



RON GALPERIN
CONTROLLER

April 21, 2015

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

Re: Audit Report on LAFD EMS Billing and Collections Processes

Everyday, people in the City of Los Angeles depend on the dedicated professionals of the Fire Department to provide them with emergency medical services (EMS). EMS calls make up the lion's share of calls to which fire department personnel are dispatched. In 2014, EMS calls made up 84 percent of all Fire Department dispatches — with LAFD personnel responding to 361,030 medical incidents and rushing to the aid of people facing life-threatening emergencies, like traffic accident injuries, heart attacks and assaults.

To recoup some of the costs associated with providing emergency medical services, the City bills Medicare, Medi-Cal, private insurers and individuals for its services. Gross billings in FY 2013-14 were \$271 million. During the same period, the City collected \$68 million, or 25 percent, of the total billed. This rate is due primarily to relatively low reimbursements from Medicare and Medi-Cal, and from the large percentage of uninsured patients that the LAFD has historically treated.

In order to improve collections, streamline processes and enhance patient care, the LAFD and the City entered into two contracts in 2010: one for billing, processing and

collections services; and a second for a Field Data Capture System with handheld devices, which are used by LAFD responders at the point of service to record incidents and to enter billing data.

To assess the department's success with these systems, my office undertook an audit of the department's EMS billing and collections processes. Today I am releasing the results of that audit. My chief recommendation is that the City bill insurers for patients who are treated, but not transported, to hospitals. This, together with the expansion of coverage brought about by the Affordable Care Act, has the potential to generate up to \$16.7 million in additional annual revenues. Those revenues could be used to improve patient services and provide much-needed resources for the LAFD.

General Assessment

Auditors determined that the adoption of the vendors' services and technologies has generally been a success. The systems not only resulted, as anticipated, in increased collections, but also led to nearly \$24 million in net collections *beyond* the \$166 million anticipated. The adoption of the systems also led to significant improvements in billing timeliness and patient record keeping.

Impact of the ACA

Auditors examined the impact of the Affordable Care Act, the single largest change in American healthcare in half a century, on EMS billings. While more people than ever will be covered by insurance as a result of the ACA's implementation, understanding the full financial impact of the law on EMS collections is a complex matter. Some previously uninsured people will become covered by commercial insurers, who pay, on average, 81% of billed amounts — resulting in an uptick in revenues. Some previously uninsured people will also become covered under Medi-Cal, which pays just 9 percent of billed amounts — leading again to a revenue gain, albeit a smaller one. At the same time, some other individuals previously covered by commercial health plans could either move to Medi-Cal or a commercial plan guaranteeing less coverage, which would lead to some corresponding revenue decreases. After looking at this data, however, as well as County and City demographics, auditors determined that the Affordable Care Act will likely result in a \$6.7 million annual increase in EMS revenues by 2019.

Additionally, though not analyzed as part of the audit, I believe the ACA may provide an opportunity for the City to explore eventually changing the current model of EMS billing to one based on [pre-negotiated capitated agreements](#) with Medicare, Medi-Cal and private insurers. Under such a potential model, the City would essentially strike “bulk deals” with the insurers. For example, if current data tells us that one particular

insurance company accounts for a certain percentage of our billings and collections, then we might negotiate a capitated rate with that insurer based on such data. The City, insurers and the marketplace may not be ready for such a system, but it is one we should explore notwithstanding.

Cost Recovery

The Fire Department sets rates based on a so-called full cost recovery model. That is, fees are intended to materially reflect the costs of services. To its credit, auditors found that, in general, the department accurately determined the direct and indirect costs associated with providing emergency medical services.

LAFD's policy, however, is to bill only those patients who require transportation to hospitals — roughly 60 percent of patients served. As such, patients who are transported effectively subsidize those who are not.

What's more, trend analysis shows that the number of incidents with an LAFD unit on the scene grew by more than 9.4 percent during the audit period, to nearly 333,000 responses annually. At the same time, the percentage of those transported fell 4.2 percent — meaning auditors witnessed a decline in the overall percentage of patients actually being billed.

To make the system more equitable, to capture a greater share of costs, and to spread those costs to the ranks of the newly insured (under the ACA), auditors recommend billing at least a portion of the 40 percent of patients who don't currently receive transport. Auditors project that this change could yield an additional \$10 million in EMS revenue annually and, most importantly, that this revenue could be used to improve patient services.

Nurse Practitioners and Super-Users

A motion introduced in February by Councilmembers Englander and Krekorian calls for the City to study the prospect of sending nurse practitioners to respond to non-urgent medical calls. My office supports such an approach. Moreover, the City might consider changes to deployment policies, staffing requirements and other procedures to achieve greater cost efficiencies.

Likewise, the Councilmembers' motion calls for nurse practitioners also to coordinate care for frequent users of EMS services, with the goal of changing those users' healthcare behaviors so they are less reliant on emergency care. Our review found that treating such "super-users" can be costly. In FY 2012-13, just 110 frequent callers

resulted in 3,772 incident responses at a cost of \$2.5 million. While the LAFD has access to data on these frequent users, it does not track them. Instead, it creates billing accounts on an “incident-specific,” rather than a “patient-specific,” basis. Our audit calls for the department to change this practice and create “master patient records,” subject, of course, to HIPAA privacy regulations, which would allow it to track frequent EMS users and direct them to non-emergency services, which may prove more cost-effective to the LAFD and, more important, more beneficial to those patients’ health.

Departmental Response

A copy of this audit was provided to the LAFD in mid-March; LAFD cooperated with our audit completely. My entire office is grateful to its personnel, who were extremely forthcoming in providing us with the information and documents necessary for us to undertake this audit and produce the resultant report.

Thank you for your consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Ron Galperin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ron Galperin
CITY CONTROLLER