



County of Santa Cruz

HEALTH SERVICES AGENCY

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HEALTH SERVICES AGENCY
ADMINISTRATION

September 5, 2001

Agenda: September 11, 2001

Honorable Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Subject: Proposed Second Amended Emergency Medical Services Provider Agreement for Ambulance Advanced Life Support Transport Services

Dear Members of the Board:

I. Backaround:

In 1997 Your Board approved a contract for ambulance services with American Medical Response West for a five-year term beginning December 1, 1997 and ending November 30, 2002. This contract was amended November 16, 1999 to revise language dealing with excess revenues.

The Auditor-Controller has completed a Report on Contract Compliance of American Medical Response West Santa Cruz County Operations for the Health Services Agency for the fiscal years ended November 30, 1998 and 1999. The report stated that the compliance review did not identify many conditions of non-compliance under the definitions of the agreement. The following conditions were not in compliance:

- Contractor insurances were not confirmed
- Audited Financial Statements were not provided for 1998
- Independent Auditor Management Letters were not provided for either year.

The cited conditions will be corrected. The Health Services Agency is developing an internal procedure for receipt and verification of Contractor insurances that will provide the necessary confirmation to assure that certificates meet the intent and purpose of contractual requirements.

American Medical Response West attests in a letter that they will provide the contractual requirements of the Audited Financial Statements and Independent Auditor Management Letters for the three years ended November 30, 2000 and for the remaining years of the contract.

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The Auditor-Controller has in addition made recommendations for consideration in future contract negotiations, which the Health Services Agency would like to address with financial section amendments in the attached agreement submitted for Board approval. The Health Services Agency also proposes an amendment to the Contractor's new hire training program described in the contract in the same Second Amended Emergency Medical Services Provider Agreement for Emergency Ambulance Advanced Life Support Transport Services agreement.

The Technical Advisory Group (TAG) has also reviewed the Auditor-Controller's Report and accepted and filed the report, and endorsed the financial amendments proposed by HSA. The TAG also reviewed and approved the Operations Budget for the Contractor's fiscal year ending August 31, 2001.

II. Financial Amendment Recommendations

1. Accrual Basis of Accounting

The existing contract language displays a conflict between a cash and an accrual basis of accounting. The existing contract relies on a cash basis of accounting which was developed by the contract negotiating team with the intent to accurately reflect AMR's contractual profitability. Cash basis means that revenues are recognized in the period in which the related cash is received. According to the current contract language, net/net revenues (which are accrual basis revenues: gross billings less contractual allowances, uncompensated care, and any other authorized adjustments billed by the contractor) are to be treated as cash revenues.

Significantly, contract revenues are defined as cash revenues for the purposes of calculating excess revenues. In addition, the existing contract requires AMR to prepare their year end reconciliation on a cash basis, but also requires the report to be in accordance with Generally Accepted Accounting Principles (GAAP). Cash basis accounting is not in accordance with GAAP. Further, in the event AMR claims a "hardship," non-cash basis accounting records would be reviewed. There is a concern that profit margins cannot be accurately measured under a non-GAAP basis of accounting and reporting.

The Health Services Agency recommends that the contract be amended to reflect an accrual basis of accounting and prepared the amendments reflected in the attached Second Amended Emergency Medical Services Provider Agreement for Emergency Ambulance Advanced Life Support Transport Services.

2. Indirect Expenses

The existing agreement provides for fixed amount of \$200,000 for general and administrative expenses and a fixed 13% of direct expenses for indirect costs. The contract negotiating team directed the payment of fixed amounts to AMR to allow AMR to recover expenses disallowed under the category direct expenses. Recorded expenses were less than the fixed amounts, so this methodology permitted reimbursement for more than the actual expenses. Normally contract language provides for the reimbursement of actual expenses up to a specified maximum or cap.

The Health Services Agency recommends that the contract be amended to reflect the lower of actual recorded amounts of direct expenses as enumerated in the approved Operations Budget or a cap of \$200,000 for general & administrative direct expenses and the lower of actual recorded indirect expenses or a cap of 13% of the total annual cost of direct field expenses for

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indirect expenses and prepared the amendments reflected in the attached Second Amended Emergency Medical Services Provider Agreement for Emergency Ambulance Advanced Life Support Transport Services.

3. Disparity in Fiscal Years

The current contract requires AMR to prepare its financial statement reporting the results of operations for the contract year December 1 – November 30, although AMR's fiscal year is September 1 – August 31. Preparing financial statements for a period other than the normal fiscal year results in extra complications and work for both the Contractor and the Agency, while adding no value to the process.

The Health Services Agency recommends that we close the books this year on August 31, 2001 and follow with the final two years of the contract September 1, 2001-August 31, 2002 and September 1, 2002-August 31, 2003. This alignment of fiscal years would effectively extend the existing contract by nine months and is reflected in the attached Second Amended Emergency Medical Services Provider Agreement for Emergency Ambulance Advanced Life Support Transport Services.

III. Training Program Recommendation

In the past two years, AMR has experienced difficulty maintaining the stability and low turnover in the workforce that was once an attribute of the private ambulance industry in Santa Cruz County. AMR has been specifically impacted by paramedics moving into public service positions with local fire departments that are beginning to provide advanced life support services by hiring firefighter-paramedics. Although the public and private sector paramedics earn nearly equivalent salaries, the attraction of a civil service position, especially with regard to retirement benefits, has motivated many private paramedics to work toward positions in the fire service.

The current contract allows an alternative field training program for a six month period. The proposed amendment allows the HSA administrator to grant 2 three-month extensions and all future extensions must be granted by the Board of Supervisors.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD:

Approve the attached amended agreement with American Medical Response West, Inc., County Contract No. 127, for emergency ambulance advanced life support transport services, and authorize the Health Services Administrator to sign.


Sincerely,



Rama Khalsa, Ph.D.
Agency Administrator

Attachment: Second Amended Emergency Medical Services Provider Agreement for
Emergency Ambulance Advanced Life Support Transport Services

RECOMMENDED



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Susan A. Mauriello
County Administrative Officer

cc: County Administrative Office
County Counsel
Auditor-Controller
HSA Administration