

**San Diego Medical Services Enterprise  
Summary of Findings  
February 27, 2012**

*Cornerstone Research*

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Cornerstone Research

*William W. Holder*

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William W. Holder

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## I. **Executive Summary**

1. Cornerstone Research and William W. Holder<sup>1</sup> (collectively “Consultants”) have been asked to provide services pursuant to a “full accounting” as addressed by the parties in an agreement executed on April 15, 2011.<sup>2</sup> In September 2011 the parties agreed that we first focus our efforts on two issues raised by an allegation made by a former Rural/Metro Corporation (“R/M”) employee and a subsequent Internal Audit report from the City of San Diego (the “City”) related to the limited liability company known as San Diego Medical Services Enterprise, LLC (“SDMSE”). The first issue involves allegations that R/M withheld cash deposits for the benefit of SDMSE that were received by R/M’s National Collections (“NC”) group. The second issue involves an apparent over-reimbursement of expenses identified by the City’s Internal Auditor. We acknowledge that there are other issues that the parties have raised that may require additional work, but this report will only address our findings relevant to the two issues identified above.

2. In summary, with respect to the first issue, Consultants have found that while not all revenues were deposited directly into the SDMSE lockbox, SDMSE received credit for cash amounts recorded by NC and contained in the SDMSE billing system. The evidence we have reviewed contradicts the allegation that R/M withheld all NC amounts prior to 2007 collected for the benefit of SDMSE and after 2007 without credit to SDMSE. With respect to the second issue, Consultants have identified the differences between the income statement expenses recorded by SDMSE and the cash reimbursed to R/M from SDMSE. In addition, we have

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<sup>1</sup> William W. Holder is the Dean of the Leventhal School of Accounting, holds the Alan Casden Dean’s Chair, and is a Professor of Accounting at the Marshall School of Business at the University of Southern California.

<sup>2</sup> Interim Settlement Agreement dated April 15, 2011, ¶3.

obtained explanations for each of the identified differences that contradict the allegation that R/M received \$5.8 million in excess reimbursements, as outlined below in detail.

## II. Background

3. Since May 1997, R/M has provided emergency ambulance transportation services for the City. Together, R/M and the City formed SDMSE, a partnership organized as a limited liability company, in which R/M would provide the capital, infrastructure and administration for SDMSE and the emergency medical service (“EMS”) personnel. The City would provide firefighters to respond to 911 calls.<sup>3</sup>

4. The parties agreed that “both the City and R/M would...obtain reimbursement for the expenses that they respectively incurred for SDMSE.”<sup>4</sup> R/M would receive an additional 6.5% of SDMSE operating expenses as reimbursement for providing administrative services for SDMSE and would receive a billing fee each time SDMSE transported a patient.<sup>5</sup> In addition, “all profits over 125% of operating costs...would be distributed to R/M and the City of San Diego equally” on a quarterly basis.<sup>6</sup>

### A. Initial Allegations

5. On October 20, 2010, a former R/M employee and Qui Tam Plaintiff, Robert Heffner filed a First Amended Complaint under seal that alleged, among other things, that R/M had withheld amounts that it collected on behalf of SDMSE and did not remit those amounts to

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<sup>3</sup> First Amended Complaint, City of San Diego, ex rel., Robert Heffner, v. Rural/Metro Corporation and Rural/Metro of San Diego, Inc. 37-2010-00099272-CU-MC-CTL, October 20, 2010, p. 4.

<sup>4</sup> First Amended Complaint, City of San Diego, ex rel., Robert Heffner, v. Rural/Metro Corporation and Rural/Metro of San Diego, Inc. 37-2010-00099272-CU-MC-CTL, October 20, 2010, p. 5.

<sup>5</sup> First Amended Complaint, City of San Diego, ex rel., Robert Heffner, v. Rural/Metro Corporation and Rural/Metro of San Diego, Inc. 37-2010-00099272-CU-MC-CTL, October 20, 2010, p. 5. Performance Audit of Fire-Rescue’s Emergency Medical Services: Significant Opportunities for Improvements Exist to Strengthen Oversight, Recover Costs, and Enhance Response Time Reporting, Office of the City Auditor, City of San Diego, April 2011, p. 22.

<sup>6</sup> First Amended Complaint, City of San Diego, ex rel., Robert Heffner, v. Rural/Metro Corporation and Rural/Metro of San Diego, Inc. 37-2010-00099272-CU-MC-CTL, October 20, 2010, p. 5. Consultants understand that the profit distribution process changed over time.

SDMSE.<sup>7</sup> The amounts in question were private pay patient amounts received by R/M's NC group and received in a separate NC lockbox bank account.

6. The Office of the City Auditor reviewed these allegations and subsequently issued an audit report on April 25, 2011. The City Auditor identified the following facts and attendant issues:<sup>8</sup>

- “In March 2007, Rural/Metro changed accounting practices without full disclosure to the City; consequently, Rural/Metro did not deposit approximately \$4.2 million between May 2002 and February 2007 into SDMS[E] accounts as contractually required;”
- “Based on financial records and audited financial statements we reviewed for fiscal year 2006 through fiscal year 2010, it appears that Rural/Metro withdrew approximately \$5.8 million from SDMS[E] accounts in excess of the expense reimbursement amounts it was entitled to.”<sup>9</sup>

#### **B. Interim Settlement Agreement**

7. On April 15, 2011, R/M and the City agreed that “a qualified forensic accounting firm...conduct a full accounting as to the operation of SDMSE from inception to present and determine what, if any, amounts are due and owing to and from the City and/or Rural/Metro.”<sup>10</sup>

On July 28, 2011 Cornerstone Research and William W. Holder were retained to conduct the

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<sup>7</sup> First Amended Complaint, City of San Diego, ex rel., Robert Heffner, v. Rural/Metro Corporation and Rural/Metro of San Diego, Inc. 37-2010-00099272-CU-MC-CTL, October 20, 2010, p. 6.

<sup>8</sup> Performance Audit of Fire-Rescue's Emergency Medical Services: Significant Opportunities for Improvements Exist to Strengthen Oversight, Recover Costs, and Enhance Response Time Reporting, Office of the City Auditor, City of San Diego, April 2011, pp. 16-17.

<sup>9</sup> The City Auditor noted that “according to Rural/Metro management, this difference is primarily a result of patient refunds of approximately \$5 million and other adjustments.” Performance Audit of Fire-Rescue's Emergency Medical Services: Significant Opportunities for Improvements Exist to Strengthen Oversight, Recover Costs, and Enhance Response Time Reporting, Office of the City Auditor, City of San Diego, April 2011, p. 2.

<sup>10</sup> Interim Settlement Agreement dated April 15, 2011, ¶3.

above referenced accounting. In order to obtain background information on this project, we met with representatives from both parties, including the City Auditor and with Mr. Heffner.

**C. Consultants' Scope of Work**

8. On September 2, 2011, Consultants submitted a proposed scope of work for the SDMSE forensic audit to R/M, the City and Mr. Heffner. This scope of work included several proposed procedures, including the following:<sup>11</sup>

- a) Document Review/ Information Gathering
- b) Cash Reconciliation
- c) Analyze Collection Activity Related to SDMSE Accounts Receivable
- d) Perform Reimbursement Validation and Identify Support
- e) Analyze Sales of Accounts Receivable by National Collections
- f) Analyze Overhead and Interest Allocations
- g) Explain the \$800,000 gap in the City Auditor's \$5.8 million Analysis of Excess Reimbursement
- h) Prepare Report of Findings

9. On September 28, 2011, Consultants met with representatives of both parties to discuss its proposed scope of work. The two parties have never agreed upon a definition of exactly what procedures would constitute a "full accounting." Moreover, there has been no agreement that we would perform each of the above-identified procedures. At the September 28, 2011 meeting the parties agreed that we would stage our analysis by first investigating (1) whether and, if so, the extent to which SDMSE received credit for cash amounts prior to March 2007; (2) whether R/M over-reimbursed itself by \$5.8 million; and (3) upon the request of the City, we also agreed to investigate the appropriateness and/or approval of the expenses charged by R/M that they alleged were offset by NC amounts.<sup>12</sup> Upon completing these procedures, we were to reconvene the parties and the mediator, Judge Leo S. Papas, report the results of our

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<sup>11</sup> Our scope of work is consistent with the AICPA Standards for Consulting Services. See AICPA Standards for Consulting Services. See also AICPA ET Section 201 – General Standards.

<sup>12</sup> Consultants' investigation of expenses charged by R/M is pending resolution of the two issues addressed in this report.

work, and refocus our efforts regarding the remaining procedures. That meeting was held on December 8, 2011. At or subsequent to that meeting, we were requested to memorialize our findings to date on the two primary issues. This report is in response to that request.

**D. Level of Assurance**

10. We do not believe that any collection of additional procedures performed can provide absolute assurance of the absence of fraud or accounting irregularities; however, the above mentioned procedures do provide some assurance as to the two specific issues upon which we have focused: (1) NC cash collections for SDMSE were credited to SDMSE; and (2) explanations for R/M receiving reimbursements in excess of the income statement expense amounts identified by the City Auditor.<sup>13</sup> Accordingly, we will report the results of the procedures we have applied. Such engagements are generally limited to the specific matters identified.

11. Our work has relied upon the accuracy of the SDMSE billing system to determine NC amounts and the SDMSE general ledgers to determine reimbursable expenses. To date we have neither tested the accuracy nor completeness of either source of data (i.e. whether any significant transactions took place that were not recorded in SDMSE's records). As is normally the case in an engagement such as this, additional assurance regarding the completeness of the NC amounts identified in our analysis and the validity or appropriateness of expenses reimbursed by R/M are achievable with the completion of additional procedures, but diminishing returns naturally occur, which means the cost of discovering improprieties and irregularities can exceed the likely fiscal magnitude of these amounts. We believe the results of our work thus far allow the parties to draw conclusions regarding the two primary allegations.

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<sup>13</sup> For example, as discussed below in greater detail, Consultants have verified that amounts reported by NC were credited to SDMSE, according to R/M's billing system.

### III. Summary of Findings

#### A. Billing System Analysis

##### 1. SDMSE Revenue

12. Based upon our review of the billing data provided by R/M from July 2002 to June 2010, SDMSE billed \$667.3 million in gross ambulance revenue. Of this amount, \$244.4 million was received in either the SDMSE or NC lockbox. Another \$119.7 million of the billings were ultimately reduced due to contractual discounts. Medicare/Medicaid write-downs account for \$185.1 million and \$116.8 million was being written off as uncollectible, as illustrated in Exhibit 1.

13. Our analysis shows that the amount of gross ambulance revenue on the income statement reflects 99.8% of total billings observed in the billing system for the period July 2002 through June 2010, as shown in Exhibit 2.<sup>14</sup>

##### 2. National Collections Amounts Credited to SDMSE

14. Between April 2002 and June 2010, SDMSE received credit for \$11.7 million in amounts collected by NC – either through Intercompany Account credits (April 2002 – February 2007) or through wire transfers (March 2007 – June 2010), as shown in Exhibit 3.<sup>15</sup> We have identified 97.7%, or \$11.4 million, of the NC amounts for which SDMSE received credit within the billing system demonstrating that SDMSE received credit for more than the cash receipts recorded in the billing system. Moreover, the billing system data that we have reviewed supports the assertion that, prior to April 2002, no collections were received within the lockbox account

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<sup>14</sup> We compared the revenue recorded per the billing system to the revenue recorded per the income statement in order to determine whether the billing system is accurately capturing all of the revenue being reported in the SDMSE financial statements. This reconciliation provides some assurance that the revenue recorded on SDMSE's income statement is complete.

<sup>15</sup> We reviewed bank statements and intercompany general ledger accounts in order to determine whether and the extent to which SDMSE received credit for SDMSE-related collections made by NC.



by NC.<sup>16</sup> Thus, the evidence we have reviewed contradicts the allegation that R/M withheld all NC amounts prior to 2007 without giving credit to SDMSE.

### 3. **SDMSE Total Cash Receipts**

15. Our analysis indicates that from July 2002 to June 2010, the SDMSE billing system contains \$299.6 million in total cash collections, as shown in Exhibit 4.<sup>17</sup> The SDMSE and NC lockbox accounts reflect \$299.8 million in cash receipts, not including amounts unrelated to SDMSE patient activity (e.g., lockbox posting adjustments, vendor refunds, etc.). Therefore, the billing system reflects 99.9% of the cash receipts identified in both the SDMSE and NC lockbox accounts. Our work indicates that the billing system does not contain any significant amounts in excess of the cash that is recorded in the SDMSE and NC lockbox accounts and provides some assurance that cash has been appropriately recorded.

#### **B. Potential Over-Reimbursement**

16. From July 2001 to June 2010, R/M recorded \$280.7 million in expenses on the SDMSE income statement. The City Auditor was informed of \$4.1 million for amounts collected by NC, which suggests net reimbursable expenses of \$276.6 million under the assumption that R/M offset total expenses by the amounts received by NC. According to SDMSE's bank statements, R/M received cash reimbursements in the amount of \$286.2 million, \$9.7 million in excess of the amounts indicated on the SDMSE income statements as expenses after NC amounts have been offset, as shown in Exhibit 5.

17. Consultants have been able to obtain explanations for the identified reimbursement amounts in excess of expenses, which contradicts the allegation that R/M

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<sup>16</sup> Prior to April 2002, the billing data does not contain amounts posted by NC employees.

<sup>17</sup> We examined all cash collections within the billing system to determine if any amounts were missing from either the SDMSE or the NC lockbox accounts. These include all patient related receipts and contract payments.

received \$5.8 million in excess reimbursements. The aforementioned excess is a result of (1) R/M's disbursement of funds for items that would not have appeared on an income statement as an expense; (2) disbursements for expenses related to bad debts and revenue; and (3) timing differences, as discussed below.

18. As Exhibit 6 illustrates, R/M received \$8.3 million in reimbursements for balance sheet adjustments not reflected on SDMSE's income statement, such as patient refunds and lockbox posting adjustments. An additional \$1.9 million is attributable to accounts payable amounts that R/M disbursed for amounts not included in SDMSE's income statement because they are not expenses.<sup>18</sup> Timing differences in the amount of (\$0.6) million also exist primarily due to insufficient funds in the SDMSE lockbox account in certain months.

#### IV. **Materials Reviewed**

19. Our findings are based on an independent review of the documents produced by the parties, interviews, independent research, and past professional experience. A full list of the information that we have considered as of the date of this report is shown in Appendix 1 to this report. These materials include, but are not limited to:

- Monthly SDMSE financial reporting packages (July 1997 – June 2010)
- SDMSE billing data extracted from R/M's AS400 system (May 1997 – June 2010)
- R/M San Diego ("R/M SD") and SDMSE general ledger detail (May 1997 – June 2010)
- Monthly SDMSE Bank Statements (October 2000 – June 2010)

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<sup>18</sup> The \$1.9 million includes disbursements for collection agent commissions and CSA-17 payments that appear on the income statement in bad debt expense and revenue respectively. These line items were not captured as part of our analysis of SDMSE expenses.

- Monthly Intercompany Account reconciliations (July 2002 – June 2010)
- City of San Diego Audit Report of SDMSE, dated April 2011, and associated work papers
- R/M Wire Transfer Requests (January 2004 – July 2011)
- West Region Cash Reconciliation (December 2002 – June 2010)

20. We also held formal interviews with the R/M personnel listed in Table 1 below:<sup>19</sup>

<b>Employee</b>	<b>Title</b>
Mr. Jeff Wright	VP/Controller
Ms. Jodi Felker	Post-bill Billing Manager
Mr. Nathan Rush	Director of National Collections
Mr. Kevin Moore	VP/Treasurer
Mr. David Pickles	Senior Internal Financial Reporting Analyst
Ms. Kathrynne Johns	Senior Regional Business Analyst
Ms. Jennifer McCallister	Corporate Accounting Manager
Mr. Eric Croft	West Zone Finance Manager
Ms. Donna Berlinski	Former R/M Corporate Controller
Ms. Teri Crutchfield	Financial Manager for R/M San Diego
Mr. Wayne Johnson	Division General Manager for R/M San Diego

**Table 1**

21. In addition, we had informal discussions with additional R/M personnel, including Ms. Eileen Tayloe, Ms. Susie Bosch, Ms. Lynn Kitzmann, Ms. Lori Rudolph, and Ms. Jennifer Dobbs.<sup>20</sup>

22. It may be necessary for us to update or revise our analysis and findings based on a review of additional information, such as documents and electronic data produced by the parties that may come to our attention after the date of this report, as well as any additional interviews of R/M and SDMSE personnel that may occur.

<sup>19</sup> See Appendix 2 for a summary of each interview.

<sup>20</sup> Informal discussions were conducted with the employees in the presence of counsel for R/M and Navigant Consulting, Inc. (“Navigant”). Navigant is a consulting firm retained to assist R/M. No written summaries were prepared for these informal sessions. R/M’s counsel and Navigant were not present for any of the formal interviews.

## V. **Areas of Inquiry, Procedures Performed and Detailed Findings**

### A. **National Collections**

23. In order to determine whether and, if so, the extent to which SDMSE received credit for cash amounts received by NC, Consultants performed several analyses involving the SDMSE billing system. These include (1) understanding the R/M billing system; (2) an analysis of all transaction codes associated with all original billed amounts; (3) a reconciliation of billing system revenue to SDMSE income statement revenue; (4) a reconciliation of all cash receipts in the billing system to amounts shown on the SDMSE and NC bank statements; and (5) a comparison of NC receipts identified in the Intercompany Account to billing system amounts.

#### 1. **SDMSE Billing System Background**

24. Our preliminary findings are based in part on various analyses of the SDMSE billing system. As such, we began our procedures by obtaining an understanding of the structure of the data provided by Navigant and R/M.<sup>21</sup> We imported all data files into a SAS database and ran data integrity checks in order to ensure that the data had not been corrupted during the transmission from the hard drive or the combination of the files within SAS.

25. The billing detail data contains multiple lines for each invoice which details all of the activity on that invoice from the point it is initially entered in the system in response to services provided, through to ultimate payment or write-off. In order to be able to understand the information contained within this billing detail and incorporate this information into our analyses, the following assumptions were made about the structure of the billing data, based on the input provided by R/M and Navigant:

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<sup>21</sup> The data was initially provided to us in the form of 12 text files, with data segregated by cost center and further by detail and header information. For the purposes of each of our analyses, we focused on the detail data, which provides information for each transaction associated with each invoice. The header data provides a summary of each invoice as of the query date.

- **InvD\_Applied\_Period:** This field indicates the month and year in which the individual transaction on the related invoice took place. Per discussion with Navigant personnel, this field was used in order to limit the data to the relevant time period (inception to June 2010). Upon reviewing the data contained within the database, we verified that our database does not contain transactions with an InvD\_Applied\_Period value greater than June 30, 2010.
- **InvD\_Extended\_Amount:** This field indicates the dollar amount of billings, collections or adjustments for any given individual transaction.
- **Record\_Create\_User:** This field indicates the R/M employee that posted the transaction into the billing system. This is the only way in the billing system to identify whether a collection was posted to the NC lockbox account or the SDMSE lockbox account since all of the transaction postings of a certain set of employees relate to NC activity.<sup>22</sup>
- **Transaction\_Code\_New:** This field indicates the type of transaction represented by an individual line within the billing system (e.g., 100 equals a billed amount, 210 is a check payment, 460 is an uncollectible account, etc.).

26. In order to test the completeness of our resulting SAS database, we compared the total number of observations in our detail data database to the number of observations communicated to us by Navigant. Our detail data database contains 877,754 unique invoices and 42,554,828 individual records, which match the number of invoices and records reported by Navigant which provides assurance that the billing system we received was complete.

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<sup>22</sup> Interview of Jodi Felker, R/M Post-bill Billing Manager, October 6, 2011. Interview of Nathan Rush, R/M Director of National Collections, October 6, 2011.

a) **Cash Collections Process**

27. Upon rendering ambulance services to individuals, trip tickets generated onsite along with hospital face sheets containing patient information are used to generate a unique invoice number within the billing system which ultimately is used to create and send an invoice to the customer for payment. Over the course of the relationship between R/M and the City, the process by which private-pay cash collections were made on these open invoices has evolved. From the inception of the partnership in May 1997 through March 2002, the open private-pay receivable balances were collected by R/M personnel and deposited directly in the SDMSE bank account.<sup>23</sup> Beginning in April 2002, the procedure changed from depositing private-pay collections directly in the SDMSE lockbox by R/M billing personnel to depositing the open private-pay amounts into the NC lockbox by NC personnel. The post-2002 R/M policy called for these amounts to remain in this account and SDMSE to receive accounting credit for the SDMSE-related portion of these collections in the form of an offset to the amounts otherwise due from SDMSE to R/M for services rendered, SDMSE obligations paid for by R/M and costs incurred.<sup>24</sup> These offsets reduced the magnitude of the expenses for which R/M sought reimbursement. Beginning in March 2007, the policy was further amended to remit a wire transfer to SDMSE for all amounts collected by NC on behalf of SDMSE. The cash collections process governing all other collections (including non-private-pay and contract payments) has always been processed by R/M personnel outside the NC group and deposited directly into the SDMSE lockbox.

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<sup>23</sup> We have reviewed invoice examples that instruct customers to remit amounts directly to the SDMSE lockbox prior to 2002. After 2002, the invoice examples that we have reviewed instruct customers to remit payment directly to the NC lockbox.

<sup>24</sup> Based on our examination of the Intercompany Account reconciliations provided by R/M for the period FY 2002 – FY 2010.

b) **Additional Means of Invoice Resolution**

28. In addition to cash collections, open balances within the billing system may be reduced through the following:

- Contractual Discount – SDMSE can only charge a certain amount of revenue per transport per its contracts with insurance providers. Therefore, amounts billed in excess of this amount are reduced within the billing system before the invoice is sent to the patient. These amounts are denoted by Transaction Code 350 within the billing system.
- Medicare/Medicaid Write-down – Amounts which exceed the maximum reimbursement rate of Medicare and Medicaid patients are reduced within the billing system before the invoice is sent to the patient. These amounts are denoted by Transaction Codes 400 and 401 within the billing system.
- Uncollectible Amounts – These are amounts which have been determined by NC personnel to be uncollectible (for reasons other than those listed above), are written off and are sent to a third-party collection agent.<sup>25</sup> These amounts are denoted by Transaction Code 460 within the billing system.

29. By combining this information concerning the cash collections process with the details of the billing system (particularly the significance of the fields discussed earlier) we analyzed the billing system, traced transactions through the system and determined whether the cash collections associated with these transactions were ultimately deposited in the proper bank account.

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<sup>25</sup> A write-off is a reduction in the receivable balance by the amount of a loss with a corresponding increase in the allowance for doubtful accounts, which are both balance sheet accounts. R/M writes off receivables when they are sent to a third-party collection agent; however R/M still retains ownership of the amount due.

## 2. Transaction Code Analysis

30. We analyzed the SDMSE billing system to determine whether it contained evidence of cash receipts that were not credited to or received by SDMSE. As a first step, we organized all of the invoices within the billing data according to the month<sup>26</sup> in which transaction code 100 was entered into the billing system.<sup>27</sup> The amounts for all other transaction codes was totaled for each identified invoice number and categorized in the month of original invoice amount. The result is an analysis of the resolution of all invoices (whether through collections, write-downs or write-offs) within the billing system as of the cutoff date for the data.

31. On an aggregate basis, from July 2002 through June 2010, the billing system contains revenue (based upon transaction code 100 only) of \$667.3 million.<sup>28</sup> Of this amount, \$244.4 million was received in either the SDMSE or NC lockbox, \$119.7 million related to contractual discounts, \$185.1 million was Medicare/Medicaid write-downs, and \$116.8 million was written off as uncollectible. Figure 1 below shows the breakout of the \$667.3 million in revenue into how it is ultimately resolved within the system.

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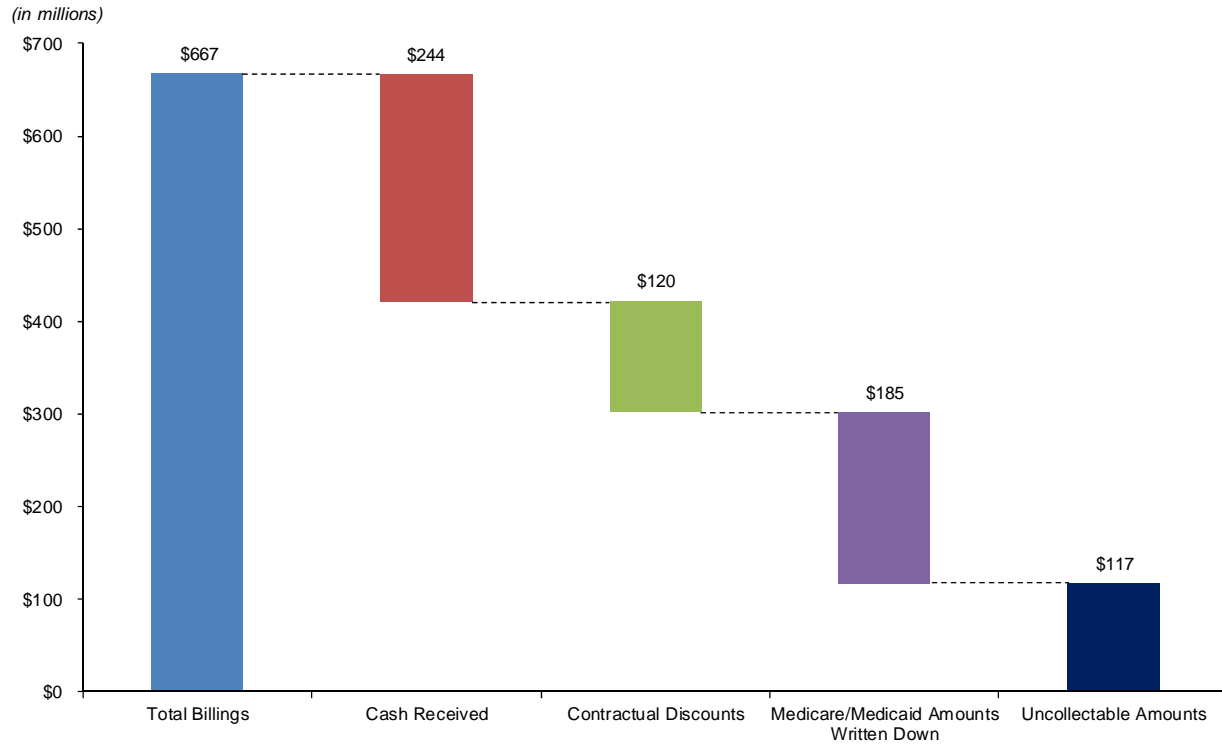
<sup>26</sup> As represented by the value in the InvD\_Applied\_Period field.

<sup>27</sup> Transaction code 100 is the primary revenue transaction code.

<sup>28</sup> See Exhibit 1.



**SDMSE Transport Revenue  
July 2002 – June 2010**



**Figure 1<sup>29</sup>**

32. If each of the categories in Figure 1 above can be substantiated, then SDMSE has received credit for all the revenue and cash collection to which it was entitled. Consultants have tested the revenue and cash receipts portions of the SDMSE billing system. To date, Consultants have not performed procedures to validate the discounts, Medicare/Medicaid write downs, or uncollectible write offs.

**3. Revenue Reconciliation**

33. We first reconciled total revenue per the billing system as represented by total billings to total revenue per the financial statements as represented by the Gross Ambulance Fee

<sup>29</sup> Data excludes cash received from contract payments. See Exhibit 1.

account in the general ledger. This analysis provides assurance that the revenue recorded in the SDMSE income statement is complete. Total billings were calculated by extracting all customer charges identified by Transaction\_Code\_New codes 00100 (Charge Item), 00101 (Charge Item Price Update), 00300 (Charge Reversal) and 00320 (Additional Charge Item).<sup>30</sup>

34. For the period from July 2002 through June 2010, the billing system reports total ambulance revenue of \$665.7 million.<sup>31</sup> The SDMSE general ledger and income statement report 99.8% of total ambulance revenue reported in the billing system, as illustrated in Figure 2 below. Based on this result, it appears that the billing system is appropriately capturing revenue recorded in the general ledger.<sup>32</sup>

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<sup>30</sup> Per discussion with Lynn Kitzmann at R/M.

<sup>31</sup> In the course of comparing revenue figures per the billing system to those reported in the income statement, we noted that prior to July 2002, the revenues per the billing system were significantly lower than those reported in the income statement. Per discussions with R/M personnel, the billing system underwent an archiving process through which invoices which had no activity on them for 770 days or longer were purged from the system. We subsequently learned that a significant amount of older billing information had been archived and therefore, billing data prior to July 2002 is incomplete and is either not currently available or not in a usable data format. Consequently, the data does not permit a comparison of gross ambulance revenue to total billings prior to July 2002. See Exhibit 2.

<sup>32</sup> See Exhibit 2.

## Transport Revenue Reconciliation July 2002 – June 2010

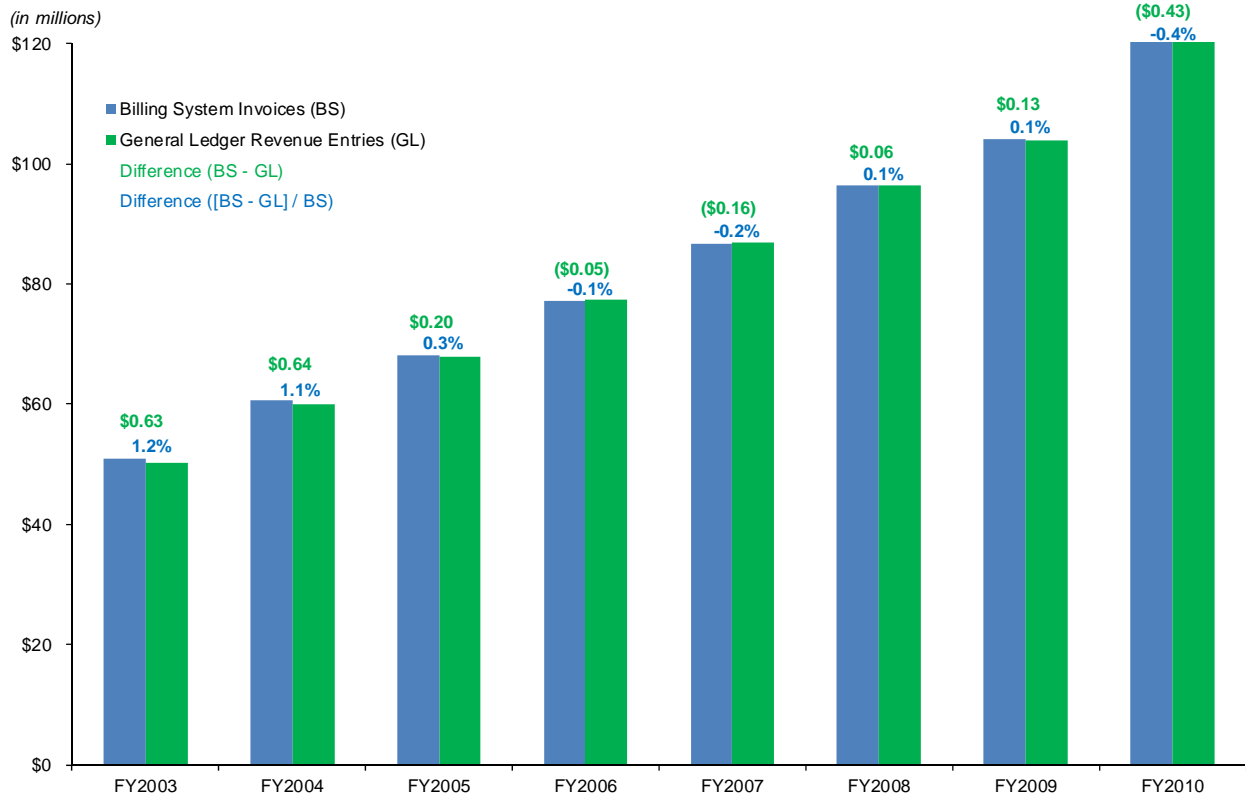


Figure 2<sup>33</sup>

#### 4. Cash Receipts Reconciliation

35. The next billing system category that we tested is total cash receipts. Consultants reconciled total monthly cash collections of SDMSE-related balances (including collections made by both SDMSE and NC personnel) per the billing system to monthly bank statements. This analysis provides some assurance that the cash receipts recorded in the billing system were received by or credited to SDMSE through either the SDMSE lockbox account or the NC lockbox account.

<sup>33</sup> See Exhibit 2.

36. Per discussion with R/M personnel, total cash collections were identified in the billing data as having Transaction\_Code\_New codes listed in Table 2 below.<sup>34</sup>

<b>Code</b>	<b>Description</b>
00200	Payment - Cash
00206	Master Amb Contract Pymnt
00208	Standby Payment
00210	Payment - Check
00220	Payment - Credit Card
00250	Contract Invoice Payment
00292	Subsidy Payment
00330	Returned Check
00335	Chargeback
00336	Credit Card Disputed
00339	Payment Transfer

**Table 2**

37. For example, in December 2006, the aggregate total for all of these transaction codes equaled \$2.9 million in the SDMSE billing system. The total December 2006 collections reported by the bank statement were only \$2.8 million, as shown in Exhibit 8. However, in order to compare the monthly collections per the billing system to bank statements, it is necessary to adjust for amounts received by NC and for amounts deposited in the SDMSE lockbox unrelated to San Diego transport revenue.

38. The first adjustment involves the amounts which are collected on behalf of SDMSE by NC personnel. As our analysis uses the SDMSE bank statement to determine total monthly collections, it is necessary to add the monthly NC amount in order to determine the total monthly SDMSE-related collection amount. For December 2006, this amount totals \$105,836 and represents cash collected by NC for the benefit of SDMSE but not recorded in the SDMSE bank statements.<sup>35</sup>

<sup>34</sup> See Exhibit 7 for a complete list of transaction codes.

<sup>35</sup> See Exhibit 8.

39. The second adjustment involves collections which were deposited in the SDMSE account but did not relate to SDMSE transport services.<sup>36</sup> Per our discussions with R/M,<sup>37</sup> cash collections made on a monthly basis are not always deposited directly into the proper account as determined by the entity on whose behalf R/M is making the collection. For example, it is possible that R/M deposited cash collections made on behalf of the Washington R/M entity into the SDMSE bank account in certain months.

40. At the end of each month, R/M personnel reconciled total cash collections to the invoices against which these collections were applied in order to determine that all cash collections were appropriately deposited. This reconciliation results in adjustments to the respective Intercompany Accounts that credit the appropriate amounts into the correct accounts. These adjustments are detailed in the monthly lockbox deposit reconciliations. For December 2006, this amount totals (\$25,230), bringing total December 2006 collections to \$2,925,266 per the bank statements.<sup>38</sup>

41. For the time period July 2002 through June 2010, we identified total SDMSE cash receipts of \$299.6 million in the billing system, as illustrated in Figure 3 below.<sup>39</sup> These include patient related receipts and contract payments. The combined SDMSE and NC lockbox reconciliations reflect \$299.8 million in combined cash receipts after the adjustments discussed above, for a difference of \$0.2 million, or 0.1%. Consequently, based on the foregoing procedures there is some assurance that the cash receipts in the bank statements are complete, assuming the accuracy of the SDMSE billing system.

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<sup>36</sup> Examples of this include SMDSE related deposits which are not related to specific patient transport services (e.g. master contract revenue) or amounts which relate to a division other than SDMSE but were deposited in the SDMSE account.

<sup>37</sup> Interview of Jeff Wright, VP/Controller, 10/28/11. Interview of Donna Berlinski, fmr R/M Corporate Controller and Accounting Manager, 11/3/11.

<sup>38</sup> See Exhibit 8.

<sup>39</sup> See Exhibit 4.

## Cash Receipts Reconciliation July 2002 – June 2010

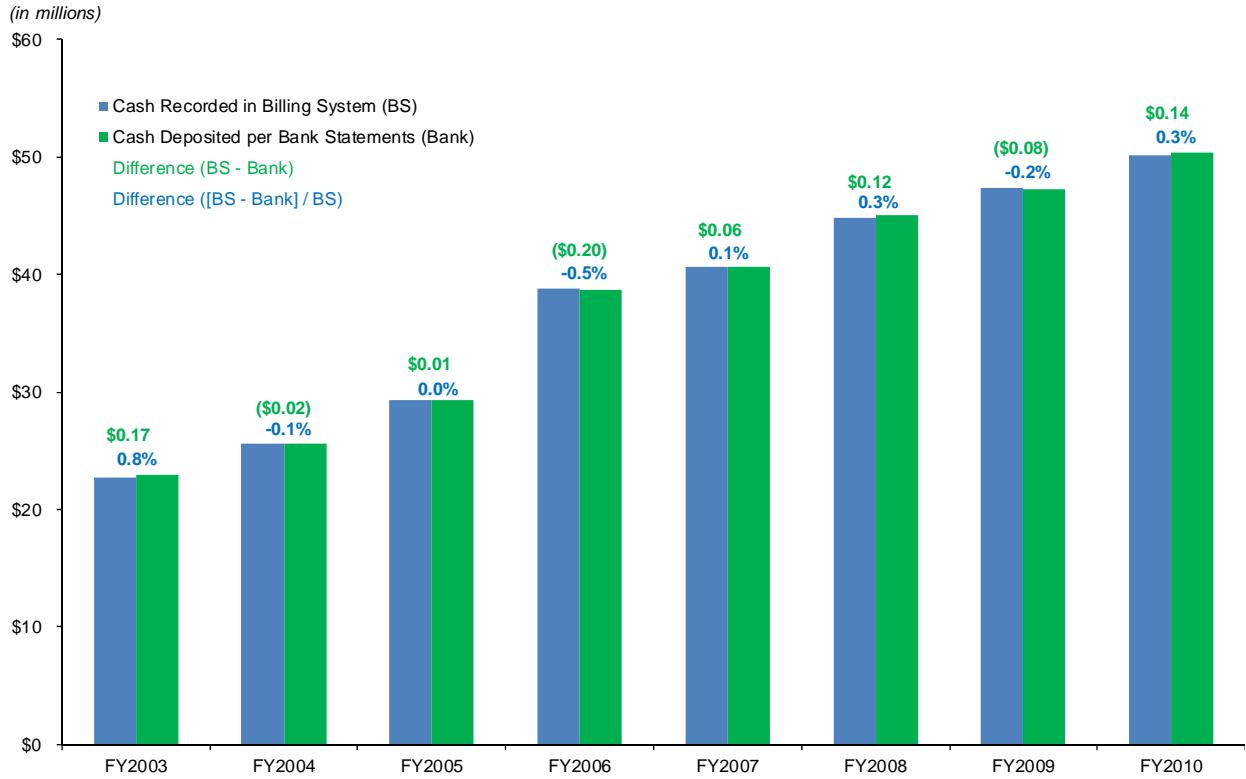


Figure 3<sup>40</sup>

### 5. NC Amount Reconciliation

42. As a subset of our testing of the total cash receipts, Consultants verified the monthly collections made by NC on SDMSE-related invoices. This test provides specific assurance regarding the issue of whether or not the cash receipts reported by NC were credited to SDMSE.

43. The cash receipts collected by NC were identified by filtering the billing data by (1) the NC employee that posted the cash receipt;<sup>41</sup> and (2) the transaction codes listed below in Table 3:<sup>42</sup>

<sup>40</sup> Data includes cash received from contract payments. See Exhibit 4.

<b>Code</b>	<b>Description</b>
00200	Payment - Cash
00210	Payment - Check
00220	Payment - Credit Card
00330	Returned Check
00335	Chargeback
00336	Credit Card Disputed
00339	Payment Transfer

**Table 3**

44. Per interviews with Jodi Felker and Nathan Rush,<sup>43</sup> these are the only codes which represent cash collections made by NC personnel.

45. Because R/M did not begin remitting collections received by NC on behalf of SDMSE on a monthly basis until March 2007, we reconciled the NC amount per the billing system prior to February 2007 to the amount reported in the monthly NC lockbox deposit reconciliation.<sup>44</sup>

46. From February 2007 through June 2010, we were able to compare the NC amount per the billing system directly to wire transfer documents showing the remittance of the collection amounts from NC to SDMSE.

47. For the period from April 2002 through June 2010, SDMSE received credit for \$11.7 million in amounts collected by NC—either through Intercompany Account credits (April 2002 – February 2007) or through wire transfers (March 2007 – June 2010).<sup>45</sup> During the same period, we observed \$11.4 million in cash receipts deposited into the NC lockbox, for a

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<sup>41</sup> According to Nathan Rush, the NC employee can be identified in the “Record\_Create\_User” field within the billing system. The only NC employees that posted cash receipts were: BCOOP, JBROW, JVEGA, KCAMP, MCAMP, NTENA and RBONI.

<sup>42</sup> See Exhibit 7 for a complete list of transaction codes.

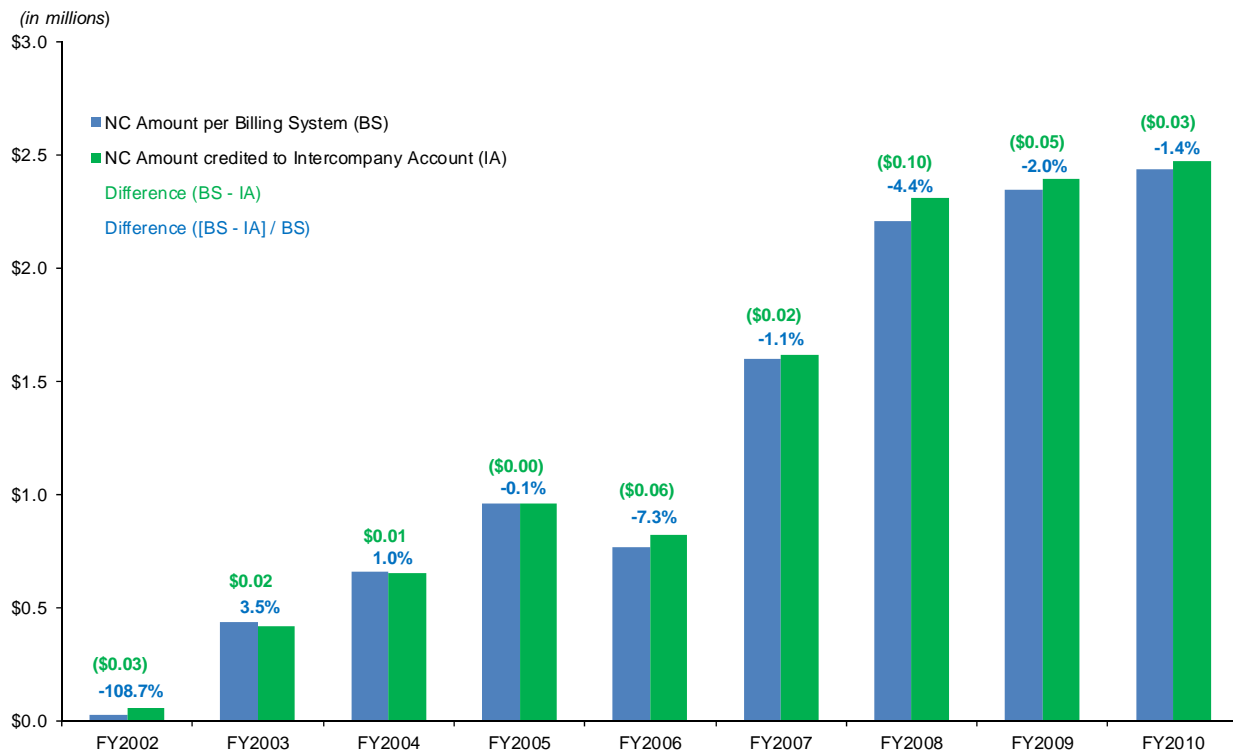
<sup>43</sup> Interview of Jodi Felker, R/M Post-bill Billing Manager, 10/6/11. Interview of Nathan Rush, R/M Director of National Collections, 10/6/11.

<sup>44</sup> Prior to July 2004, the only documentation of this monthly reconciliation is a journal entry printout.

<sup>45</sup> The wire transfer for March 2007 was for the collection activity that occurred in February 2007.

difference of \$0.3 million, or 97.7% of NC amounts for which SDMSE received credit based on our review of the billing data,<sup>46</sup> as illustrated in Figure 4 below.

### National Collections Reconciliation July 2002 – June 2010



**Figure 4<sup>47</sup>**

48. Based on these results, SDMSE received credit for more than the cash receipts recorded in the billing system. Moreover, the billing system data that we have reviewed supports R/M’s assertion that, prior to April 2002, no collections were received within the lockbox account by NC because the billing system does not contain any cash collections posted by NC employees prior to that date.

<sup>46</sup> See Exhibit 3.

<sup>47</sup> Data prior to April 2002 was not available. Data for FY2002 consists of April 2002 through June 2002. Posting employee data for April 2006 through June 2006 was not available due to a system upgrade. The National Collections amounts presented above do not include April through June 2006. See Exhibit 3.



**B. Potential Over-Reimbursement**

49. As discussed above, the City Auditor noted that “Rural/Metro appears to have withdrawn approximately \$5.8 million from the SDMS[E] bank account in excess of its entitled expense reimbursement amounts”<sup>48</sup> from FY 2006 – FY 2010. We have replicated the City Auditor’s analysis and have investigated the reasons for this potential over-reimbursement. We have also extended this analysis back to FY 2002, the date for which a complete set of documents was first available.

50. Our approach in exploring this potential over-reimbursement was (1) to understand the reimbursement process; (2) identify differences between reimbursements to R/M and expenses listed on the SDMSE income statement and attempt to reconcile these differences; and (3) obtain explanations for any identified differences.

**1. Background of Reimbursement Process**

51. The following represents our understanding of the reimbursement process from SDMSE to R/M, including background information on the (a) reimbursement of expenses incurred by R/M on behalf of SDMSE; (b) Intercompany Account; and (c) impact of amounts collected by R/M’s NC department.

**a) Expenses incurred on behalf of SDMSE**

52. We understand that R/M is generally reimbursed for expenditures made by R/M SD (e.g. payroll and vehicle expenses), for the costs of billing patients and insurance providers, for SDMSE operating expenses (e.g. supplies and outside claims) or other obligations of SDMSE satisfied by R/M.

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<sup>48</sup> Performance Audit of Fire-Rescue’s Emergency Medical Services, Audit Report, Office of the City Auditor, City of San Diego, April 2011, pp. 1–2.

53. For example, total reimbursable expenses of \$2.9 million for December 2006 were as follows:

<b>Expense</b>	<b>Amount</b>
<b>R/M SD Expenses</b>	<b>\$2,115,526</b>
<b>Billing Costs</b>	<b>\$171,657</b>
<b>SDMSE Operating Expenses</b>	
Operational Supplies	\$180,214
Professional Fees	4,304
AED Related Expenses	18,666
Bank Fees	416
Depreciation	180
Outside Claims	341,985
SIR Expense	41,333
Medical Direction	10,410
<b>Subtotal</b>	<b>\$597,508</b>
<b>Total</b>	<b>\$2,884,691</b>

Table 4<sup>49</sup>

b) **Intercompany Account and reimbursements**

54. All San Diego related expenses flow through an Intercompany Account on the SDMSE general ledger (Company 117). The Intercompany Accounts are reciprocal records between the entities in their general ledgers and record receivables and payables between each entity. Intercompany obligations between the different R/M entities occur when one entity incurs an expense that is paid for by another entity. In this case, all expenses are incurred by either R/M SD (Company 116) or SDMSE (Company 117). These expenses are paid out of an R/M corporate account which creates an Intercompany payable for SDMSE, and an

<sup>49</sup> SDMSE December 2006 income statement.

Intercompany receivable for R/M.<sup>50</sup> R/M SD operating expenses are recorded on SDMSE's income statement and increase the Intercompany Account balance when incurred. SDMSE operating expenses are recorded on SDMSE's income statement and increase the Intercompany Account balance when paid, which creates a timing difference between R/M's reimbursement request and expenses shown on the SDMSE income statement.

55. In terms of accounting treatment for expenses in the Intercompany Account, R/M records SDMSE operating expense activity by debiting the Intercompany Account (e.g. recording a receivable) and crediting cash. SDMSE on the other hand records an operating expense or accounts payable by debiting the expense and crediting the Intercompany Account (e.g. recording a payable). The month-end receivable balance on R/M's Intercompany Account (or the month-end payable balance on SDMSE's Intercompany Account) forms the basis for the reimbursement request that is sent by R/M to SDMSE.

56. For example, Table 5 below shows the detail of all line items comprising the December 2006 Intercompany Account balance which was the basis for the reimbursement amount received by R/M for this month.

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<sup>50</sup> We refer to the Intercompany Account as an Intercompany Receivable/Payable below when showing the accounting treatment for such accounts.

<b>Reimbursement Item</b>	<b>Amount</b>
<b>R/M SD Expenses</b>	<b>\$2,115,526</b>
<b>Billing Costs</b>	<b>\$171,657</b>
<b>SDMSE Operating Expenses</b>	
Accounts Payable - Net of Voids	\$404,381
AP Coding	7,046
Purchasing Card Purchases	460
Payroll	8,292
Medical Supply Purchases	170,760
Interest Allocation	2,117
Sales Tax	4,779
Insurance	905
Property Tax Reclassification	(108)
<b>Subtotal</b>	<b><u>\$598,632</u></b>
National Collection Amounts Collected in Current Month	(\$105,836)
Patient/Customer Refunds - Net of Voids	32,926
Vendor Refund Received in SD Lockbox	3,026
Lockbox Posting Adjustments	1,482
<b>Subtotal</b>	<b><u>(\$68,402)</u></b>
<b>Total</b>	<b><u><u>\$2,817,413</u></u></b>

Table 5<sup>51</sup>

57. In contrast, SDMSE reported the following expenses shown on the December 2006 income statement as shown below in Table 6:

<sup>51</sup> December 2006 Intercompany Account Reconciliation, Tab 1.

Expense	Amount
<b>R/M SD Expenses</b>	<b>\$2,115,526</b>
<b>Billing Costs</b>	<b>\$171,657</b>
<b>SDMSE Operating Expenses</b>	
Operational Supplies	\$180,214
Professional Fees	4,304
AED Related Expenses	18,666
Bank Fees	416
Depreciation	180
Outside Claims	341,985
SIR Expense	41,333
Medical Direction	10,410
<b>Subtotal</b>	<b>597,508</b>
<b>Total</b>	<b>\$2,884,691</b>

**Table 6**

58. Table 7 below reconciles the total expenses shown on the income statement for December 2006 with the balance in the Intercompany Account:

	Income Statement <sup>52</sup>	NC Amount <sup>53</sup>	Patient Refunds <sup>54</sup>	Timing Differences <sup>55</sup>	Cash <sup>56</sup>
R/M SD Expenses	\$2,115,526			\$5,251	\$2,120,777
Billing Costs	171,657				171,657
SDMSE Operating Expenses	597,508	(105,836)	37,434	1,124	530,230
<b>Due to R/M</b>	<b>\$2,884,691</b>	<b>(\$105,836)</b>	<b>\$37,434</b>	<b>\$6,375</b>	<b>\$2,822,664</b>

**Table 7**

59. While many of these expenditures appear as expenses on SDMSE's income statement, certain cash transfers do not (e.g. refunds to patients for over-payments) and therefore

<sup>52</sup> SDMSE monthly reporting package: income statement, December 2006.

<sup>53</sup> R/M Deposit Reconciliation: Chase Bank account xxxxxx866.

<sup>54</sup> R/M general ledger detail for account 117.1850 and accounts payable detail.

<sup>55</sup> \$5,251 is a timing difference carry over from prior wire transfer requests (see Wire transfer request for January 2007). \$1,124 is a timing difference primarily due to the reimbursement amounts based on accounts payable (cash basis) and the income statement expenses (accrual basis). Under an accrual basis of accounting, expenses are recorded as incurred, not necessarily when cash is paid.

<sup>56</sup> SDMSE monthly reporting package: Cash schedule, January 2007.

have to be reconciled to the income statement. NC amounts collected on behalf of San Diego in the amount of (\$105,836) were offset against the SDMSE operating expenses and therefore reduced the amount that R/M requested and received in reimbursement from the SDMSE lockbox.<sup>57</sup> Refunds to patients who had overpaid on their account, \$37,434, were aggregated together with SDMSE operating expenses and increased the amount that R/M requested and received in reimbursement from the SDMSE lockbox.<sup>58</sup> Timing differences of \$6,375 exist in December 2006 due to carry over of prior reimbursement requests or differences between the cash-based reimbursement request and the accrual-based income statement.

60. Therefore, there were \$597,508 in income statement expenses and \$1,124 in timing differences for a total of \$598,632 in SDMSE operating expenses prior to any consideration for NC amounts in December 2006, but R/M received reimbursement for only \$530,230 due primarily to a reduction for the NC amount of \$105,836 and an increase for balance sheet adjustments of \$37,434.

## 2. **Identification and Reconciliation of Potential Over-Reimbursement Amounts**

61. We have compared cash reimbursements received by R/M per SDMSE's bank statements to expenses included in SDMSE's income statement and general ledger and identified total differences for each month from FY2002 – FY2010. This is similar to the basic approach used by the City Auditor. We then reconciled the difference between cash reimbursements and expenses listed on the income statement by investigating the sources of the reimbursement request in R/M's Intercompany Account reconciliations and reviewing the underlying accounting

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<sup>57</sup> NC amounts collected and lockbox posting adjustments that reverse deposits to other R/M regions are also recorded on the SDMSE balance sheet and reduce the Intercompany Account balance owed to R/M.

<sup>58</sup> Patient refunds and SDMSE lockbox posting adjustments that reverse deposits to SDMSE are recorded on SDMSE's balance sheet and are added to the Intercompany Account balance.

documents. This approach identifies areas of potential over-reimbursement that would require further explanation.

62. In order to be consistent with the City Auditor's analysis, we have separated our analysis into two periods: FY 2002 – FY 2005 and FY 2006 – FY 2010.

a) **Replication of City Auditor's Analysis: FY 2006 – FY 2010**

63. As noted by the City Auditor, R/M recorded SDMSE expenses in the amount of \$181.2 million from FY 2006 – FY 2010, according to the SDMSE income statement.<sup>59</sup> The City Auditor reduced this amount by \$2.0 million to give credit for amounts collected by NC on SDMSE's behalf over this same time period.<sup>60</sup> Amounts reported as collected by NC prior to March 2007 were credited against the Intercompany Account. As a result, net reimbursable expenses per SDMSE's income statement are \$179.2 million over this time period. According to the City Auditor, R/M received \$185.0 million in cash from SDMSE's lockbox, or \$5.8 million in excess of the expenses per the income statement.<sup>61</sup>

64. The October 2006 SDMSE monthly reporting packet was not available to the City Auditor, and the Audit Report figure was interpolated using year-to-date figures from later statements.<sup>62</sup> We reduced the Audit Report amount by \$113,990 in this month to reconcile with the now available October 2006 SDMSE monthly reporting packet. The Audit Report also notes that "[s]ome adjustments were required to individual cost categories to get them to agree to the YTD in the 6/30/08 statement."<sup>63</sup> Based on our review of the supporting documents, several

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<sup>59</sup> SDMSE income statements FY 2006 – FY 2010.

<sup>60</sup> CITY AUD.02057.

<sup>61</sup> We included a reconciling adjustment of \$25,153 in SDMSE expenses and \$155,154 for cash withdrawn by R/M for total adjustments of \$180,307 for FY 2006 to account for the difference between the annual amounts used by the City Auditor and the monthly income statements and balance sheets.

<sup>62</sup> CITY AUD.02060.

<sup>63</sup> CITY AUD.02061.

adjustments to the amounts presented by the City Auditor were required.<sup>64</sup> Including these adjustments increases the reimbursements to R/M to \$6.1 million in excess of the expenses per the income statement, as shown in Table 8 below:<sup>65</sup>

<b>Category</b>	<b>Amount</b>
SDMSE Expenses	\$181.2 million
Less: NC Amounts Collected	<u>2.0 million</u>
<b>Net Reimbursable Expenses</b>	<b>\$179.2 million</b>
Cash Reimbursement	<u>\$185.0 million</u>
<b>Potential Over-Reimbursement</b>	<b>\$5.8 million</b>
<b>Adjustments:</b>	
Timing Difference between City Auditor Report and Monthly Reporting Packages	(\$0.2) million
Operating Expense Reductions	0.1 million
Cash Not Identified by the City Auditor	<u>0.3 million</u>
<b>Subtotal<sup>66</sup></b>	<u><b>\$0.3 million</b></u>
<b>Adjusted Over-Reimbursement Amount</b>	<u><u><b>\$6.1 million</b></u></u>

**Table 8**

b) **Extension of City Auditor’s Analysis: FY 2002 – FY 2005**

65. We have extended this reconciliation to include the FY 2002 – FY 2005 period. As shown in Exhibit 5, R/M recorded \$99.5 million in expenses per SDMSE’s income statement over this period. We reduced this amount by \$2.1 million collected by NC for net expenses of \$97.4 million. R/M was reimbursed \$101.0 million in cash, resulting in excess reimbursement of

<sup>64</sup> We reduced the August 2007 amount for Annex Depreciation from the income statement amount by \$1,077. We also increased the October 2007 amount by \$20,819 for Outside Claims and Medical Direction from the income statement amounts. We also reduced the Audit Report amount by \$113,990 to reconcile with the now available October 2006 SDMSE monthly reporting packet, for total operating expense reductions of \$94,248. We also increased cash disbursements to R/M by \$338,600 due to amounts identified in the November 2007 and February 2008 bank statements that were not included in the audit report.

<sup>65</sup> See Exhibit 5.

<sup>66</sup> Numbers do not tie due to rounding.



\$3.6 million over this time period as compared to the income statement, as shown in Table 9 below:

Category	FY 2002 – FY 2005	FY 2006 – FY 2010	Total
SDMSE Expenses	\$99.5 million	\$181.1 million	\$280.6 million
Less: NC Amounts Collected	2.1 million	2.0 million	4.1 million
<b>Net Reimbursable Expenses</b>	<b>\$97.4 million</b>	<b>\$179.1 million</b>	<b>\$276.5 million</b>
Cash Reimbursement	\$101.0 million	\$185.2 million	\$286.2 million
<b>Potential Over-Reimbursement</b>	<b>\$3.6 million</b>	<b>\$6.1 million</b>	<b>\$9.7 million</b>

Table 9<sup>67</sup>

66. From FY 2002 – FY 2010, R/M recorded \$280.6 million in expenses per SDMSE’s income statement, which was reduced by \$4.1 million for amounts collected by NC, for net reimbursable expenses of \$276.5 million. R/M was reimbursed \$286.2 million in cash, resulting in excess reimbursement of \$9.7 million, as illustrated in Figure 5 below.

<sup>67</sup> Numbers may not tie due to rounding.

## Summary of Excess Reimbursement July 2002 – June 2010

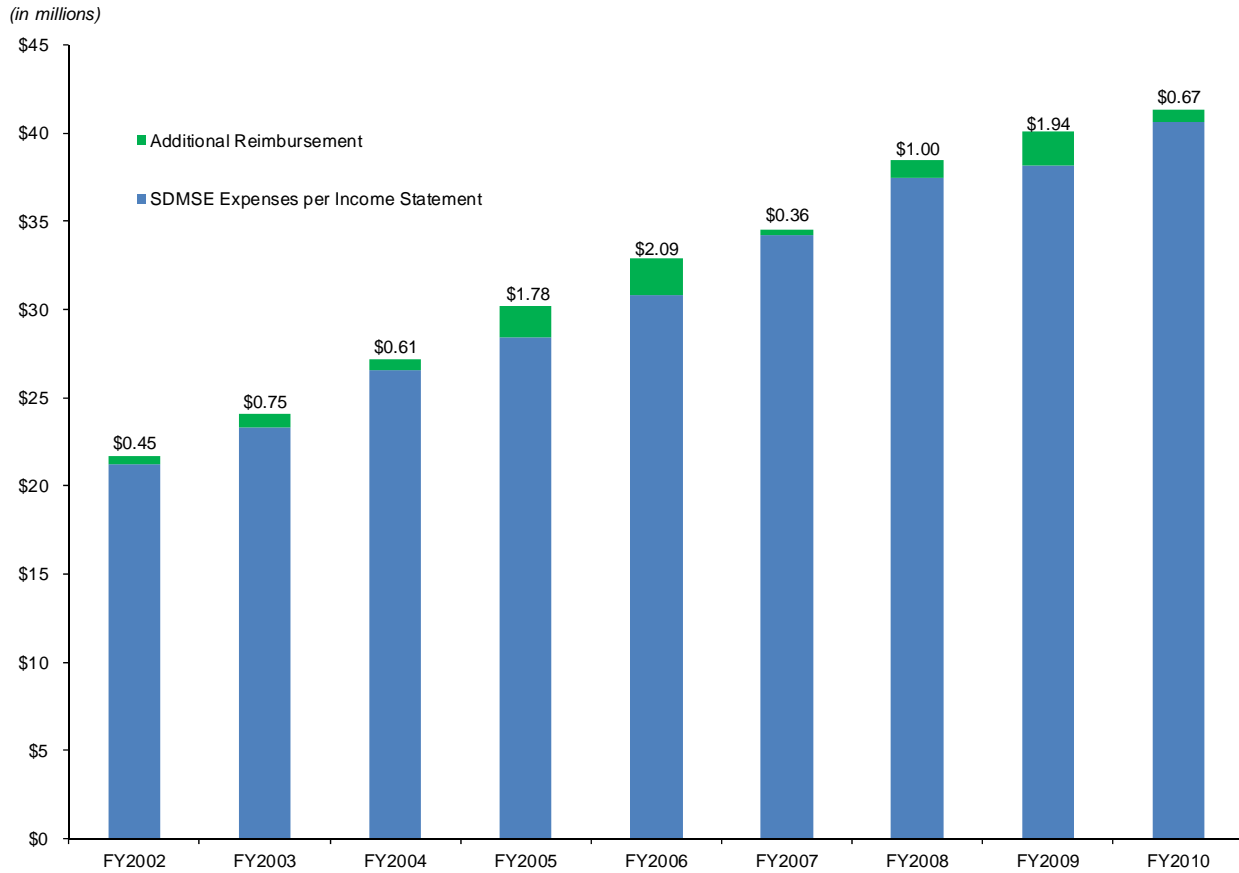


Figure 5<sup>68</sup>

### 3. Analysis and Explanation of Potential Over-Reimbursement Amounts

67. Through an examination of the Intercompany Account reconciliations and other supporting accounting documents, we have identified the following five categories that account for the identified differences and sought explanations, where applicable, from R/M personnel:

- a) Reimbursements related to **balance sheet adjustments** that would not appear on the income statement, such as bad debt collections and refunds of patient overpayments;

<sup>68</sup> See Exhibit 5.

- b) Timing and posting differences attributable to **NC amounts** flowing through the Intercompany Account;
- c) Differences between **SDMSE operating expenses** and A/P disbursements per the Intercompany Account reconciliation SDMSE expense on the income statement;
- d) Differences between **R/M San Diego** expenses in the Intercompany Account and those on the SDMSE income statement; and
- e) **Timing differences** between actual cash reimbursements to R/M and reimbursement requests per the Intercompany Account balance.

68. Table 10 below provides a summary for each category:

<b>Category</b>	<b>Amount</b>
a) Balance Sheet Adjustments	\$8,313,597
b) NC Amount Timing Differences	(74,657)
c) SDMSE Operating Expenses	1,934,479
d) R/M SD Timing Differences	80,234
e) Reimbursement Request Timing Difference	(598,559)
<b>Total</b>	<b><u><u>\$9,655,094</u></u></b>

**Table 10**

a) **Balance Sheet Adjustments**

69. From FY 2002 – FY 2010, R/M received reimbursement for \$8.3 million that appears to be a result of SDMSE balance sheet adjustments that did not affect SDMSE expenses and thus did not appear on the income statement. These balance sheet adjustments are largely comprised of refunds to patients who had overpaid their amounts due and adjustments to the SDMSE lockbox for reversals of cash amounts received from other R/M regions.

70. As shown in Exhibit 9, \$7.4 million was reimbursed for R/M refunds to patients that paid in excess of the amount due.<sup>69</sup> As these refunds are obligations but not expenses, they do not impact the income statement of SDMSE. Rather, they are recorded as an adjustment to accounts receivable for the respective patients and are reported on SDMSE's balance sheet. In other words, the patient overpayment results in an accounts payable to the patient, and the patient refund satisfies that payable.

71. For example, below in Figure 6 are journal entries for SDMSE and R/M for patient refunds of \$32,926.19 in December 2006:<sup>70</sup>

<u>SDMSE</u>	<u>Debit</u>	<u>Credit</u>
Accounts Payable	\$32,926.19	
Intercompany Receivable/Payable		\$32,926.19
<u>R/M</u>		
Intercompany Receivable/Payable	\$32,926.19	
Cash		\$32,926.19

**Figure 6**

72. The net result is an increase in the accounts receivable account on SDMSE's balance sheet, a reduction in cash on R/M's balance sheet, and an increase in the SDMSE Intercompany payable and R/M Intercompany receivable.

73. As an illustration, Table 11 below shows the amounts posted to the AS400 system for invoice no. 1000910470, which shows a duplicate payment of \$912 on November 28, 2006, and a subsequent refund of the same amount on December 12, 2006:<sup>71</sup>

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<sup>69</sup> We understand that, at times, a patient, or a relative of the patient, will either pay more than required for the service or pay for services that were covered by the patient's insurance provider. In such circumstances, R/M refunds the excess payment to the patient or payee and therefore requests reimbursement for these refunds because the patient overpayment was credited to SDMSE.

<sup>70</sup> December 2006 Intercompany Account Reconciliation.

<b>Transaction</b>	<b>Post Date</b>	<b>Amount</b>
<b>Billed Amount</b>	11/2/2006	<b>\$912</b>
<b>Payments</b>	11/19/2006	(\$912)
	11/28/2006	(912)
		<b>(\$1,824)</b>
<b>Refund</b>	12/12/2006	<b>\$912</b>
<b>Total</b>		<b>\$0</b>

**Table 11**<sup>72</sup>

74. An additional \$0.8 million was received by R/M for lockbox posting adjustments related to non-San Diego deposits made to the SDMSE lockbox.<sup>73</sup> We understand that these were reversals of cash receipts from R/M cost centers other than San Diego that were initially deposited in the SDMSE lockbox.<sup>74</sup>

75. The remaining \$0.1 million of balance sheet amounts is for miscellaneous adjustments for cash, accounts receivable, accounts payable, and retained earnings, and is primarily comprised of a line item titled “SD Insurance Settlement” in March 2008.<sup>75</sup>

**b) National Collections Amounts**

76. As discussed above, prior to March 2007, R/M retained cash collected by NC on behalf of SDMSE and reduced its reimbursement from SDMSE for the amount due to R/M for SDMSE expenses incurred/paid by R/M. Beginning in March 2007, R/M began transferring such cash to the SDMSE lockbox. After this point, NC amounts collected continued to offset the Intercompany Account followed by an increase to the Intercompany Account when the wire transfer was sent the following month. This one month lag created a small timing difference.

<sup>71</sup> See Exhibit 10.

<sup>72</sup> R/M Billing System.

<sup>73</sup> See Exhibit 9. Note that lockbox posting adjustments are a net amount, and adjustments can go in either direction.

<sup>74</sup> Interview of Jeff Wright, R/M VP/Controller, 10/28/11.

<sup>75</sup> See Appendix 3 – Exhibit 6.

77. As shown in Exhibit 11, NC collected \$12.5 million on behalf of SDMSE between FY 2002 – FY 2010. This amount reduced the Intercompany account total and thus the reimbursement received by R/M. Of this, R/M's reimbursement was reduced by \$4.1 million in cash collected on behalf of SDMSE prior to March 2007.<sup>76</sup> \$7.8 million was transferred directly to the SDMSE lockbox beginning in March 2007.

78. An additional \$0.6 million was attributable to adjustments for postings made to the SDMSE lockbox. Similar to the posting adjustments discussed under the balance sheet account, these were adjustments of cash posted to the various divisions by NC from R/M cost centers other than San Diego that were originally deposited in the NC lockbox account and mistakenly credited to San Diego through the Intercompany Account.

79. Overall, R/M's reimbursement was reduced by an additional \$74,657 over what was actually credited to the monthly expense reimbursement account from FY 2002 – FY 2010.<sup>77</sup>

**c) SDMSE Operating Expenses**

80. SDMSE operating expenses from FY 2002 – FY 2010 were \$56.4 million, as shown in Exhibit 12. R/M submitted a reimbursement request for SDMSE operating expenses in the amount of \$58.4 million, for a difference of \$1.9 million, as shown in Table 12 below:

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<sup>76</sup> The SDMSE billing system shows cash collected by NC of \$3.9 million as it is missing data from April 2006 – June 2006. See Exhibit 11.

<sup>77</sup> See Appendix 3 – Exhibit 3.

<b>R/M Reimbursement Amount per Intercompany Account</b>	
Payroll	\$635,606
Medical Supply Purchases from R/M	12,815,104
Accounts Payable Paid – Net of Voids	43,871,371
Other	1,030,938
<b>Subtotal</b>	<b><u>\$58,353,019</u></b>
<b>SDMSE Operating Expenses per Income Statement</b>	
Operational Supplies	\$14,710,155
Clinical Upgrade / Professional Fees	1,622,805
Outside Claims	36,619,474
Medical Direction	1,235,355
Insurance / SIR Expense	712,518
Other	1,518,233
<b>Subtotal</b>	<b><u>\$56,418,539</u></b>
<b>Difference</b>	<b><u><u>\$1,934,479</u></u></b>

**Table 12**

81. The SDMSE income statement of \$56.4 million above are recorded when the expense was incurred, or on an accrual basis. The reimbursement of SDMSE operating expenses of \$58.4 million above is on a cash basis, or reimbursed when the amount is paid. The difference between when the expense was incurred and when it was paid creates numerous timing differences. For example, R/M accrues expenses for expected claims each month on the SDMSE income statement. However, these amounts are not reimbursed until claims are paid, which can be months later.

82. Moreover, certain accounts payable amounts are not captured in our analysis, such as bad debt expense and revenue disbursements to the County of San Diego. R/M has disbursed \$1.5 million that are primarily commissions to third-party collection agencies, as shown in Exhibit 13. As these commissions were made through SDMSE’s provision for bad-

debts, they are not included in our analysis. However, they are recorded as accounts payable in the Intercompany Account.<sup>78</sup>

83. We understand that an additional \$0.8 million is a contractually obligated payment to the County of San Diego related to CSA-17 contract receipts, as shown in Exhibit 13. According to CSA-17, residents of the County of San Diego Service Area pay a fee for ambulance transports with their property tax. As such, they are not billed for ambulance transports. However, non-residents that receive an ambulance transports within this Area are billed for the service. The County of San Diego receives 50% of revenue for non-residents that receive an ambulance transport within this Area.<sup>79</sup> Those amounts are recorded in a revenue account on the SDMSE income statement and were therefore not included in our analysis.

**d) R/M SD Timing Differences**

84. According to SDMSE's income statement, R/M SD incurred expenses of \$207.1 million from FY 2002 – FY 2010. R/M's reimbursement request per its Intercompany Account reconciliation was for \$207.2 million, resulting in a difference of \$0.1 million.<sup>80</sup> This difference is primarily attributable to post-closing adjustments and the date this total was retrieved from the general ledger or income statement.<sup>81</sup>

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<sup>78</sup> Consultants do not have an opinion on whether commissions to third-party collection agencies are an appropriate expense for R/M to seek reimbursement.

<sup>79</sup> This contract provision was stopped in or around 2007. Interview of Wayne Johnson, Division General Manager for R/M SD, December 22, 2011.

<sup>80</sup> See Exhibit 14.

<sup>81</sup> Interview with Jeff Wright, R/M VP/Controller, October 28, 2011.



e) **Cash Disbursement Timing Differences**

85. R/M's total reimbursement per the Intercompany Account was \$286.8 million from FY 2002 – FY 2010. Cash disbursements from the SDMSE lockbox to R/M over this same time period was \$286.2 million, for a difference of \$0.6 million, as shown in Table 13 below:<sup>82</sup>

<u>Category</u>	<u>Amount</u>
SDMSE Operating Expenses	\$65,734,675
Billing Expenses	17,130,074
R/M SD Expenses	207,199,380
National Collections Adjustment	<u>(3,257,561)</u>
<b>Total Requested Reimbursement</b>	<b><u>\$286,806,568</u></b>
<b>Actual Cash Received</b>	<b><u>(\$286,208,010)</u></b>
<b>Difference</b>	<b><u><u>\$598,559</u></u></b>

**Table 13**

86. In certain periods when there was insufficient cash flow by SDMSE to reimburse R/M for expenses, R/M delayed certain reimbursements until later periods when a sufficient SDMSE cash position was available. In addition, R/M may, at times, withhold reimbursements of large accruals until the amounts are paid. During 2010, R/M withheld \$527,000 that was accrued in January 2010 for worker's compensation,<sup>83</sup> which amount was paid and reimbursed in July 2010, as shown in Exhibit 15.<sup>84</sup>

**4. Findings**

87. From FY 2002 – FY 2010, R/M received \$9.7 million in cash reimbursements over and above those expenses included in SDMSE's income statement. Consultants have identified the following explanations for these amounts:

<sup>82</sup> See Appendix 3 – Exhibit 5.

<sup>83</sup> See July 2010 (CEO# 004837) wire detail report.

<sup>84</sup> Consultants do not have an opinion on whether worker's compensation is an appropriate expense to seek reimbursement under the terms of the contract. See July 2010 (CEO# 004837) wire detail report.

- a) R/M received \$8.3 million in reimbursements for balance sheet adjustments not reflected on the income statement, such as patient refunds and lockbox posting adjustments.
- b) An additional \$1.9 million relates to reimbursements for accounts payable and other amounts that R/M disbursed for line items not included in our income statement analysis, such as collection agent commissions and CSA-17 payments.
- c) Timing differences related to the time between the expense request and cash disbursement reduced R/M's reimbursement by \$0.5 million. The largest of these timing differences relates to a worker's compensation amount that was accrued in January 2010, but not paid and reimbursed until July 2010.

88. Therefore, Consultants has been able to obtain explanations for the identified potential over-reimbursement amounts.

## VI. Listing of Appendices and Exhibits

### Report Exhibits:

1. Transaction Code Analysis
2. Revenue Reconciliation
3. Cash Receipts Reconciliation
4. National Collections Amount Reconciliation
5. R/M Expense Reimbursement Categories – Amounts to be Reconciled
6. Summary of Preliminary Rural/Metro Expense Reimbursement Reconciliation Analysis
7. Transaction Code Listing
8. Billing System Collections to Cash
9. R/M Expense Reimbursement Categories – Balance Sheet Adjustments
10. Billing System Detail – Invoice No. 0001000706795
11. R/M Expense Reimbursement Categories – National Collections Amounts
12. R/M Expense Reimbursement Categories – Income Statement Amounts
13. Income Statement Amounts Breakdown
14. R/M Expense Reimbursement Categories – RMSD Amounts
15. R/M Expense Reimbursement Categories – Reimbursement Request Timing Difference

### Appendices:

1. Documents Considered
2. Interview Summaries

#### Exhibits:

1. Interview 1 with Jeff Wright
  2. Interview 2 with Jeff Wright
  3. Interview with Jodi Felker
  4. Interview with Nathan Rush
  5. Interview with Kevin Moore
  6. Interview with David Pickles
  7. Interview with Kathrynne Johns
  8. Interview with Jennifer McCallister
  9. Interview with Eric Croft
  10. Interview with Donna Berlinski
  11. Interview with Teri Crutchfield
  12. Interview with Wayne Johnson
3. Rural/Metro Expense Reconciliation FY 2002 – FY 2010
- #### Exhibits:
1. Rural/Metro Expense Reimbursement Reconciliation Summary
  2. Identified Amounts
  3. National Collections Amount Differences
  - 4.1. Income Statement Differences
  - 4.2. Income Statement Differences
  5. Intercompany Account Reconciliation vs. Cash Disbursements
  6. Intercompany Account Segmented by Financial Statement Impact

7. SDMSE, LLC Monthly Income Statement
4. Support to Billing System Exhibits
  - Exhibits:
    1. Transaction Code Analysis
    2. Revenue Reconciliation
    3. National Collections Amount Reconciliation
    4. Cash Receipts Reconciliation