FAVORABLE

OIG WATCH

13-05

Cost reimbursement to a municipality for dispatch services under an exclusive ambulance contract

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What OIG Said

OIG said paying someone who controls referrals can be okay if the payment is tied to actual costs, doesn't exceed those costs, and isn't based on referral volume or value.

- ✓ A municipality awarded an exclusive emergency medical services contract to an ambulance company through competitive bidding. Under the contract, the ambulance company reimburses the municipality for 50% of the dispatch center's operating costs attributable to EMS calls.

- ✓ OIG acknowledged this is remuneration to a referral source, the municipality controls which ambulance company gets the EMS calls in its territory. But OIG concluded the arrangement poses minimal fraud and abuse risk.

- ✓ The key factor: the payment "only partially offset the actual costs" of dispatch operations and was "not tied, directly or indirectly, to the volume or value of referrals between the parties." The remittance equals 50% of actual costs incurred, recalculated annually based on real expenses.

- ✓ OIG relied on the competitive bidding process and that the payment was for services "directly related to the Ambulance Company's EMS“, not a general payment disconnected from services actually provided.

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Diligence Checklist

What you need to be ready to show in diligence

- ✓ Document actual costs incurred by the referral source for services that directly benefit your operations. Show your payment doesn't exceed a reasonable portion of those actual costs.
- ✓ Prove the payment amount is calculated based on costs incurred, not based on the number of referrals, volume of business, or revenue generated. Use a cost allocation methodology that ties payment to expenses, not to business flow.
- ✓ Show the payment structure was established through arm's-length negotiations or competitive processes, not privately negotiated in a way that could inflate payments above reasonable cost recovery.
- ✓ Keep annual reconciliation documentation that recalculates payments based on actual costs incurred during the period, proving you're not systematically overpaying.
- ✓ Be prepared to explain why the cost-sharing percentage is reasonable and commercially justified, 50% in this case, but the right split depends on actual usage and benefit received.

If your payments to a referral source exceed actual costs, vary with referral volume, or lack documented cost allocation methodology, you're at risk of those payments reading like disguised kickbacks rather than legitimate cost reimbursement.

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Structure not diligence-ready?

Cabra Consulting helps healthcare organizations make sure compensation and transaction structures are independently valued, clearly scoped, and defensible in diligence.

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