-in customers and have access to the safe in the Billing Office, which increases the opportunity for fraud. Likewise, certain EMS Finance Office employees have access to the RescueNet system, which allows them to post and edit payments. One of these Finance Office employees also prepares reconciliations of daily deposits to payments recorded in RescueNet and has access to mail collections and undeposited funds in the Finance Office’s safe.

**EXHIBIT 2  
Payment Remittance Process Flow Chart**



**SOURCE:** OCA Analysis of Payment Remittance Process as of July 2012

In addition, there is no review or monitoring of payments and edits recorded in RescueNet, such as required reviews of exception reports. Further, though segregation of duties is not maintained, EMS has not included additional review and monitoring to ensure it appropriately safeguards and accounts for all remittances.

**Deposits of Funds**

The City’s Cash Handling Policy states that a daily accumulation of funds in excess of \$500 at any individual cash handling facility must be deposited daily. Daily cash and check collections for EMS range from approximately \$15,000 to \$500,000. Based on the payments tested, we found that the payments EMS receives may not be deposited for as many as two to eight days after receipt. EMS attributes the delay to employee work schedules and corrections to the deposit due to pulling checks that should not or cannot be posted. For example, EMS removes payment remittances for services that insurance has already covered. As stated in City policy, departments that do not adhere to the daily deposit requirement increase the likelihood of lost revenue due to uncollectable checks (insufficient funds and closed accounts) and risk increased exposure to theft.

**Finding 2: The EMS practice of removing and returning checks to payers prior to deposit increases the risk of lost funds.**

The process EMS uses for handling customer payments made in error is not in line with best practices, increasing the risk that funds could be lost or misappropriated. Best practices for handling customer payments include depositing all payments intact so that the total receipts equal the total bank deposit. The department can then issue checks for refunds as needed. However, when EMS identifies a check for return, the department sets aside that check for mailing back to the payer. EMS returns checks received from customers when an insurer has already paid the bill or when customers make payments, overpayments, or duplicate payments.

Controls over returned payments are not sufficient to ensure the funds are not lost or misappropriated. For example, EMS:

- does not have procedures in place to determine whether checks set aside by employees for return are, in fact, mailed to and received by payers;
- does not return checks via certified mail to ensure delivery;
- does not perforate the checks to prevent deposit by an unauthorized party;
- does not have a way to document acknowledgement of receipt by the payer; and
- does not have written procedures for disposing of mail containing returned checks that the postal service delivers back to EMS due to incorrect addresses or other reasons.

EMS Billing Office management is aware of these weaknesses, but indicated that the Finance Office is responsible for correcting the weaknesses. The lack of communication between the Billing and Finance Offices limits the ability of EMS to address control deficiencies.

**Finding 3: Deleting and reposting payments on EMS patient accounts increases the risk that errors or irregularities could occur without detection.**

EMS prepares “clean bills” for third party payers, such as insurance companies and the Veterans Administration. According to EMS, the department must present insurance companies with a claim reflecting the gross amount due on patient accounts (referred to as a “clean bill” by EMS). However, the RescueNet system is unable to produce a clean bill once a payment is posted to the patient’s account if the payment is not deleted first. For that reason, EMS employees delete the payment, send out a clean bill for an insurance claim, and then restore the payment.

As with collections, EMS management may be underestimating the risks and consequences that errors and irregularities may occur because of the limited controls over payments deletions. The department does not apply several best practices for maintaining accurate records of patient accounts. For instance, employees are not required to seek prior approval for payment deletions or communicate account payment changes to a supervisor or manager for review and approval. In addition, EMS does not generate exception reports for supervisory review to account for and validate the appropriateness of account changes.

Auditors tested a sample of 99 account payments deleted between September 2010 and October 2011 and could not validate whether 24 (24%) of the deletions were appropriate. In these 24 instances, EMS employees did not document justification for the deletions and either the EMS



employees could no longer remember the reason for the deletions or the employee who posted the payment was no longer with EMS.

Auditors verified that all the deleted payments were re-posted. However, some of the payments were not reposted immediately. For example, in one instance a deletion for \$100 was not re-posted until a month after the deletion when the patient contacted EMS to claim a refund. In another instance, EMS employees had incorrectly deleted \$268 and the error was not corrected until the auditors brought it to management's attention.

Consequently, EMS does not have sufficient controls over the process for creating clean bills for third-party payers and cannot ensure that:

- deletions of individual payments from patient accounts are appropriate;
- supervisors properly monitor payment deletions;
- the department has a record of all payments deleted; and
- employees reverse each payment deletion immediately after creating the clean bill for third parties.

EMS supervisors indicated that account payment changes are not monitored because the department trusts its employees. The employees have developed their own deletion procedures because EMS does not have written procedures in place for tracking deleted account payments.

## RECOMMENDATIONS

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The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. **To reduce the risks and consequences of experiencing losses related to collections, EMS should:**
  - **adopt and implement the City’s Cash Handling Policy, with modifications as appropriate to address the needs of the department;**
  - **ensure cash handling responsibilities associated with the receipt, custody, and recording of payments are segregated; and**
  - **ensure managers responsible for collections understand the importance of implementing adequate internal controls over collections.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

2. **Instead of taking certain checks from collections and returning them to payers, EMS should deposit collections intact on a daily basis and consult with the City Controller to identify an alternate method for returning payments.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

3. **EMS should research and consider alternative options for providing insurers with clean bills for claims without having to delete payments from patient accounts. In addition, EMS should develop written policies and procedures to improve controls over payment remittance processing.**

MANAGEMENT RESPONSE: **Concur.** Refer to Appendix A for management response and action plan.

MANAGEMENT RESPONSE



MEMORANDUM

**TO:** Ken Mory, City Auditor

**FROM:** Ernesto Rodriguez, Director and Chief  
Austin – Travis County Emergency Medical Services *E. Rodriguez*

**DATE:** October 19, 2012

**SUBJECT:** EMS Billing and Collections Audit Response

Thank you the opportunity to sit with you and your team to discuss the findings of your Billing and Collections audit. EMS concurs with the findings in the report and is taking immediate actions to correct deficiencies.

Subsequent to our meeting we established a cross-functional team to review the findings of the audit team, consider possible actions, and establish an action plan to correct all deficiencies. Our action plan is already underway and our goal is to have all elements of the plan completed before the end of November 2012.

The key elements of our action plan are included in the attached table.

ACTION PLAN

Austin-Travis County Emergency Medical Service’s (EMS) Collection Controls Audit

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
<p>1. To reduce the risks and consequences of experiencing losses related to collections, EMS should:</p> <ul style="list-style-type: none"> <li>▪ adopt and implement the City’s Cash Handling Policy, with modifications as appropriate to address the needs of the department;</li> <li>▪ ensure cash handling responsibilities associated with the receipt, custody, and recording of payments are segregated; and</li> <li>▪ ensure managers responsible for collections understand the importance of implementing adequate internal controls over collections.</li> </ul>	<p><b>Concur</b></p> <ul style="list-style-type: none"> <li>a. Implement a department policy that adopts all of the component of the City’s Cash Handling Policy with any modifications needed to meet the needs of the EMS Department.</li> <li>b. Immediately assure that all cash is secured in a locked safe with controlled access.</li> <li>c. Establish procedures for each critical component of our Billing and Collections processes.</li> <li>d. Ensure that proper separation of duties is implemented to strengthen our ability to monitor key processes or implement other methods to assure the integrity and reliability of those processes.</li> <li>e. Ensure that all transactions are properly documented, reconciled, and reviewed including the development of exception reports and supervisory approvals of certain transactions.</li> <li>f. Modify our management oversight and structure to assure managers who are responsible for internal controls understand the critical importance of those controls and have adequate tools to provide the necessary oversight.</li> </ul>	<ul style="list-style-type: none"> <li>a. Underway</li> <li>b. Completed</li> <li>c. Underway</li> <li>d. Underway</li> <li>e. Underway</li> <li>f. Underway</li> </ul>	<ul style="list-style-type: none"> <li>a. 10/24/2012</li> <li>b. 10/12/2012</li> <li>c. 11/30/2012</li> <li>d. 11/30/2012</li> <li>e. 11/30/2012</li> <li>f. 11/30/2012</li> </ul>

## APPENDIX A

Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
<p>2. Instead of taking certain checks from collections and returning them to payers, EMS should deposit collections intact on a daily basis and consult with the City Controller to identify an alternate method for returning payments.</p>	<p><b>Concur</b></p> <ul style="list-style-type: none"> <li>a. Immediately begin to deposit all checks on a daily basis.</li> <li>b. Adjust our armored car pick schedule to assure that no or minimal cash remains on site.</li> <li>c. Utilize the City's process for refunds.</li> </ul>	<ul style="list-style-type: none"> <li>a. Underway</li> <li>b. Underway</li> <li>c. Underway</li> </ul>	<ul style="list-style-type: none"> <li>a. 10/24/2012</li> <li>b. 11/30/2012</li> <li>c. 10/24/2012</li> </ul>
<p>3. EMS should research and consider alternative options for providing insurers with clean bills for claims without having to delete payments from patient accounts. In addition, EMS should develop written policies and procedures to improve controls over payment remittance processing.</p>	<p><b>Concur</b></p> <ul style="list-style-type: none"> <li>a. Immediately restrict ability to remove payments from patient accounts to supervisors and managers only.</li> <li>b. Immediately establish a procedure to notify supervisors and managers anytime a deletion of any payment is required.</li> <li>c. Immediately establish a method to assure deleted payments are tracked and audited.</li> <li>d. Engage software vendor to develop exception reports or a better solution that would allow production of clean claims without removal of payments.</li> </ul>	<ul style="list-style-type: none"> <li>a. Completed</li> <li>b. Completed</li> <li>c. Completed</li> <li>d. Planned</li> </ul>	<ul style="list-style-type: none"> <li>a. 10/12/2012</li> <li>b. 10/12/2012</li> <li>c. 10/12/2012</li> <li>d. 11/30/2012</li> </ul>