
Performance Audit of Fire-Rescue's Emergency Medical Services

SIGNIFICANT OPPORTUNITIES FOR IMPROVEMENTS EXIST TO
STRENGTHEN OVERSIGHT, RECOVER COSTS, AND ENHANCE
RESPONSE TIME REPORTING

APRIL 2011

Audit Report
Office of the City Auditor
City of San Diego



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THE CITY OF SAN DIEGO

April 25, 2011

Honorable Mayor, City Council, and Audit Committee Members
City of San Diego, California

Transmitted herewith is an audit report on Fire-Rescue's Emergency Medical Services. This report is in accordance with City Charter Section 39.2. The Results in Brief is presented on page 1. The Administration's response to our audit recommendations can be found after page 60 of the report. Our rebuttal can be found after the Administration's response.

If you need any further information please let me know. We would like to thank Fire-Rescue's staff, as well as representatives from other City departments for their assistance and cooperation during this audit. We also would like to thank representatives from Rural/Metro Corporation that participated in our audit. All of their valuable time and efforts spent on providing us information is greatly appreciated. The audit staff responsible for this audit report is John Teevan, Toufic Tabshouri, Martin Wilson, Kyle Elser and Chris Constantin.

Respectfully submitted,

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Results in Brief

In 1997, the City of San Diego's (City) Fire-Rescue Department partnered with Rural/Metro of San Diego (Rural/Metro) to form San Diego Medical Services Enterprise (SDMS), LLC to provide the City's 9-1-1 paramedic service. SDMS is a limited liability corporation joint venture between the City and Rural/Metro. For the fiscal year ending June 30, 2010, SDMS had total operating revenues and expenses of approximately \$48.8 million and \$44.3 million, respectively. Based on these results, which are net of related fees collected by Rural/Metro, profits totaling \$4.8 million were split equally between the partners during that same period of time. Of note, each partner is permitted reimbursement for expenses incurred on behalf of the partnership, and these reimbursements are included in the operating expenses. Between fiscal year 2006 and 2010, SDMS has reimbursed the City and Rural/Metro approximately \$23.0 million and \$135.9 million, respectively.

During our audit, we found that the City has not adequately managed or monitored the financial activities of Rural/Metro. As a result, we identified several potential financial accounting issues for SDMS as well as potentially improper or unreasonable costs and fees that remain unresolved. These accounting issues include a change in accounting practice in early 2007 of which the City was not formally notified. Prior to that time at least \$4.2 million was not properly remitted directly to the SDMS bank account. According to Rural/Metro management, these funds were credited against Rural/Metro expenses prior to their monthly reimbursements. Also, based on records we reviewed, Rural/Metro appears to have withdrawn approximately \$5.8 million from the SDMS bank account in excess of its entitled

expense reimbursement amounts. According to Rural/Metro management, this difference is primarily a result of patient refunds of approximately \$5 million and other adjustments, which are not reflected as a specific expense on the internal statement of operations or the audited financial statements of SDMS. In addition, eligible overhead costs or fees are not well defined, and various fees and overhead costs paid to Rural/Metro may be invalid, inflated, potentially duplicative in nature or not properly substantiated. By comparison, the City does not receive comparable reimbursement for overhead costs, nor does the City get reimbursed for the occupation or utilization of some City-owned facilities and other assets that are made available for use by SDMS in the existing contract.

Furthermore, the City's oversight of the financial performance of the partnership is limited, with Rural/Metro controlling all SDMS financial operations, including billing, collections, and financial reporting functions. The City's limited financial oversight leaves the City without a comprehensive understanding of SDMS's financial condition, resulting in a reliance on Rural/Metro for all financial information pertaining to the partnership.

In fulfilling current contract terms with SDMS for providing Emergency Medical Services (EMS), the City incurs the cost of providing first responders, which includes at least one paramedic, which assists SDMS in meeting the requirement to have two paramedics respond to each Priority 1 medical call. The City is currently being reimbursed for \$5.7 million in costs supporting the paramedic services provided under the SDMS contract. However, the City has not sought full reimbursement for the personnel and non-personnel costs in providing the first responder services. In addition to currently reimbursed costs, we estimate a potential recovery of up to \$10.9 million per year, depending on the elements reimbursed (paramedic only costs to full engine or truck response and staffing).

Moreover, we found that the summary of City-wide emergency medical responses that is reported to the City Council does not reflect actual on-scene results. Approximately 37 percent of

calls, representing periods when 12 or more ambulances are responding to calls, are labeled as "unusual system overload" and results in response time reporting that does not reflect the true performance of SDMS in responding to 9-1-1 calls. These automatic exemptions are not based on any current analysis reflecting actual ambulance staffing levels or 9-1-1 call activity. Furthermore, the priority classification system presently utilized is not consistent with the schema outlined in the related current EMS agreements. We also noted that the response time figures reported to the City Council had combined Priority 1 and 2 Advanced Life Support (ALS) calls into an overall 12 minute response time and do not differentiate between the two priority categories. The City resolved this issue effective for response time reporting for the quarter ending December 2010.

In our professional opinion, the City's partnership with Rural/Metro for over thirteen years has resulted in close working relationships and trust between Rural/Metro and City employees. While these relationships may result in unique synergies, they have also contributed to the City's lax monitoring of the partnership, which has resulted in missed opportunities to collect on reasonable expenses where a private company profits from City taxpayers.

We provide 11 recommendations for the City to improve its operations. In their written response, the City agreed or partially agreed with ten of the recommendations and disagreed with one.

Background

The City Delivers
Emergency Medical
Services Through a
Partnership Between the
Fire-Rescue Department
and a Private Company,
Rural/ Metro
Corporation

The Fire-Rescue Department (Fire-Rescue) is responsible for providing emergency medical service within the City of San Diego (City). Historically, the City had contracted directly with private ambulance providers to provide paramedic level service. In 1997, the City established a partnership with Rural/Metro Corporation (Rural/Metro) to form San Diego Medical Services (SDMS) Enterprise, LLC. Under this arrangement, the City is responsible for maintaining the communications infrastructure for the 9-1-1 call system, providing first responder units with a staffed paramedic and emergency medical technicians (EMT) to high priority responses, and making dedicated Fire-Rescue and other City personnel available for operational, administrative, and managerial duties. Rural/Metro is responsible for purchasing and maintaining the ambulances, staffing the significant majority of the deployed ambulances, billing and collecting for transport services, and maintaining the SDMS financial records. SDMS reimburses both the City and Rural/Metro for the cost of services provided. Any remaining profits¹ are split 50-50 among the partners.

When needed, an SDMS ambulance will transport the patient to a healthcare facility for treatment. After the transport is completed, Rural/Metro staff prepare and submit a bill to the related insurance provider or directly to the individual depending on available insurance coverages. Rural/Metro personnel perform various levels of collection efforts to obtain reimbursement for services provided. Once payment is received it is deposited in a centralized SDMS "lockbox" bank account.

¹ According to the 2009 SDMS Response to the Request for Proposal, "profit" is defined as "any excess revenue (profit) over and above operating costs."

Over the last five fiscal years (fiscal year 2006 to fiscal year 2010), the City and Rural/Metro have received expense reimbursements totaling \$23.0 million and \$135.9 million, respectively. Consistent with the terms of the partnership, the City has received approximately \$11.2 million in distributions for its portion of equally shared profits. In addition, we noted that SDMS received contractually-allowable City subsidies totaling \$6.1 million over the first eight years of the joint venture.

The Fire-Rescue Department is Responsible for Providing First Responders

Fire-Rescue typically dispatches a fire engine as a "first responder" to high priority 9-1-1 medical calls. The City assesses 9-1-1 calls and sends a first responder to approximately 65 percent of all calls which are classified as life-threatening. The Emergency Medical Technician (EMT) / Paramedic Agreement between the City and the County of San Diego, the Local Emergency Medical Services Agency (LEMSA)², require that two paramedics respond to the 9-1-1 life threatening calls. Currently, SDMS emergency transport ambulances are staffed with one EMT and one paramedic. The first responders, provided by Fire-Rescue, are typically crewed with four personnel, including a Fire-Rescue captain, a Fire-Rescue engineer, a firefighter, and a firefighter / paramedic who is the paramedic of record for that response unit.

With 47 fire stations housing 60 first responder engines and trucks strategically placed throughout City neighborhoods, and an average of 28 ambulances deployed throughout the City, a Fire-Rescue fire engine or truck is expected to arrive on the scene of a life-threatening emergency within eight minutes of receipt of the call. Also responding is a transporting ambulance within twelve minutes of the initial 9-1-1 call. First responders can also provide full paramedic care and augment ambulance staffing during the transport of critical patients.

² According to California state law, the board of supervisors in each county is responsible for establishing EMS system policy and for creating or designating a local EMS agency (LEMSA) to administer such policies. The LEMSA is the appropriate entity to oversee local EMS system design, medical control and market allocation policies based upon unique local needs, financial responsibility and existing resources. The City of San Diego is designated as an "exclusive operating area" within the County of San Diego LEMSA.

Prior to the Formation of SDMS, the City Contracted with Several Private Ambulance Companies

Until 1997, the City had contracted directly with private providers such as Medevac, Hartson and American Medical Services for paramedic ambulance coverage. In 1997, due to a history of contracted paramedic companies having significant financial and operational issues, the City convened a "Blue Ribbon Panel" to redesign the City's EMS delivery system. Based on the Panel's recommendations, the City redesigned the system by placing a minimum of one firefighter / paramedic on each first responder vehicle and one paramedic on each ambulance. The Fire-Rescue captain is designated as the scene commander, and addresses any logistical, legal or citizen issues and ensures compliance with Fire-Rescue and EMS policies and procedures.

Also in 1997, Fire-Rescue partnered with Rural/Metro to form SDMS, the nation's first (and only) public-private partnership to provide 9-1-1 paramedic service. Rural/Metro of San Diego, Inc. is a wholly owned subsidiary of Rural/Metro Corporation, based in Scottsdale, Arizona. SDMS is a limited liability corporation joint venture between the City of San Diego and Rural/Metro. Exhibit A below illustrates the overall organizational chart for the joint venture, including significant responsibilities for each partner:

Exhibit A

San Diego Medical Services Represents a Partnership Between Rural/Metro and the City of San Diego



Source: Auditor generated based on information provided by the Fire-Rescue Department.

Ambulances Are Dispatched to Emergencies According to a Priority System

On an annual basis, SDMS responds to nearly 100,000 medical emergency calls in the city of San Diego and County Service Area (CSA) 17, which encompasses Del Mar, Solana Beach, Encinitas, Elfin Forest, 4S Ranch and the community of Rancho Santa Fe. Approximately 85 percent of calls through the City's 9-1-1 system represent emergency medical situations.

Medical emergency calls are classified into four different priorities of dispatch, determined through a series of questions that the 9-1-1 dispatcher asks of the caller. The priorities, ambulance modes, and required response times, specified in the current EMS agreement documentation are:

- Priority 1: "Potentially Life Threatening Emergency Response": with lights / siren, 12 minutes;
- Priority 2: "Non-Life Threatening Emergency Response": with lights / siren, 12 minutes;
- Priority 3: "Urgent Requests": with no lights / siren, 15 minutes;
- Priority 4: "Unscheduled Non-Emergency Requests": with

no lights / siren, 30 minutes.

Advance Life Support (ALS) ambulances will respond to Priority 1, 2 and 3 calls, while either an ALS or Basic Life Support (BLS) ambulance will respond to Priority 4 calls, as appropriate.

SDMS received accreditation from the Commission on Accreditation of Ambulance Services (CAAS) in 2008. According to CAAS, the program was established "to define a "gold standard" for the medical transportation industry of a higher caliber than is typically required for state or local licensing."

Ambulance Transport Rates are Controlled by the City Through the Average Patient Charge

The amount charged to SDMS patients is managed contractually based on the Average Patient Charge (APC). The APC per transport, which includes a base rate, mileage and all add-on charges is reviewed quarterly, and the actual APC is required to be equal to or less than the maximum average fee stipulated in the EMS agreement and any adjustments thereof. Corrective adjustments occur if the actual APC per transport, in any such quarter, exceeds the established maximum APC. In addition to an annual APC adjustment based on Consumer Price Index data, SDMS may also periodically request upward or downward adjustments to the APC on an as needed basis. Such requests are subject to the written approval of the EMS Program Manager, may be accompanied by all relevant justification background documentation which supports the request but do not require City Council approval.

The APC has generally increased over the last three fiscal years, with an overall increase of 35.8 percent over that time period. Currently, the APC is \$1,248, which is lower than many other municipalities and jurisdictions throughout California.

The City Has Subsidized SDMS

For the fiscal year ended June 30, 2010, SDMS generated approximately \$121.7 million in total (gross) charges billed for ALS, BLS and Critical Care transports. For that period, SDMS had total operating revenue of approximately \$48.8 million and expenses of approximately \$44.3 million. The \$44.3 million of expenses includes reimbursements to Rural/Metro and the City of \$30.5 million and \$3.8 million, respectively, for expenses in

furtherance of the EMS contract.

Based on the above activity, SDMS had a net profit of approximately \$4.5 million for the fiscal year ended June 30, 2010. Additionally, partner profit distributions totaling \$4.8 million to Rural/Metro and the City were made during the same period. From 1997 through June 2010, we noted that SDMS has disbursed approximately \$11.2 million to the City for its portion of the profits from the joint venture since its inception, consistent with the terms of the agreement. Rural/Metro received an equal share of profit, in addition to other fees such as a 12.5 percent "finance fee"³ for equipment purchases, vehicle depreciation costs⁴, and a 6.5 percent "operating overhead"⁵ fee. Exhibit B below summarizes the total operating revenues, expenses, net income and profit distributions for SDMS over the last three complete fiscal years:

³ Rural/Metro receives a 12.5% finance charge on the un-depreciated balance of the actual cost of capital assets (primarily ambulances and other vehicles) placed in service.

⁴ Rural/Metro recovers its cost of capital assets by charging, as a reimbursable cost, depreciation of the capital assets on a straight line-basis over their estimated useful life.

⁵ Rural/Metro includes in its monthly statement of reimbursable costs a 6.5% "operating profit" to cover overhead.

Exhibit B

The Financial Results for San Diego Medical Services Have Steadily Improved Between Fiscal Years 2008 and 2010

	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Total Net Operating Revenues	\$43,775,669	\$45,684,043	\$48,813,051
Total Operating Expenses	\$42,122,364	\$42,544,367	\$44,292,126
Net Operating Income	\$1,653,305	\$3,139,676	\$4,520,925
Total Member Distributions	\$1,900,000	\$3,500,000	\$4,800,000

Source: Auditor generated based on San Diego Medical Services audited financial statements for the fiscal year ending June 30.

Additionally, over the first eight years of the arrangement (between 1997 and 2005), the City provided payments to SDMS totaling \$6.1 million consistent with the terms of the agreements without receiving any financial benefits, rights or preferences in relation to these subsidies. As a result, the net financial benefit to the City is instead approximately \$5.1 million over the 13 year life of the joint venture, the overall difference between the total profit distributions to the City (\$11.2 million) and total prior subsidies from the City (\$6.1 million).

EMS Agreement History and Current Terms

The original transaction agreements between the City, Rural/Metro and SDMS were amended three times between fiscal years 1999 and 2008, with a "bridge agreement" covering fiscal years 2009 and 2010. Separately, there is also the "LLC Agreement" which represents the terms and conditions related to the formation and management of the joint venture. The current EMS agreement represents a consolidation of the separate transaction agreements between the related parties into a single unifying document, effective July 1, 2010. The EMS agreement is effective for a period of five years thereafter until June 2015, unless terminated sooner pursuant to the provisions of the agreement, with the option to extend for one additional five-year term. If the notice of termination for convenience occurs within the first two years of the agreement, the effective date of the termination cannot be less than two years from the date of the notice. If the termination for convenience occurs after July 1, 2012, the effective date shall be one year from the

notice of termination.

The terms of the Response to the RFP and the EMS agreement include the following City responsibilities:

- Maintenance of the communications infrastructure for the 9-1-1 call system;
- Provision of first responder units with a staffed paramedic to high priority responses;
- Staff dedicated Fire-Rescue personnel who are available for specific operational, administrative and managerial duties; and,
- Availability for SDMS usage of City-owned facilities for vehicle parking, maintenance, employee parking and medical supply storage.

By comparison, Rural/Metro is responsible for the following:

- Purchasing and maintaining the ambulances, other SDMS vehicles, capital assets and medical supplies;
- Staffing the significant majority of the paramedics, emergency medical technicians and support staff for EMS activities;
- Billing and collecting for transport services and maintaining the financial records of SDMS.

Both the City and Rural/Metro are reimbursed by SDMS for the cost of services provided. On the 20th of each month, both parties are reimbursed by SDMS for its previous month's actual expenses incurred in performing services under the operating agreement. In addition, Rural/Metro receives three specific fees related to the following:

- *Operating Overhead:* Rural/Metro includes in its monthly withdrawal for reimbursable costs a 6.5 percent fee to cover overhead;
- *Depreciation Fee:* Rural/Metro has agreed to purchase certain capital assets (durable equipment and capital expenses such as ambulances, gurneys and monitors) for use by SDMS in providing EMS services to the City. Rural/Metro is entitled to recover its cost of such capital assets by charging to SDMS, as a reimbursable cost,

depreciation of the capital assets over their estimated useful life;

- *Finance Fee:* Under the agreement which expired on June 30, 2010, Rural/Metro has been permitted to charge SDMS a 12.5 percent finance charge on the undepreciated balance of the actual cost of capital assets placed in service.

Objectives, Scope, and Methodology

The City Auditor's Fiscal Year 2011 Audit Work Plan approved by the City Council included a performance audit of Emergency Medical Services (EMS) of the Fire-Rescue Department (Fire-Rescue). The original objective of the audit was to evaluate the efficiency and effectiveness of the City's EMS and San Diego Medical Services (SDMS) Enterprise, LLC, the related joint venture partnership with Rural/Metro of San Diego (Rural/Metro). Our audit initially focused on the oversight of the various contractual agreements between the City and SDMS and related financial transactions. After analyzing preliminary information gathered during the audit, we decided to focus our audit efforts on three risk areas that the City faces:

- The City oversight of the contractual agreements and related revenues and expenditure transactions as provided by SDMS (or Rural/Metro) to the City and related audit information including reviews of patient billing reimbursements, delinquent account collections and expense reimbursements to Rural/Metro;
- The reimbursement of the costs to the City by SDMS of the "first responder" fire truck / engine dispatched to Priority 1 9-1-1 calls;
- Ambulance response time performance reporting to the City Council.

To accomplish our objectives we performed the following audit procedures:

- Reviewed pertinent laws, policies and regulations related to EMS;
- Gathered and analyzed agreements and information related to EMS, SDMS and Rural/Metro;
- Identified, collected, and analyzed financial information

and management reports related to the City's EMS operations and SDMS;

- Evaluated current EMS processes and practices;
- Interviewed management and key staff in charge of managing and monitoring information related to the City's EMS and SDMS and Rural/Metro;
- Analyzed the quality and effectiveness of the reporting related to EMS and SDMS.

We reviewed data from Fiscal Years 2006 through 2010, unless noted otherwise. We performed data reliability testing of the financial and dispatch data provided to us and which we relied on in this report.

We evaluated the internal controls related to our audit objectives, including the adequacy of financial reporting and governance, the appropriateness of reimbursement to the City by SDMS for the cost of the "first responder" fire truck / engine dispatched to Priority 1 9-1-1 calls and the accuracy and completeness of response time reporting of emergency medical services. Our conclusions on the effectiveness of these controls are detailed within the following audit results.

We consulted with the City Attorney's Office regarding concerns raised by that Office, noting the following:

- In mid 2009, the City Attorney's Office raised concerns regarding the structure of SDMS, culminating in a November 2009 confidential memorandum;
- In July 2010, the City Attorney's Office issued another confidential memo to the Mayor and City Council raising additional concerns regarding the structure, as well as financial terms of SDMS;
- In September 2010, during the course of the audit, the City Attorney's Office issued an additional confidential memo to the Mayor and City Council related to SDMS;
- Finally, in December 2010, the City Attorney's Office issued another confidential memo related to SDMS.

Since July 2010, the City Attorney's Office has advised and consulted with the Office of the City Auditor to ensure that the

City is legally protected throughout the audit process. However, the findings included in this audit report should not be considered to be legal advice.

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 Results

Finding 1: Several Potential SDMS Financial Accounting Issues, and Improper or Unreasonable Costs and Fees Remain Unresolved

Emergency Medical Services is one of the most critical services the City provides to protect and serve residents of San Diego. The City established SDMS, a partnership with Rural/Metro, to provide this critical service.

The City relies upon Rural/Metro to conduct all billing, revenue collection, and accounting activities for SDMS. As a result, Rural/Metro controls all key aspects of SDMS's financial operations for which it receives compensation. Rural/Metro reimburses the City for monthly expenses upon request, yet Rural/Metro can withdraw the reimbursement it deems necessary for its expenses without prior approval of the City.

We found the City has not adequately managed or monitored the financial activities of Rural/Metro. As a result, we found the following:

- 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 accounts as contractually required;⁶
- 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 accounts in excess of the expense reimbursement amounts it was entitled

⁶ Rural/Metro management indicates that these funds were credited against Rural/Metro expenses prior to their monthly reimbursements.

to.⁷ Although Rural/Metro provided explanations and some evidence for this, it does not adequately explain the remaining approximate \$800,000 difference noted. Furthermore, some prior withdrawals were not consistent with the terms of the contractual agreements;

- Various fees and overhead costs retained by Rural/Metro are not properly substantiated, and may be inflated or duplicative;
- Since July 2010, Rural/Metro has continued to assess charges against SDMS capital purchases, even though contractual provisions allowing this practice expired in June 2010; and,
- SDMS does not compensate the City for occupying City-owned facilities and utilizing other City assets, a practice that results in a continuing financial support to SDMS for which the City derives no direct benefit.

Rural/Metro was unable to provide timely and adequate evidence to substantiate all reimbursements made against SDMS accounts. Furthermore, in our professional opinion, much of the information we requested should be readily available to support expense reimbursements. However, Rural/Metro appeared to have difficulty in providing additional supporting documentation in a timely fashion due to the complex financial organizational structure. Consequently, there remains a significant risk that SDMS did not receive all revenue generated by EMS operations and that Rural/Metro received reimbursements for expenses in excess of supportable activity in furtherance of the EMS Agreements. Finally, since the City and Rural/Metro split any revenue in excess of expenses (profit), any excess reimbursements to Rural/Metro results in the City receiving less profit distribution than it otherwise would have.

To ensure an adequate accounting and resolution of the above related issues and in order to validate that revenues and expenses were reasonable and supported, we recommend that

⁷ Rural/Metro management indicates that this difference is primarily a result of patient refunds of approximately \$5 million and other adjustments, which are not reflected as an expense on the internal statement of operations or the audited financial statements of SDMS.

the City retain the services of forensic experts⁸ to conduct a full account of all revenues generated by SDMS and expenses incurred by Rural/Metro and the City for at least the past five-year period.

The Accounting Treatment of SDMS-Related Collections Activity and Expense Reimbursements Has Not Been Consistent With Contract Terms, Resulting in Questionable Disbursements to Rural/Metro

We found that in March 2007 there was a change in the accounting and financial treatment of certain types of account collections processed by Rural/Metro. Prior to that time those types of transactions had not been treated in a manner consistent with contractually required practices, and we found no evidence that the City was advised of this change in process. Outstanding account balances are referred after a certain point in time to the National Collections unit of Rural/Metro, which is a unit focused on the collection of delinquent accounts. According to Rural/Metro management⁹, prior to March 2007:

"amounts were not being physically transferred to the SDMSE [SDMS] lockbox, however SDMSE [SDMS] was getting "credit" for the amounts collected by way of a decreased liability to RM [Rural/Metro] for operating expenses."

By comparison, beginning in March 2007, Rural/Metro management further indicated that:

"a wire was made once a month from the National Collections account to the SDMSE [SDMS] lockbox for the amount of collections made on behalf of patient accounts for SDMSE for the previous month. For example, if \$200,000 was collected on SDMSE [SDMS] accounts in February, that amount would be wired to the SDMSE [SDMS] lockbox in March."

However, the 1997 Operating Memorandum #3 between Rural/Metro of San Diego, Inc. and the City of San Diego specifically indicates that:

"This account will be the repository for all [emphasis added] cash received by SDMSE [SDMS] from any source whatsoever, and shall be the account from which all [emphasis added] expenses payable to each Member of

⁸ Forensic accounting, combining strong auditing procedures with sophisticated investigative techniques, verifies the accuracy and legitimacy of financial reporting.

⁹ February 4, 2011 memorandum from Rural/Metro Corporation.

SDMSE [SDMS] and to third parties are paid.”

As a result of this incorrect treatment of these funds prior to March 2007, approximately \$2.0 million of funds was not properly remitted to the SDMS bank account between August 2005 and February 2007. We estimate that an additional \$2.2 million of collections were also not deposited into the SDMS bank account between May 2002 and July 2005¹⁰.

In addition, we also found that the total disbursements from the SDMS bank account to Rural/Metro for its expenses incurred between fiscal years 2006 and 2010 appear to exceed the maximum potential Rural/Metro expenses according to the audited financial statements by approximately \$5.8 million. According to Rural/Metro management, this difference is primarily a result of patient refunds of approximately \$5 million and other adjustments, which are not reflected as a delineated expense on the internal statement of operations or the audited financial statements of SDMS. Although Rural/Metro provided explanations and some evidence for this, it does not adequately explain the remaining approximate \$800,000 difference noted. According to the current EMS agreement, SDMS:

“shall reimburse the City and Rural Metro for their previous month's actual expenses incurred in the performance of its obligations”.

Furthermore, SDMS is required to provide the City with annual audited financial statements which shall be in a form that provides a clear separation of Rural/Metro and City costs, expense and revenue pertaining to operations covered by the agreement from any other operations engaged in by Rural/Metro, and any of its parent or subsidiary entities, and from any other operation of the City. However, the audited financial statements do not provide clearly delineated amounts for patient refunds paid on behalf of SDMS.

¹⁰ Rural/Metro provided summary information, by month, for collections activity for the months April 2002 through February 2011. The information provided was as far back as was readily available. Based on those amounts, up to an additional amount of approximately \$4 million may also not have been properly deposited prior to April 2002.

We also noted prior inconsistencies between expense reimbursement practices and the contractually stipulated practice in the current and prior EMS agreements that:

“reimbursement shall be made by or as close to the 20th of the following month as possible, and shall be made to the City and Rural/Metro simultaneously.”

Currently, the disbursements to the City and Rural/Metro normally occur on or about the 20th of the following month. The City's practice is to provide an invoice on the 10th and be reimbursed on the 20th. However, for many of the months prior to calendar year 2010, Rural/Metro's withdrawal on or about the 20th of the month represented only a portion of the total expenses. The remainder would be subsequently disbursed to Rural/Metro in another significant withdrawal up to ten days later. In relation to this issue, Rural/Metro management indicated the following¹¹:

“In any instance when there are insufficient funds to fully reimburse both parties, a wire will be made to the City for its full reimbursement first. A partial reimbursement will be made to RM [Rural/Metro] until such time the RM treasury department determines there are sufficient funds to either make another partial reimbursement or to fully reimburse the remainder of the RM reimbursement.”

Based on City records, we noted that SDMS has disbursed periodic profit distributions totaling approximately \$22 million to the partners in nine of the last 11 complete fiscal years. However, these profit distributions have periodically occurred in the same month as these instances of insufficient funds for expense reimbursement to Rural/Metro. For example, we noted a \$500,000 total profit distribution to the partners on December 19, 2008. In that same month, SDMS disbursed \$2.6 million to Rural/Metro for reimbursable expenses on December 19, 2008, and an additional \$531,898 on December 29, 2008. In another example, there was a \$600,000 total profit distribution to the partners on September 26, 2007. In that same month, SDMS disbursed \$2.5 million to Rural/Metro for reimbursable

¹¹ March 24, 2011 memorandum from Rural/Metro Corporation.

expenses on September 20, 2007, and an additional \$620,010 on September 27, 2007. As a result, this appears to indicate that profit distributions have been made to the City and Rural/Metro during periods when there were insufficient funds to make expense reimbursement disbursements consistent with the practice outlined in the EMS agreements.

Certain Contractual
Terms and Fees Appear
Invalid, Excessive,
Potentially Duplicative,
or Not Properly
Substantiated

Until June 30, 2010, Rural/Metro has been permitted to charge SDMS a 12.5 percent "capital fee" on the undepreciated balance of the actual cost of capital assets placed in service.¹² This fee has cost SDMS approximately \$1.6 million between fiscal years 2006 through 2010 for an average asset balance of approximately \$2.5 million over that period. However, we have noted that the capital fee is no longer authorized or valid since it was authorized under the Third Amended and Restated Agreement between SDMSE [SDMS] and Rural/Metro of San Diego, which expired on June 30, 2010.¹³ Based on discussions with industry professionals and a review of prevailing market rates, we conservatively estimate that this 12.5 percent figure, which is effectively a cost of capital that was originally established in 2000, should be about fifty percent lower or around six percent, resulting in a significantly lower financing cost to SDMS than what Rural/Metro negotiated with the City. For example, the recent September 2010 purchase of monitors installed in ambulances and first responder vehicles costing approximately \$3.3 million was purchased using Rural/Metro operating capital, and is subject to the 12.5 percent capital fee. We estimate that these purchased monitors will cost SDMS approximately \$1.4 million in capital fees over their seven year depreciable life. However, according to Rural/Metro management, the imputed effective cost of capital to

¹² The Third Amended and Restated Agreement between SDMSE [SDMS] and Rural/Metro of San Diego also authorized Rural/Metro to recover its cost of capital assets by charging to SDMS the depreciation of the capital assets as a reimbursable cost.

¹³ The Third Amended and Restated Agreement between SDMSE [SDMS] and Rural/Metro of San Diego expired on June 30, 2010, and, following the recent contract negotiating process, was replaced by a single consolidated new five year contract between the City and San Diego Medical Services, with an option to renew for an additional five years.

Rural/Metro is less than \$96,000 in interest¹⁴, resulting in significant profit for Rural/Metro, and to a reduction of potential profit distributions that the City could receive.

Aside from the capital fee, Rural/Metro recovers monthly reimbursements from SDMS for several corporate cost allocations that are not clearly identified and may not be justified. Specifically, Rural/Metro has charged SDMS a flat "area allocation" fee of \$300,000 per year since at least fiscal year 2001, totaling \$1.5 million over the last five fiscal years, but this allocation fee has not been specifically stipulated in the related agreements. According to Rural/Metro management, this area allocation fee covers the cost of five regional staff, including three finance, one human resources and one executive-level support position. We also noted that Rural/Metro separately charges SDMS a billing fee of \$23.50 for each 9-1-1 and general transport, and \$5 per alternative / wheelchair transportation service invoice. The total cost of these fees in fiscal year 2006 through 2010 is \$10.9 million. However, the City has been provided with only limited support detailing the components of this fee to justify its reasonableness. One industry estimate we obtained indicates that the cost to bill a patient ranges between \$19 and \$23 per transport. Another industry representative indicated that billing practices have moved away from "per-trip" fees and operate primarily on a "net collection" based fee model, which motivates the billing company because it only gets paid on what it collects.

In addition to the assessed area allocation and billing fee, Rural/Metro assesses a 6.5 percent "operating overhead" fee in its monthly withdrawal for reimbursable costs to cover corporate overhead. This fee has cost SDMS approximately \$8.3 million over fiscal years 2006 through 2010. This operating overhead fee was contractually agreed to by the City and was referred to as "operating profit" in previous agreements and it is consistently paid to Rural/Metro, regardless of the financial performance of SDMS. Rural/Metro has not provided the City

¹⁴ This estimate is based on periodic installment payments through August 2011 and a weighted average borrowing rate of 9.49 percent as of September 30, 2010, provided in a January 19, 2011 Rural/Metro Corporation memorandum.

documentation supporting the actual specific overhead costs and only limited cost allocation methodology developed for this fee. In addition to being assessed on the 12.5 percent capital fee, and on the depreciation expense fee paid to Rural/Metro, this 6.5 percent fee is also assessed on the area allocation fee, effectively charging overhead on top of another type of overhead.

Due to the lack of clarity in defining the components of these overhead and billing costs, these cost reimbursements are potentially overlapping. The documentation provided to us was not sufficient to determine the extent of any duplication of costs.

The following table in Exhibit C summarizes the various overhead and billing related costs incurred by SDMS:

Exhibit C

Rural/Metro Overhead and Billing Costs Have Increased Significantly Between Fiscal Years 2006 and 2010

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Total
Billing Costs	\$1,912,952	\$2,042,246	\$2,171,603	\$2,360,386	\$2,400,936	\$10,888,123
Operating Overhead	\$1,454,379	\$1,531,756	\$1,716,684	\$1,748,323	\$1,859,489	\$8,310,631
Area Allocation	\$299,800	\$300,000	\$300,000	\$300,000	\$300,000	\$1,499,800
Total	\$3,667,131	\$3,874,002	\$4,188,287	\$4,408,709	\$4,560,425	\$20,698,554

Source: Auditor analysis based on San Diego Medical Services financial information.

The City Is Not Reimbursed For Overhead Costs It Incurs That Are Comparable to Those Recovered by Rural/Metro

We also noted that several sections of City-owned property are currently and have historically been used by SDMS administrative and operational personnel at no or minimal cost to the organization. Although use of these properties is permitted under the EMS agreement, no specific lease, agreement, permit or other formal arrangement exists to regulate usage.

Furthermore, although SDMS reimburses Rural/Metro for their corporate overhead allocations, the City does not collect similar specific allocations for costs incurred by City administrative or oversight staff or other expenses not specifically identified in the agreements. For example, SDMS ambulances are able to obtain fuel for vehicles at the City's Fire-Rescue facilities, which are to be reimbursed at cost with no contribution to the City's overhead costs in providing that fuel.

As noted previously, the City's limited oversight over SDMS's financial operations leaves the City dependent on Rural/Metro for most financial information pertaining to the partnership. Normal contractual arrangements with vendors require vendors to substantiate expenses prior to reimbursement. However, the current lack of review and adequate contract terms significantly increases the risk that disbursements will occur to the detriment of the City. Furthermore, the complex financial organizational structure raises the potential for inappropriate activity.

As noted later in the report, Rural/Metro makes a monthly

disbursement from the SDMS bank account based on the balance in their intercompany account for that period, without submitting an invoice to the City for review or provide detailed evidence to substantiate the reimbursed expenses as reasonable and in furtherance of the EMS agreement. The City should require City review and approve reimbursement requests with sufficient substantiating evidence of reasonable expenses from Rural/Metro and implement a robust audit procedure to review those costs for reasonableness.

Based on the lack of adequate financial controls and oversight over SDMS activities, there is a significant risk that the SDMS bank account did not receive all revenues generated. The potential risk also exists that Rural/Metro is being reimbursed for unsupported or inappropriate expenses. Thus, the City needs to fully account for all revenues received and expenses reimbursed to Rural/Metro.

Although the City's Administration Department is responsible for monitoring the SDMS contract, the City has not properly utilized its significant authority and influence to best ensure the accuracy of the partnership's accounting and the appropriateness and equity of the underlying agreement provisions and fees.

To ensure the accuracy, completeness and appropriateness of SDMS revenues and expenses and related expense reimbursements to Rural/Metro, we recommend that the City take the following actions:

Recommendation #1

The City should engage forensic experts to conduct a review of previous and current SDMS revenues and expenses to ensure all revenues were properly accounted for and reimbursements to Rural/Metro are appropriate, reasonable, and substantiated by sufficient documentation. (Priority 1)

Recommendation #2

The City should demand that all outstanding revenue-related transactions not directly deposited into the SDMS back account be immediately deposited, unless Rural/Metro can immediately prove that it has already made expense credits in the same amount. (Priority 1)

To ensure the completeness and accuracy of financial transactions, accounting and reporting thereof related to the partnership with Rural/Metro, we recommend that City Administration take the following action:

Recommendation #3

The City and Rural/Metro should establish procedures to submit detailed invoices and appropriately supporting documentation to the other partner to justify expense reimbursements. Further, each partner should require the other's approval of disbursements before receiving reimbursement through the SDMS "lockbox" bank account. (Priority 1)

To ensure the appropriateness of the SDMS contractual terms and corresponding expense reimbursement practices for Rural/Metro, we recommend that the City take the following action:

Recommendation #4

The City should immediately evaluate the appropriateness of the contractual terms defined in any related EMS agreements for alignment with current practices. (Priority 1)

Finding 2: The City Lacks Adequate Financial Oversight of the Contract with SDMS and its Partnership with Rural/Metro

While the City monitors its contract with SDMS for compliance with contractual obligations, its monitoring of the financial performance of the partnership is inadequate. Rural/Metro controls all aspects of SDMS financial operations, including patient billing, collections, and financial reporting functions. Although City employees we interviewed noted that Rural/Metro provides the City with financial reports and readily responds to requests for financial information, the City does not systematically analyze these reports or monitor the financial performance of SDMS.

The financial activities of SDMS can be summarized as follows:

1. Rural/Metro bills individual patients and healthcare providers for ambulance transports¹⁵ and collects cash receipts, which it deposits into a bank account for SDMS.
2. The City submits monthly bills to SDMS to recover their costs of providing Emergency Medical Services (EMS), and is reimbursed according to the terms of the agreement between the City and Rural/Metro.
3. Rural/Metro reimburses itself monthly for various costs it incurred, but Rural/Metro is not required to submit an invoice to the City or seek approval for withdrawing reimbursements from the SDMS bank account.
4. If revenues exceed expenses, an equal distribution of profits may be made to both partners.
5. Virtually all of the financial activities are under the sole control of Rural/Metro, and Rural/Metro retains most financial supporting documents and has sole access to the financial management system records.

Two City Departments
Provide Oversight of
SDMS

The City's oversight of SDMS has changed since the inception of the partnership between the City and Rural/Metro. Currently, the City's Department of Administration provides primary

¹⁵ Additional revenues are derived from contracts with local hospitals, San Diego County, and the San Diego International Airport.

oversight through the EMS Program Manager position, and monitors the City's contract with SDMS. The EMS Program Manager position has a high degree of autonomy and reports to the Director of Administration in the City's Administration Department. The Fire-Rescue Department (Fire-Rescue) exercises its responsibility for EMS delivery in the City through the Deputy Chief for EMS, who is appointed by the Fire-Rescue Chief. SDMS has in the past been governed by a five-member board comprised of three City employees and two Rural/Metro employees. The president of SDMS was, until recently, the Deputy Chief for EMS. The City Attorney's Office reviews and approves the contracts in form that the City enters into with Rural/Metro and SDMS, and has, in the past, provided legal representation to SDMS.

The EMS Program Manager is the designated City employee responsible for overseeing the contract with SDMS. The EMS Program Manager's office is located in the Fire Prevention Bureau of Fire-Rescue. The EMS Program Manager receives various quality, compliance, and financial reports from Rural/Metro and City employees, and prepares compliance reports which she submits to her supervisor. An example of such reports is a summary dispatch report created by an information systems analyst that provides average ambulance response times.

The City Does not Sufficiently Analyze SDMS Financial Reports It Receives from Rural/Metro

Rural/Metro provides the City with a monthly financial statement of operations which includes a statement of cash flows, a bank account statement, an accounts receivable aging schedule, and a depreciation schedule. However, City employees do not perform sufficient analysis of these financial reports to assess the financial results of SDMS. Rural/Metro also provides the City with monthly billing reports for 9-1-1, airport, and non-emergency medical transports. Airport and non-emergency medical transport revenues are derived from contracts between SDMS and medical service providers.

The EMS Program Manager informed us that financial statements from Rural/Metro are reviewed in order to identify significant variances between the SDMS budget and actual activity. The EMS Program Manager also reviews requests from Rural/Metro to raise the Average Patient Charge (APC). The approval of the City Council is not required for changes in the APC. The City also receives an annual report of SDMS's audited financial statements and an actuarial report on liabilities against the partnership.

The City's Deputy Chief for EMS oversees the operational aspects of SDMS through his position in Fire-Rescue and as the appointed President of SDMS¹⁶. However, the Deputy Chief has been focused on the operational aspects of SDMS and not on its financial performance. The Deputy Chief and other City and Rural/Metro employees informed us that various auditors are perpetually examining their financial operations. Such auditors include independent financial auditors that audit Rural/Metro's financial statements and its compliance with the Sarbanes-Oxley Act of 2002¹⁷, as well as independent auditors that audit SDMS's financial statements. In addition, Rural/Metro billing operations are subject to state and federal audits by government Medi-Cal and Medicare auditors.

We discussed the oversight of SDMS with the Fire-Rescue Chief, who related his view that the City's Administration Department

¹⁶ As of January 2011, the Fire-Rescue Deputy Chief for EMS is no longer the President of SDMS.

¹⁷ Available at www.sec.gov/about/laws/soa2002.pdf

and the Board of Managers are in charge of monitoring the financial aspects of SDMS. The Fire-Rescue Chief explained that his department has an operations orientation, and that if it was tasked with financial oversight, it would have to recruit qualified personnel to perform such duties. However, in his view, the City has decided to maintain oversight of EMS outside of Fire-Rescue since the EMS Program Manager reports to the City's Administration Department.

The City's Monitoring of SDMS Requires Structure

Since the partnership between the City and Rural/Metro represents a unique model for EMS delivery, there is no available "off-the-shelf" compliance program that can be used to monitor the partnership's performance. However, the current practice of comparing actual financial results to the approved budget of SDMS does not provide the City and taxpayers with sufficient assurance of good financial performance. Such a comparison will reveal significant variances from the budget, but it will not provide any assurance that EMS operations are efficient or accurate. Therefore, the City has to draw on authoritative guidance on topics such as contractor performance monitoring, internal controls design, and financial performance measurement to create a comprehensive monitoring program for SDMS.

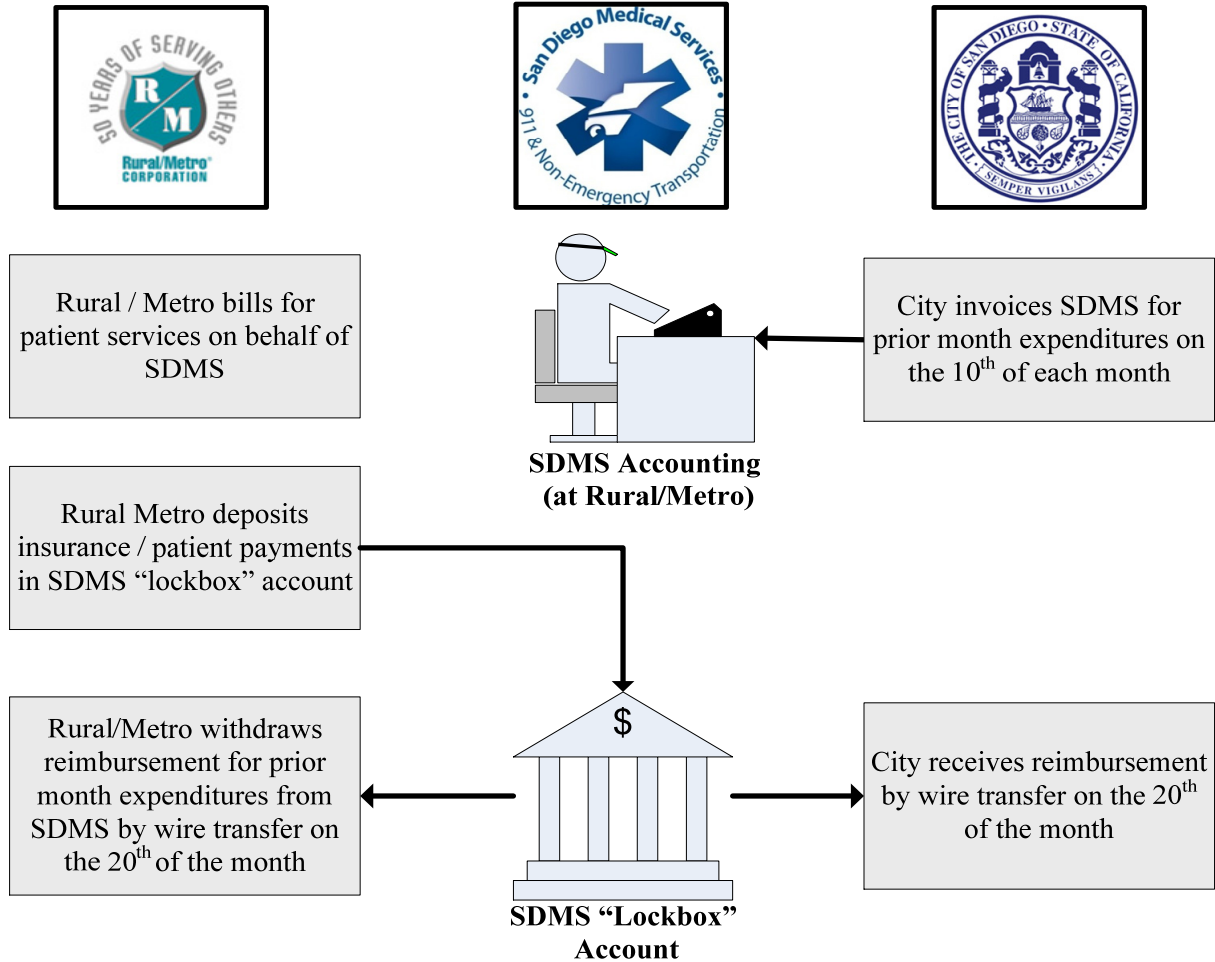
Various government control agencies such as the United States Government Accountability Office and the Office of Management and Budget (OMB) have published guidance on internal controls. OMB Circular A-123, *Management's Responsibility for Internal Control* offers a good starting point for identifying control objectives. Standards-setting bodies such as the Committee of Sponsoring Organizations (COSO) of the Treadway Commission have developed frameworks for internal controls. The Defense Contract Management Agency's website provides extensive resources, policies, and tools that can be adapted to establish a robust contract monitoring program. More basic publications such as the State of California's Contracting Manual also provide guidance on monitoring contractor performance.

A specific example of a necessary change in the control

environment is that the City should no longer allow Rural/Metro to continue its current practice of executing a monthly disbursement to their own corporation from the SDMS bank account based on the estimated expenses for that period without submitting an invoice to the City for review. The overall flow of SDMS-related financial transactions is graphically illustrated in Exhibit D below:

Exhibit D

Rural/Metro is Responsible for the Majority of SDMS-Related Financial Transactions and Accounting



Source: Auditor analysis of SDMS financial operations.

Note: There is no "invoice" for Rural/Metro's monthly reimbursement. Rural/Metro is reimbursed based on the balance in an intercompany account at the end of each month. The intercompany account is an accounting mechanism for tracking expenses at Rural/Metro incurred by SDMS. These costs include Rural/Metro costs plus 6.5 percent, accounts payable paid from the Rural/Metro operating account and operating supplies purchased from Rural/Metro.

The City Should Formally
Review Rural/Metro
Expense
Reimbursements and
Financial Reporting

The City should review and approve reimbursement requests from Rural/Metro that are supported by detailed invoices and implement a robust audit procedure to regularly sample and test Rural/Metro's reimbursed costs. This is a prudent measure, considering that the City currently devotes considerable effort to reviewing the monthly reimbursement request that it submits to SDMS which, by comparison, is a fraction of the amount reimbursed to Rural/Metro. Other specific examples of monitoring activities that the City should perform are to periodically analyze SDMS's financial statements, compute financial ratios, monitor trends, and compare ratios to industry averages. Prior to the creation of SDMS, previous EMS providers in San Diego experienced financial problems that ultimately negatively affected the delivery of EMS in the City. Currently, the City is not monitoring the financial strength of Rural/Metro to insure that its partner can continue to provide EMS in the City. Exhibit E below lists suggested monitoring activities:

Exhibit E

Examples of Monitoring Activities That the City Could be Performing

Purpose	Activity	Frequency
To analyze changes in costs and revenues.	Compute revenue and cost categories as percentage of total billings and receipts. Compute cost categories as a percentage of revenue.	Monthly
To measure the relationship between activity levels and financial performance.	Compare revenues and expense categories to the number and type of transports.	Monthly
To monitor trends in payments and collection.	Monitor bad debt write-off amounts, accounts receivable aging schedules, collections cash receipts, patient refunds, and bad debt sold. Compute as a percentage of revenue.	Quarterly
To track labor costs.	Perform detailed analysis of employee activity, salary schedules, overtime pay, and benefits.	Quarterly
To monitor the quality of patient care and satisfaction.	Conduct random surveys of patients for satisfaction with the service provided; review customer complaints received by the City and Rural/Metro.	Quarterly
To measure the efficiency of ambulance deployments.	Compare operational performance (i.e. ambulance response times and number of transports per employee) to other municipalities and jurisdictions.	Annually

Source: Auditor generated.

The SDMS Board of Managers Is Currently Not Functional

City-appointed SDMS Board of Managers (Board) members also provide oversight of the partnership in accordance with the Third Amended and Restated Operating Agreement (Third Amended LLC Agreement) between the City and Rural/Metro. Three Board members are appointed by the City, and two by Rural/Metro. The City and Rural/Metro have generally appointed their own employees to the Board. SDMS does not have bylaws, and the work of the Board members is primarily governed by the Third Amended LLC Agreement. However, due to a variety of factors, the current Board has not met since July 2009 since it has only had two members since November 2009, with a new member recently appointed in September 2010. In order to continue operating without any service interruption, SDMS has continued to make recent significant capital purchases, totaling approximately \$3 million for new monitors, and has distributed profits and operated without an approved budget. Although these activities require Board approval, SDMS took these actions without any Board approval.

During our review of SDMS Board meeting minutes, we noted that, on average, the SDMS Board met twice a year between 2003 and 2009, and that meetings did not last more than one hour. The meeting minutes only provided a general overview of topics discussed, and did not provide good evidence of an adequate discussion of issues before the SDMS Board or that the Board was providing anything more than high-level direction to staff. A former SDMS Board member who is knowledgeable about financial operations acknowledged that he found that financial reporting to the SDMS Board "lacked structure".

According to the Third Amended LLC Agreement, a supermajority vote of four members of the Board is required to approve a budget, purchase capital items and approve other significant motions. Vacancies on the Board normally occur as a result of employee turnover at the City and Rural/Metro. However, the Board is currently not functional due to the City's unfilled vacancies. The absence of a full board forces SDMS to operate outside the boundaries of the Third Amended LLC Agreement, as the alternative of ceasing EMS operations in San Diego is not tenable. Rural/Metro San Diego executives informed us that they have approached City officials with their concerns about continuing to operate SDMS without proper Board authorization, and that they are anxious to have a fully-functional Board.

Inadequate City
Resources and
Satisfaction with SDMS
Contributed to Lax
Financial Oversight

The City has not provided the proper financial oversight over SDMS for various reasons. The underlying EMS agreements create a more complicated organizational structure than a traditional vendor relationship would have. Furthermore, the City has not devoted the necessary staff resources for monitoring the financial performance of SDMS. According to the City's Administration, EMS Program management staff has been reduced to achieve budgetary savings, and significant added responsibilities for the processing of Public Record Act requests for information have impacted workloads. The position description for the EMS Program Manager has not been updated to detail essential duties and responsibilities and

insure that applicants to the position are adequately qualified. The current EMS Program Manager does not have an educational background or training in financial analysis, and does not receive substantial assistance from financial specialists. Similarly, Fire-Rescue personnel have an operational orientation, and lack sufficient knowledge about financial management to perform this function.

Prior to the formation of SDMS, the City contracted for EMS with private ambulance companies. According to several key City employees we interviewed, the performance of those private ambulance companies was poor. Many Fire-Rescue personnel we met with contrasted this history with the performance of SDMS and the responsiveness of Rural/Metro to their concerns. From their perspective, the partnership with Rural/Metro has worked well¹⁸. SDMS has boasted about this partnership, indicating that it:

"has exceeded every promise made, every hope and every expectation of EMS system achievement. This success is evidenced by the fact that, after the initial 5-year contract term, the City has twice exercised its option to grant SDMS [SDMS] contract extensions."¹⁹

Additionally, the partnership with Rural/Metro has resulted in close working relationships between Fire-Rescue and Rural/Metro employees. Most Fire-Rescue managers and City personnel involved in EMS describe their relationships with their Rural/Metro counterparts as excellent. Although good relationships between City and Rural/Metro employees are beneficial, City employees may not perceive that the interests of the City and Rural/Metro can diverge at times.

The City Does Not Have
a Thorough
Understanding of
SDMS's Financial
Performance

Because the partnership has periodically yielded profits to the City, Fire-Rescue employees have viewed it as a financially beneficial relationship. These profits have been available for use by the City, and have generally been reinvested in EMS. However, the fact that the City has received profits from SDMS

¹⁸ We noted that SDMS received accreditation from the Commission on Accreditation of Ambulance Services (CAAS) in 2008 which is defined as the "gold standard" for the medical transportation industry.

¹⁹ 2009 Response to the Request for Proposal No. 9560-09-V, Executive Summary, page 2.

does not indicate that the partnership with Rural/Metro has been a good economic bargain for the City. As noted earlier, the City does not currently scrutinize SDMS reimbursements to Rural/Metro, nor does it seek to recover all its costs of providing EMS. Rural/Metro's interest is to maximize the reimbursement amounts it seeks to recover from SDMS. If these reimbursements are inflated, the City could be entitled to more money than it has received.

The City's limited oversight in SDMS's financial operations leaves the City dependent on Rural/Metro for most financial information pertaining to the partnership. However, treating SDMS's financial operations as a "black box" is not in the best interest of the City. Allowing Rural/Metro to reimburse itself from SDMS without any review by the City creates a conflict of interest for Rural/Metro. Normal contractual arrangements with vendors require vendors to submit invoices for review before any payment is remitted. However, we noted that this lack of review greatly increases the risk that Rural/Metro will make advantageous financial decisions at the City's expense, and that such actions will go undetected.

For example, our cursory review of SDMS's annual budget revealed that total overtime wages for ambulance employees are equal to or exceed regular pay. When we shared this observation with the EMS Program Manager and the Deputy Chief for EMS, they were unable to offer any clarification. While Rural/Metro management provided us with a reasonable explanation for the overtime wages, this is an example that highlights the City's lack of awareness of basic financial information related to SDMS. Further, a more in-depth understanding by the City of SDMS labor rates and overtime pay is crucial, as personnel represent the single largest cost category, consisting of about 58 percent of SDMS operating expenses in fiscal year 2010. Without a thorough understanding of the financial performance of SDMS, the City is unable to evaluate the benefits of its partnership with Rural/Metro and the reasonableness of fees, overhead charges, and profits that Rural/Metro receives. A partial listing of financial information available to the City that is not being

analyzed is:

- Asset utilization
- Profitability
- Labor costs
- Customer service
- Collections
- Contracts

To provide the appropriate level of oversight of EMS services and the partnership with Rural/Metro, we recommend that City Administration take the following actions:

Recommendation #5

The City should develop a comprehensive program for monitoring SDMS's financial performance, update and sufficiently detail job descriptions and responsibilities for oversight positions, and provide the staff with appropriate training to effectively monitor its contract with SDMS. (Priority 1)

Recommendation #6

The City should review and modify the current governance for EMS operations to ensure adequate oversight and allows for compliance with applicable agreements. (Priority 1)

Finding 3: The City is not Seeking Full Reimbursement for the Provision of Required First Responder City Paramedics to Advanced Life Support Calls

The City incurs the cost of providing first responders, including at least one paramedic, to Priority 1 calls in fulfilling its current contract with SDMS for providing EMS. However, the City is not being reimbursed for all the personnel and non-personnel costs to provide these first responder paramedic services. As specified in the EMS Emergency Medical Technician-Paramedic Services Agreement between the City of San Diego and the County of San Diego Department of Health Services, the City is required to have two paramedics on scene for Advanced Life Support calls. If the City did not provide a paramedic on scene, the City's contract with the County would require SDMS to send two ambulances or staff each ambulance with two paramedics, responding within ten minutes, instead of the 12 minute requirement through the current configuration of one paramedic and one EMT.

As reported, Fire-Rescue units are dispatched on the most acute emergency calls (Priority 1). Fire-Rescue first responder units are typically staffed with at least one firefighter / paramedic and other personnel who are certified as firefighters / emergency medical technicians or paramedics. In addition, the EMS Agreement between SDMS and the City states that SDMS shall reimburse the City monthly for actual expenses incurred in the performance of its obligations under the agreement. In contrast, a recent contract between Rural/Metro and the County of Santa Clara, California includes annual payments to the County for first responders of \$5 million, as well as \$3 million in franchise and communications fees.

Although the City is currently being reimbursed for \$5.7 million in costs supporting the paramedic services as provided under the SDMS contract, the City has not been seeking or receiving full reimbursements for direct and indirect first responder-related costs, estimated at up to \$10.9 million annually, or up to

\$32.7 million over the next three fiscal years. This estimate includes personnel costs for all of the City staff on the first responder units, including a Fire-Rescue captain, Fire-Rescue engineer, a firefighter and a firefighter paramedic, and the approximate cost of transportation to the scene (i.e. vehicle usage, depreciation, fuel, etc.). These are the required compliment dispatched to Priority 1 calls, and the current contract does not prohibit full cost reimbursement.

The City has never formally identified and requested reimbursement for the total cost for paramedics on first responder units. Additionally, the City has not included the cost of Priority 1 first responder services within the budget of SDMS. As a result, the City and City taxpayers are in effect subsidizing the profits of SDMS and Rural/Metro. The City Administration should request reimbursement for first responder services. We note that the APC for SDMS is lower, in some cases significantly lower, than in many other jurisdictions in California. Reexamining the APC offers a potential path for recovering the cost of first responder services.

To request, receive and budget for the reimbursement for first responder services, we recommend that City Administration take the following action:

Recommendation #7

The City Administration should immediately include the costs for Priority 1 Advanced Life Support services in its monthly request for reimbursement from SDMS. (Priority 1)

Finding 4: Current Reporting Inflates Results And Does Not Accurately Reflect the True EMS Response Time

Based on the agreement between the City and SDMS, SDMS must meet specific response times for each priority type within the City. Although SDMS satisfied the contractual response time terms of the EMS agreements, the Mayor and the City Council are not informed on actual response time statistics from when an individual calls 9-1-1 until EMS personnel arrive on scene, and, as a result, cannot fully assess the performance of Fire-Rescue and SDMS and any risk to public safety. As specified in the Emergency Medical Technician-Paramedic Services Agreement between the City and the County of San Diego, the City agrees to:

“use best efforts to provide for a planned maximum ALS transport response time of twelve (12) minutes, 90% of the time.”

This response time is based on the actual percentage of times an ambulance that is dispatched arrives on-scene within 12 minutes.

We found that SDMS and Fire-Rescue can improve response time statistics reporting to the City Council. As a result, we found the following:

- The current SDMS practice of classifying 37 percent of calls as “unusual system overload” inflates EMS compliance figures by four percent.
- The automatic exemption of system overload calls precludes the City from assessing allowable penalties.
- Response time reporting does not factor in the time to dispatch, and County measurement guidance is ambiguous.
- SDMS does not report performance appropriately based on the contractually required priority system.

As a result, current reporting is overstated and does not accurately reflect EMS response time performance.

The Current SDMS Practice of Classifying 37 Percent of Calls as "Unusual System Overload" Inflates EMS Compliance Figures by Four Percent

Currently over one in three 9-1-1 emergency priority 1 and 2 calls are labeled as "unusual system overload" and are automatically exempted from compliance figures for all Advanced Life Support (ALS) calls. Since 1997, SDMS exempts emergency calls from response time statistics in situations when 12 or more SDMS ambulances are responding to calls. At any given time, SDMS typically deploys on average 28 ambulances. The calls where 12 or more ambulances are responding to calls are automatically exempted if they exceed the response time requirements and are not uniquely identified in reported figures. While 12 may have been an appropriate exemption threshold in 1997, this practice has not been formally evaluated since that time.

The EMS Program Manager indicated that the "system overload" issue was discussed with the consultant for the first Request For Proposal (RFP) during the most recent bidding process; however, no formal action was taken. City staff noted that during the most recent contract negotiations, the City and Rural/Metro left the existing "system overload" language and definition since no other specific guidance was readily available. Despite being aware of this issue, no analysis has been conducted by the City, and no authoritative evidence has been provided by Rural/Metro to justify the appropriateness of the current definition of "system overload" or that it is a standard practice in industry. We noted that Rural/Metro's new contract with the County of Santa Clara provides a statistically valid calculation for "unusual system overload" based on recent historical data.²⁰

We also noted that the response to the RFP from SDMS states that the:

"Contract Administrator may allow²¹ exceptions to the response time requirements for good cause as determined at his/her sole discretion."

²⁰ Section 4.3.1(1)(a) of the agreement indicates that "the demand for service must have exceeded the historical demand at the 90th fractile by 120% for the day of the week and time of day, for the same day/time and zone in the previous year at the time that the initial unit was dispatched to the call."

²¹ Emphasis added utilizing bold.

In addition:

"SDMS understands that exemptions may only be granted if the City expressly so states in writing. The City's failure to explicitly grant exceptions shall operate as a denial."

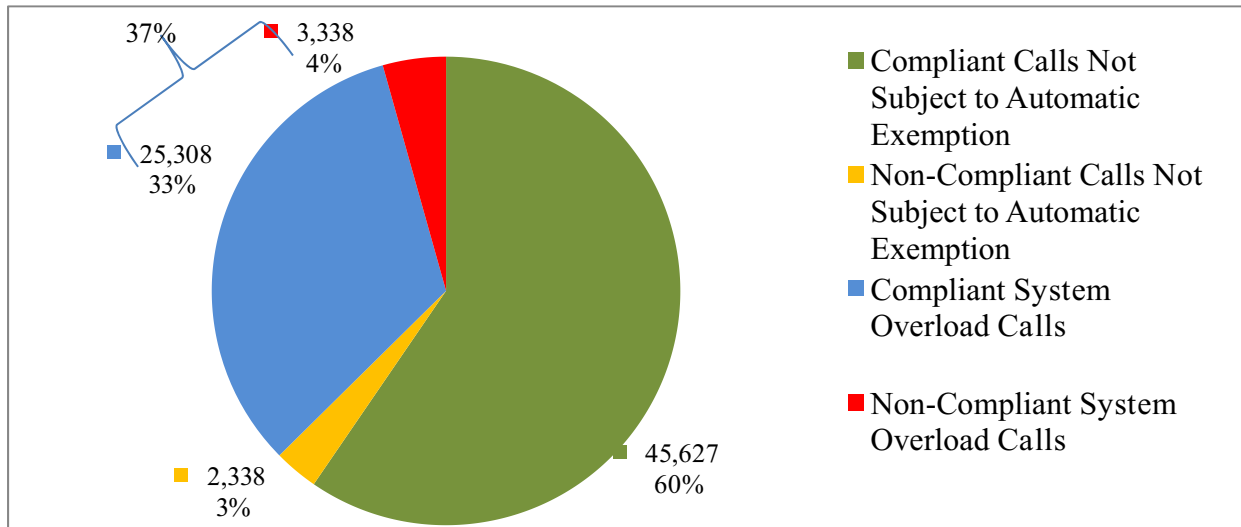
Currently, the non-compliant system overload calls are approved on an individual basis by the EMS Program Manager, who has indicated that the review is perfunctory in nature without consultation to collaborating information. The EMS Program Manager may exempt system overloads, but there is no requirement mandating the practice. Instead, calls are automatically exempted when 12 or more ambulances are responding to an emergency.

As illustrated in Exhibit F, system overload accounted for approximately 37 percent²² of all calls in fiscal year 2010 for the 12 minute response time standard (Priority 1 and 2):

²² The total of compliant (33%) and non-compliant (4%) system overload calls as included in Exhibit F.

Exhibit F

Automatically Exempted System Overload Calls Represent a Significant Portion of Total EMS Calls during Fiscal Year 2010



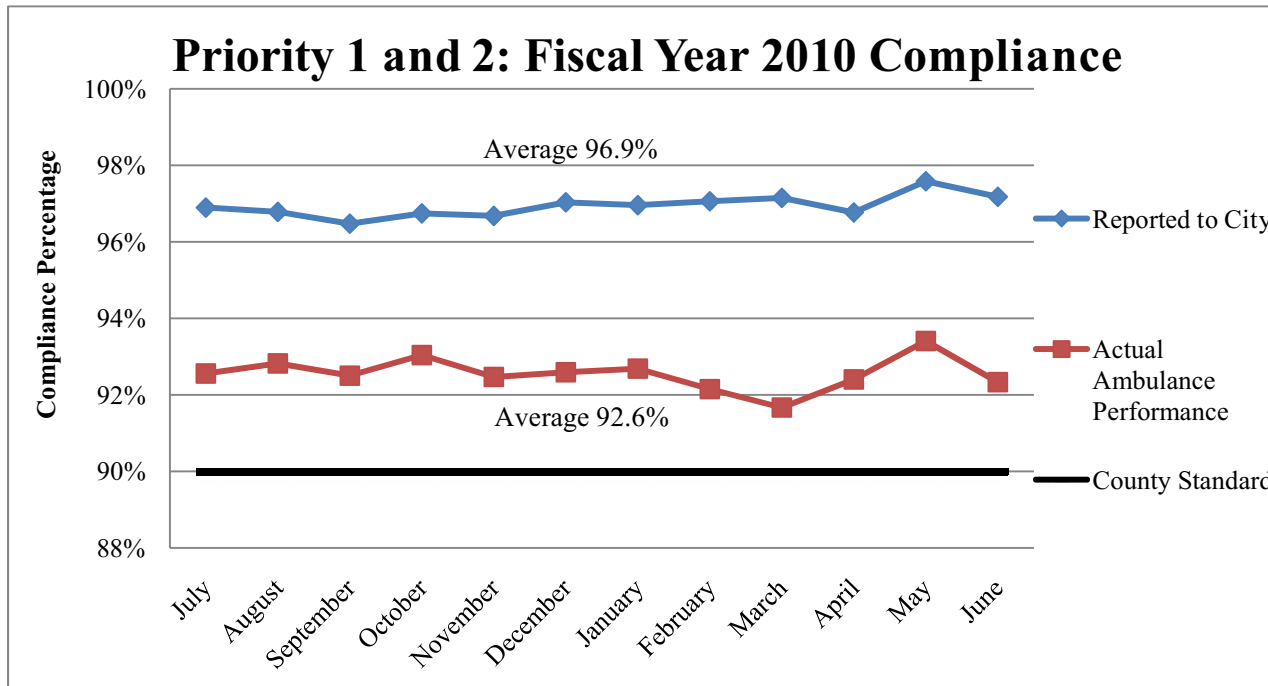
Source: Auditor analysis based on City Computer Assisted Dispatch information system data.

Actual Response Time Results for Priority 1 and 2 Calls Differ From Contract Compliance Reported Amounts

Of the system overload calls, about 12 percent did not achieve the 12 minute standard. By including the automatically exempted Priority 1 and 2 calls, the fiscal year 2010 actual overall response time result is an average of 92.6 percent, which still satisfies the County's 90 percent standard, but is lower than the reported contract compliance rate of an average of 96.9 percent. The difference between the actual overall response time results compared to the previously reported contract compliance amounts is illustrated in Exhibit G:

Exhibit G

SDMS Fiscal Year 2010 Actual Ambulance Performance Lags Behind Reported Response Time Results for Priority 1 and 2 Calls



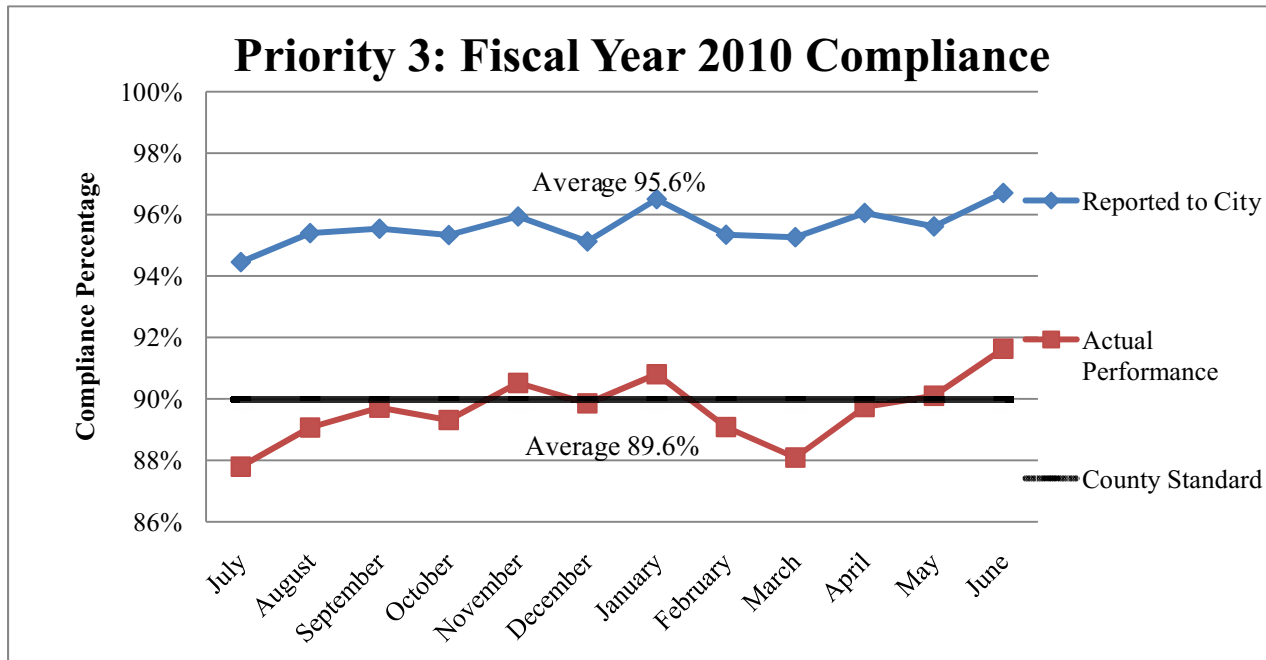
Source: Auditor analysis based on City Computer Assisted Dispatch information system data.

Actual Response Time Results for Priority 3 Calls Differ From Contract Compliance Reported Amounts

ALS vehicles also respond to Priority 3 “urgent request” calls, which are dispatched without lights or sirens, and have a 15 minute response time standard compared to the 12 minute standard for Priority 1 and 2 calls. By including the automatically exempted calls, we also noted that for the Priority 3 calls the response time results decrease from previous compliance report amounts communicated to the City Council of approximately 95.6 percent to actual results of 89.6 percent in fiscal year 2010. The 89.6 percent would fall below the contractually obligated compliance rate for Priority 3 calls of 90 percent. The difference between the actual overall response time results compared to the previously reported contract compliance amounts for fiscal year 2010 is illustrated in Exhibit H:

Exhibit H

SDMS Fiscal Year 2010 Actual Performance Lags Behind Reported Response Time Results for Priority 3 Calls



Source: Auditor analysis based on City Computer Assisted Dispatch information system data.

We noted that the general process to review system overload calls, which represent the majority of exemptions, is essentially a mechanical practice when the process was intended to instead provide the ability to allow exceptions for good cause. However, the various steps taken to compile, review and report on the various priority categories for system overload and other types of exemptions and exceptions is a complex and mostly undocumented workflow. City personnel initiate the workflow, but a Rural/Metro employee modifies City dispatch data. The EMS Program Manager had historically reviewed only about 25 percent of these modifications. A new online compliance utility implemented in October 2010 now facilitates the review and approval of modified calls, including the reason for the changes, which was not possible before. As a result, Rural/Metro's ability to impact performance data for which they are held accountable is minimized. We have included an auditor generated workflow diagram in Appendix B illustrating the overall process.

Automatic Exemption of System Overload Calls Precludes the City from Assessing Allowable Penalties

Historically, the City does not evaluate automatically exempted emergency response calls to determine if penalties apply. Under the current EMS contract effective July 1, 2010, Priority 1 and 2 calls taking longer than a response time of 24 minutes are supposed to now be assessed a penalty of \$5,000 per incident. In fiscal year 2010, more than 60 Priority 1 and 2 calls automatically exempted as "system overload" had response times in excess of 24 minutes. Since these calls were classified as "system overload," the EMS Program Manager never evaluated the calls for penalties. Under the current contract, the City will continue to exempt system overload calls from penalties. However, if calls with response times in excess of 24 minutes were to have been scrutinized, the City may have assessed up to \$300,000 in penalties based on the level of calls in that category in 2010. While such penalties for exceeding the response time have existed throughout the history of SDMS, the City has never assessed a penalty for individual calls exceeding the response time.

Response Time Reporting Does Not Factor in the Time to Dispatch

On average, calls received by the City's Fire Communications Center, which is primarily staffed by City dispatch employees, take in excess of one minute between the time received and time assigned. This average dispatch time exceeds the 45 second standard defined in the Request for Proposal (RFP) and the response to the RFP, although that benchmark was removed from the final version of the current EMS agreement. Other industry professionals informed us that the compliance clock for most contracts begins when the dispatcher obtains a verifiable address, which ranges between 10 and 30 seconds from the receipt of the call. Although conservative by comparison, the aforementioned 45 second standard appears to be an appropriate standard to measure the City's performance against, but our time to assign calls exceeds that benchmark. As mentioned earlier, SDMS's actual performance meets the County's 90 percent standard for the 12 minute response category. However, including the 45 second dispatch time in overall EMS statistics would reduce the City's performance against the 12 minute benchmark to 86.3 percent

in fiscal year 2010²³.

We noted that the City's agreement with the County stipulates a 12 minute transport response time yet does not clearly identify a start time for this measurement. In addition, the agreement stipulates that the City shall adopt and monitor its own performance standards. Currently, the response time reported to City Council does not include the time to dispatch a medical call. While some components of system dispatching are beyond the control of the City, others are operated by City departments. From the public's perspective, excluding some time segments from the total response time does not reflect the totality of an incident. The City should minimize the response time by analyzing all aspects of dispatching, including those that are not operated by Fire-Rescue. Further, to enhance performance reporting, the City should ensure it reports the actual response time which reflects that actual elapsed time from a 9-1-1 call entering a City dispatch center to the time a unit arrives on scene to provide assistance.

SDMS Does Not Report
Performance
Appropriately Based on
the Contractually
Required Priority System

We found that the 9-1-1 call priority system documented in City EMS agreements is not consistent with current practices. In the agreement signed July 1, 2010, Priority 2 is defined as "Non-Life Threatening Emergency Response." However, several City and SDMS personnel have indicated that Priority 2 is not used for calls routed through the standard 9-1-1 system. The existing call prioritization routing system will result in either a Priority 1 or Priority 3 dispatch, but not Priority 2. Priority 2 is only being used for special events where a separate dispatch process is used, such as at PETCO Park. Consequently, non 9-1-1 related activity is captured in a distinct 9-1-1 priority and does not comply with the agreed upon classification established in the current contract. Also, since Priority 1 and 2 both have 12 minute response times, they have historically been reported together with no distinction between the total numbers of all calls for each type. Although a low number of total Priority 2 calls exist, the contract states that Priority 1 and Priority 2 must

²³ For response times based on the total time for each call, the overall response rate is approximately 83 percent for the 12 minute standard from receipt of the call in the Fire Communications Center through to the arrival of a transporting ambulance.

be evaluated independently.

We also found that it appears that the 9-1-1 call priority system documented in City EMS agreements is not consistent with current practices. As dispatch has moved away from using Priority 2, the more serious calls previously found in Priority 2 are now classified as Priority 1, while those calls less severe in nature are classified as Priority 3. While the 9-1-1 dispatch system does not determine calls based on ALS or BLS status and prioritizes calls based on level of severity, over 85 percent²⁴ of Priority 3 calls that were transported are billed at ALS rates. This could be indicative of an increased risk that unnecessary services are being provided to less severe patients or that patient bills are being enhanced without appropriate justification. Also, since these calls are billed at ALS rates, they would be considered ALS transports and accountable to a 12 minute response time compliance requirement per the County agreement. However, under the current SDMS contract, Priority 3 calls have a 15 minute response time. In addition, City management was unable to provide documentation to support exceptions for ALS transports under Priority 3 at a 15 minute response time. As a result, the current classification of ALS transports as Priority 3 fails to provide the level of service in accordance with County standards.

SDMS uses compliance reporting figures that exempt over one-third of all calls, and does not include the impact of about 1 – 1.27 minutes of dispatch time. This inflates the actual performance reported to the City Council and City Administration, resulting in an inaccurate picture of actual on-scene data. These higher compliance numbers are touted by SDMS as an illustration of their exceptional performance. While SDMS compliance numbers for Priorities 1 and 2 combined still exceed the 90 percent requirement, by excluding a large percentage of calls, SDMS misrepresents its actual performance of responding to emergencies in a timely manner. We found that the amount of time spent in assigning calls is not factored into the response time statistics provided to the City Council or City Administration.

²⁴ In fiscal year 2010, 5,519 of the total 6,360 billed Priority 3 calls were billed at ALS rates.

As a result of the above issues, we found that the Mayor and the City Council are not accurately informed on true actual response time statistics from when a citizen calls 9-1-1 to when EMS personnel arrive on scene. Consequently, the City Council cannot accurately assess the performance of Fire-Rescue and SDMS and any risk to public safety.

To improve the effectiveness, efficiency and accuracy of performance time reporting, we recommend that City Administration take the following actions:

Recommendation #8

The City should review, analyze and update its current definition of "unusual system overload". The EMS Program Manager should review all dispatches submitted for exemption to determine the appropriateness of exempting them and ensure penalties for non-compliance are assessed when applicable. (Priority 3)

Recommendation #9

In addition to reporting on the contractual performance of SDMS, the City should immediately begin reporting actual response time results to the Mayor and City Council consistent with the response time standard specified in the EMS agreement between the City and the County of San Diego to guide system improvements. This reporting should incorporate the impact of the City's dispatch process on the assignment of calls. (Priority 3)

Recommendation #10

SDMS should review the adequacy of the existing Priority categories, specifically:

- The appropriateness of the current Priority 2 calls definition, treatment and compliance reporting;
- The use of Priority 3 in providing ALS transports and their appropriate response time, or obtain written authority to allow Priority 3 calls to respond to calls within 15 minutes rather than 12 minutes. (Priority 3)

Recommendation #11

SDMS should continue to segregate the reporting on Priority 1 and 2 calls consistent with the EMS agreement. If this is not practical, an amendment to the agreement should be added to combine reporting for Priority 1 and 2 or restructure the call priority designations. (Priority 2)

Conclusion

The management of the City's Emergency Medical Services (EMS) function is an ongoing activity which impacts the safety and well-being of the citizens of San Diego. As a result, EMS should receive continuous attention from City management to ensure the effective and efficient use of limited available resources.

The City monitors its contract with San Diego Medical Services (SDMS) for operational performance and compliance with contractual obligations, but its supervision of the financial performance of the partnership is limited. Rural/Metro controls all SDMS financial operations, including the billing, collections, and financial reporting functions. The City's limited insight into the financial operations of SDMS is cause for concern. There are several potential financial accounting issues for SDMS as well as improper or unreasonable costs and fees that remain unresolved. Based on the lack of adequate financial controls and oversight over related activities, there is a significant risk that the City has not maximized its revenue from SDMS. There is also a potential risk that Rural/Metro has underreported revenues or submitted unsupported or inappropriate expenses. As a result, the City needs to insure that a full accounting of this partnership is performed.

Furthermore, by failing to exercise adequate oversight over its partnership with Rural/Metro and properly monitoring SDMS's compliance with the operating agreement, the City has foregone the opportunity to maximize the recovery of its costs of providing EMS services estimated at up to \$10.9 million per year.

Finally, the City has not adequately evaluated the appropriateness of the current "unusual system overload" threshold and related performance reporting standards to ensure effective reporting. We have included additional

graphical illustrations of the geographic dispersion of the calls that are and are not compliant with the 12 minute response standard from the beginning of the phone call through to the arrival of a transporting ambulance. These graphics are presented on a City Council district basis and are included in Appendix C.

By making the recommended changes, the City could improve its oversight and efficiency in managing emergency medical services and ensure full cost reimbursement. Making improvements will require collaboration and effort between Fire-Rescue, City Administration and SDMS / Rural/Metro.

Recommendations

To ensure the accuracy, completeness and appropriateness of SDMS revenues and expenses and related expense reimbursements to Rural/Metro, we recommend that the City take the following actions:

1. The City should engage forensic experts to conduct a review of previous and current SDMS revenues and expenses to ensure all revenues were properly accounted for and reimbursements to Rural/Metro are appropriate, reasonable, and substantiated by sufficient documentation. (Priority1)
2. The City should demand that all outstanding revenue-related transactions not directly deposited into the SDMS back account be immediately deposited, unless Rural/Metro can immediately prove that it has already made expense credits in the same amount. (Priority1)

To ensure the completeness and accuracy of financial transactions, accounting and reporting thereof related to the partnership with Rural/Metro, we recommend that City Administration take the following action:

3. The City and Rural/Metro should establish procedures to submit detailed invoices and appropriately supporting documentation to the other partner to justify expense reimbursements. Further, each partner should require the other's approval of disbursements before receiving reimbursement through the SDMS "lockbox" bank account. (Priority1)

To ensure the appropriateness of the SDMS contractual terms and corresponding expense reimbursement practices for Rural/Metro, we recommend that the City take the following action:

4. The City should immediately evaluate the appropriateness of the contractual terms defined in any related EMS agreements for alignment with current practices. (Priority1)

To provide the appropriate level of oversight of EMS services and the partnership with Rural/Metro, we recommend that City Administration take the following actions:

5. The City should develop a comprehensive program for monitoring SDMS's financial performance, update and sufficiently detail job descriptions and responsibilities for oversight positions, and provide the staff with appropriate training to effectively monitor its contract with SDMS. (Priority1)
6. The City should review and modify the current governance for EMS operations to ensure adequate oversight and allows for compliance with applicable agreements. (Priority1)

To request, receive and budget for the reimbursement for first responder services, we recommend that City Administration take the following action:

7. The City Administration should immediately include the costs for Priority 1 Advanced Life Support services in its monthly request for reimbursement from SDMS. (Priority1)

To improve the effectiveness, efficiency and accuracy of performance time reporting, we recommend that City Administration take the following actions:

8. The City should review, analyze and update its current definition of "unusual system overload". The EMS Program Manager should review all dispatches submitted for exemption to determine the appropriateness of exempting them and ensure penalties for non-compliance are assessed when applicable. (Priority3)

9. In addition to reporting on the contractual performance of SDMS, the City should immediately begin reporting actual response time results to the Mayor and City Council consistent with the response time standard specified in the EMS agreement between the City and the County of San Diego to guide system improvements. This reporting should incorporate the impact of the City's dispatch process on the assignment of calls. (Priority3)
10. SDMS should review the adequacy of the existing Priority categories, specifically:
 - a. The appropriateness of the current Priority2 calls definition, treatment and compliance reporting;
 - b. The use of Priority 3 in providing ALS transports and their appropriate response time, or obtain written authority to allow Priority 3 calls to respond to calls within 15 minutes rather than 12 minutes. (Priority3)
11. SDMS should continue to segregate the reporting on Priority 1 and 2 calls consistent with the EMS agreement. If this is not practical, an amendment to the agreement should be added to combine reporting for Priority 1 and 2 or restructure the call priority designations. (Priority2)

Appendix A: Definition of Audit Recommendation Priorities

DEFINITIONS OF PRIORITY 1, 2, AND 3 AUDIT RECOMMENDATIONS

The Office of the City Auditor maintains a classification scheme applicable to audit recommendations and the appropriate corrective actions as follows:

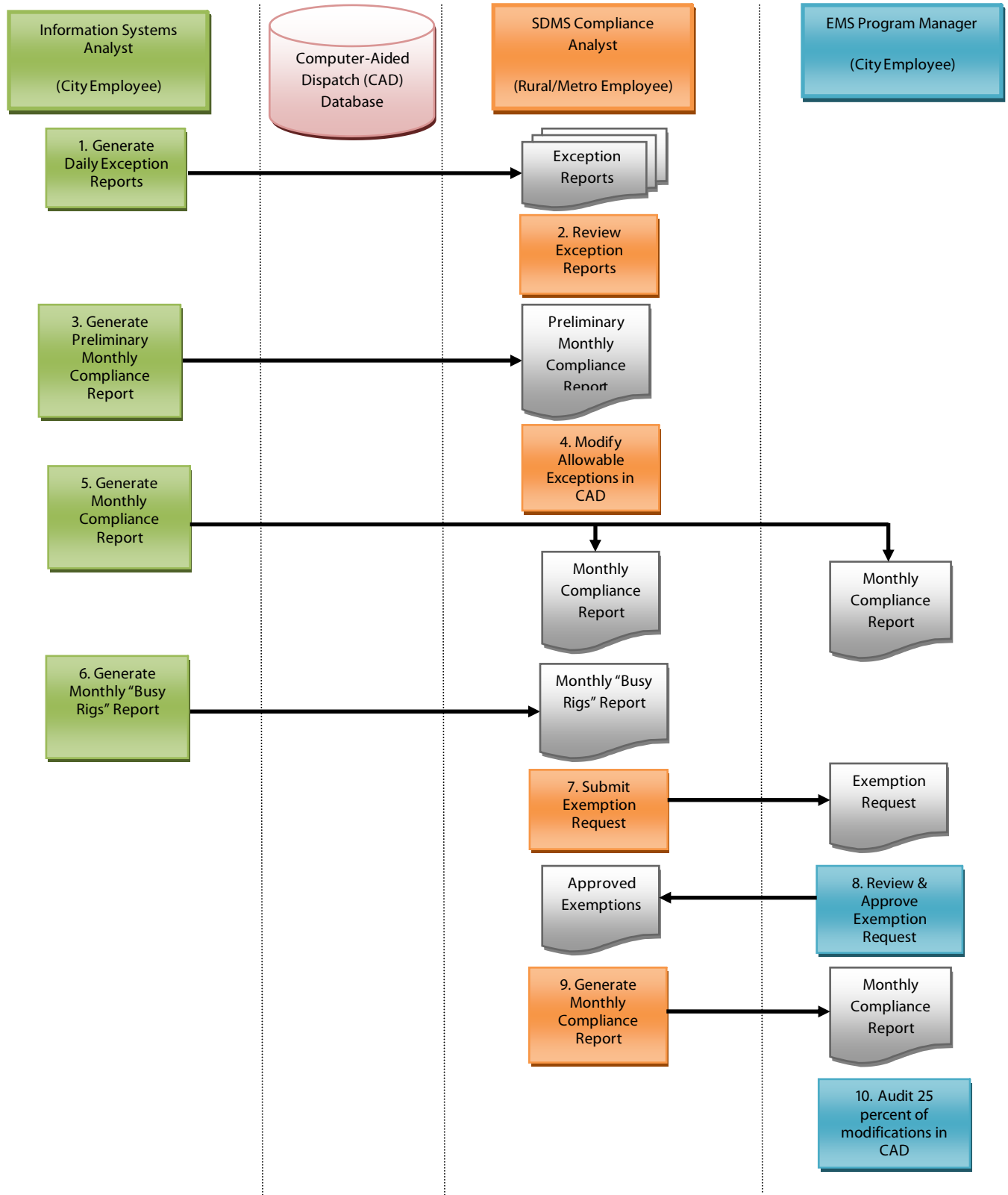
Priority Class ²⁵	Description ²⁶	Implementation Action ²⁷
1	Fraud or serious violations are being committed, significant fiscal or equivalent non-fiscal losses are occurring.	Immediate
2	A potential for incurring significant or equivalent fiscal and/or non-fiscal losses exist.	Six months
3	Operation or administrative process will be improved.	Six months to one year

²⁵ The City Auditor is responsible for assigning audit recommendation priority class numbers. A recommendation which clearly fits the description for more than one priority class shall be assigned the higher number.

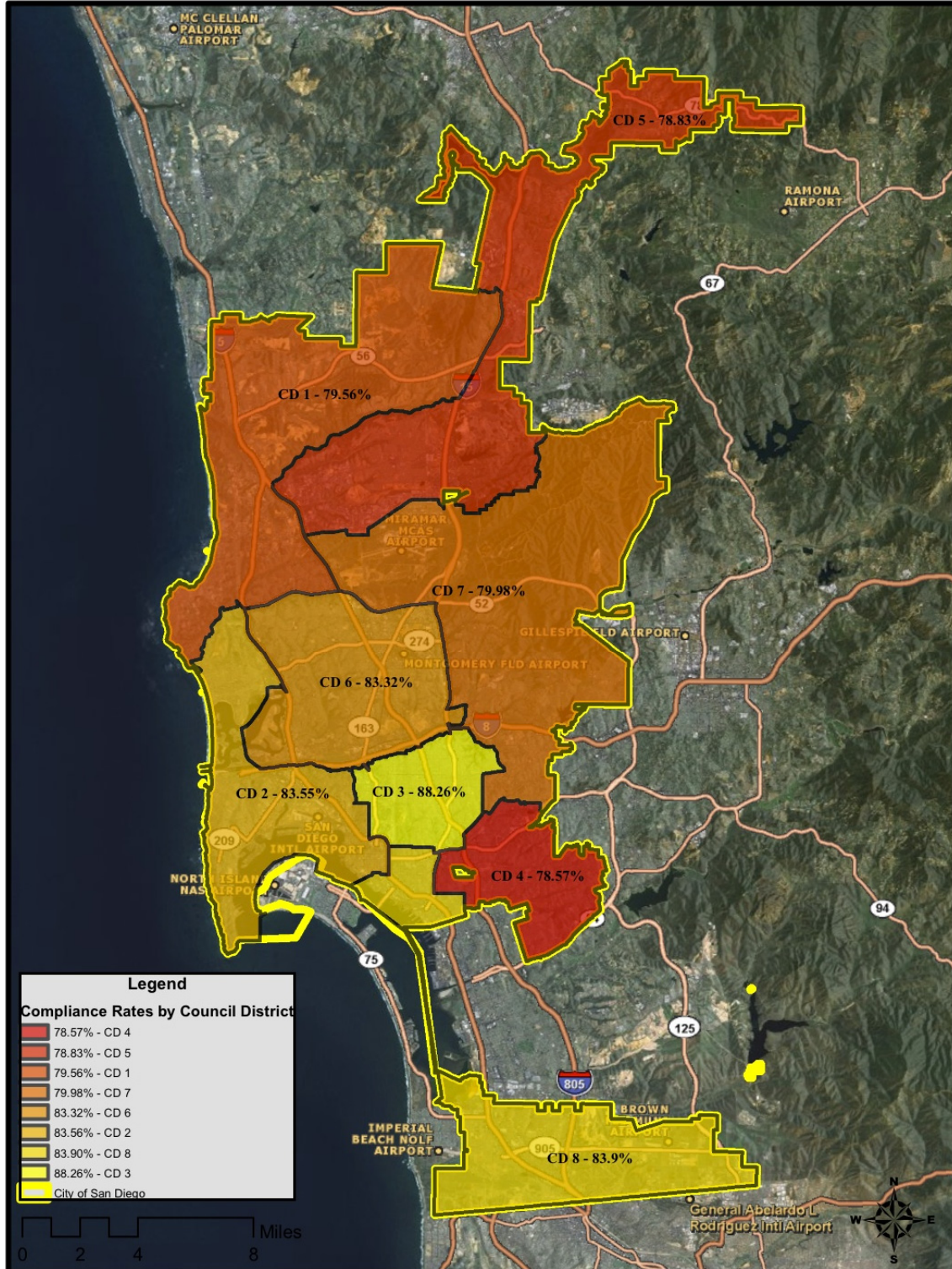
²⁶ For an audit recommendation to be considered related to a significant fiscal loss, it will usually be necessary for an actual loss of \$50,000 or more to be involved or for a potential loss (including unrealized revenue increases) of \$100,000 to be involved. Equivalent non-fiscal losses would include, but not be limited to, omission or commission of acts by or on behalf of the City which would be likely to expose the City to adverse criticism in the eyes of its residents.

²⁷ The implementation time frame indicated for each priority class is intended as a guideline for establishing implementation target dates. While prioritizing recommendations is the responsibility of the City Auditor, determining implementation dates is the responsibility of the City Administration.

Appendix B: Response Time Reporting Process Workflow



Appendix C: Fiscal Year 2010 Response Time Mapping by District



Data Sources: ESRI, SanGIS, SANDAG, City of San Diego Fire Communications Center

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Management's Response to the Performance Audit of Fire-Rescue's Emergency Medical Services

The State of California Health and Safety Code (Section 1797.224) delegates to each individual County's local Emergency Medical Services (EMS) agency, the responsibility to define an EMS plan. Within the County of San Diego's plan, the City of San Diego is identified as an Exclusive Operating Area (EOA). As an EOA, the City is required to provide high quality emergency medical services to the residents of San Diego. San Diego Medical Services (SDMS), a partnership between Fire-Rescue Department and Rural Metro of San Diego, provides the 9-1-1 paramedic services for the City. The EMS Program Manager, under the City's Administration Department, provides oversight and administration of the City's contracts for EMS and medical transportation services as well as the City EMS Medical Director. The Program Manager in collaboration with Fire-Rescue staff is responsible for ensuring high quality emergency medical services to the residents and visitors of San Diego through clinical oversight, quality assurance and improvement, monitoring of Paramedic First Responders and the transport provider's response times, and the financial/operational oversight of the EMS system.

The performance audit provided an opportunity for Fire-Rescue and Administration to take an in-depth look at the Program with particular attention paid to the financial oversight and response time reporting of San Diego Medical Services.

We would like to thank the City Auditor for performing the audit and providing the opportunity for staff to contribute additional clarity and accuracy to the report. While we do not necessarily agree completely with their analysis, findings and recommendations, we appreciate all of their efforts and suggestions.

EMS Contract

It should be noted that the City is currently in the process of negotiating a new agreement that provides a more traditional contracting relationship. This new agreement addresses the majority of the findings and/or recommendations and we anticipate its award in the near future. The remaining recommendations that we are in agreement with will be addressed with actions and timelines after the agreement has been executed. Since the new agreement will be a more traditional contracting relationship, and not a joint venture or partnership, the issues the Auditor raised of reimbursable contractor fees will be moot.

Response Time Measurement

We fundamentally disagree with the Auditor's analysis and suggestion that for response time measurement, the City should factor in the time to dispatch. The Auditor also states that County measurement guidance is ambiguous. It has always been our understanding and we received written confirmation April 12, 2011 that the County's response time requirement begins "...When the medical unit to respond is dispatched...."

Further, we do not agree with including actual elapsed time from a 9-1-1 call entering a City dispatch center to the time of arrival to enhance performance reporting. Including this time interval is not only counter to industry standard practice, it also would create the inaccurate perception that the City takes longer to respond to requests for emergency service when compared to the data provided by other response agencies. In addition, this recommendation is not consistent with the response time measurement practices recommended by Citygate Associates in its recent Fire Service Standards of Response Coverage Deployment Study for the San Diego Fire-Rescue Department.

Recommendations 1, 2, 3, 5, 6, 7, 8, 10, 11

We agree with these recommendations.

Recommendation #4

We partially agree as worded. We agree that the City should evaluate the appropriateness of the contractual terms defined in any related EMS agreements, however they should align with the *desired* practices rather than *current* practices. Since some deficiencies have been noted in current practices, it does not make sense to align contractual terms to those practices.

Recommendation #9:

We disagree with this recommendation as it is not consistent with County requirements. We will not implement this recommendation. See comments on response time measurement above.



Debra Fischle-Faulk, Director
Administration Department



THE CITY OF SAN DIEGO

DATE: April 25, 2011

TO: Honorable Members of the Audit Committee

FROM: Eduardo Luna, City Auditor

SUBJECT: Rebuttal to Management's Response to the Performance Audit of Fire-Rescue's Emergency Medical Services

On March 14, 2011, the City Auditor provided a draft audit report to City Administration and Fire-Rescue officials. On March 29, 2011, the City Auditor's Office met with the City Administration and Fire-Rescue to discuss feedback provided on the audit report. The City Auditor's Office made revisions to the draft audit report and provided a revised draft audit report to City staff.

On April 12, 2011, the City Auditor's staff met again with City Administration and Fire-Rescue officials to discuss the revised draft audit report and address any remaining matters of a technical or factual nature. Based on comments and information provided by City staff, we made additional revisions to the draft and provided a second revised version on April 14, 2011. The City Administration provided a written response on April 22, 2011.

In the response, the City Administration indicated agreement with nine of the eleven recommendations, partial agreement with one, and disagreement with one recommendation. We feel compelled to provide clarity to statements made in the response.

Response Time Measurement

The City Administration asserts that it reports response time in accordance to industry standard practice, and that the recommendation to expand reporting to also include the call processing time would create the inaccurate perception that the City takes longer to respond than other response agencies. Consequently, the City Administration disagrees with reporting additional information to the Mayor and City Council which reflects the true time necessary for medical units to respond to calls for medical emergencies.

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We believe the additional reporting information is necessary for transparency to the Mayor, City Council, and the public. Currently, Fire-Rescue only reports response time from the time units are assigned to an emergency call to the time they arrive on scene. In Fiscal Year 2010, the average time for dispatching ranged between 1 to 1.27 minutes. In 10 percent of cases, Fire-Rescue records indicate dispatch time ranged from two to as high as over four minutes. Overall, over 18,000 cases (25 percent) involved dispatching times greater than one and a half minutes. This dispatch time only reflects the time a call comes into the fire dispatching center to the time a unit is assigned. In actuality, 9-1-1 calls are initially routed to the police communications center and are then transferred over to the Fire Communications Center. This represents an additional response delay not quantified in our report.

We do not recommend the City cease reporting response statistics using the current methodology for the purposes of benchmarking with other response agencies. However, our recommendation is to include an additional reporting parameter which would also show the impact dispatch time has on overall medical response. While we understand the need to have comparable data with other response agencies for the emergency unit response activity, we do not understand the difficulty or apprehension of reporting additional information which would reflect the true nature of a response. There is a public interest in receiving clear, transparent, and complete information. Without tracking, reporting, and evaluating true response time, the Mayor, City Council, and public are limited in identifying and remedying system problems which may contribute to higher than normal true response times.

Respectfully submitted,



Eduardo Luna
City Auditor