

PATTON - FULLER

C O M M U N I T Y H O S P I T A L

MEMORANDUM

FROM: Zachary Hardie, CFO *ZH*
TO: Assistant CFO
DATE: February 25
RE: Housekeeping Expenses

As we closed out 2012, the Executive Management System (EMS) highlighted a variance in the budget for housekeeping expenses.

	Budget	Actual	Variance
Housekeeping Expense	\$11,781,000	\$11,939,438	1.34%

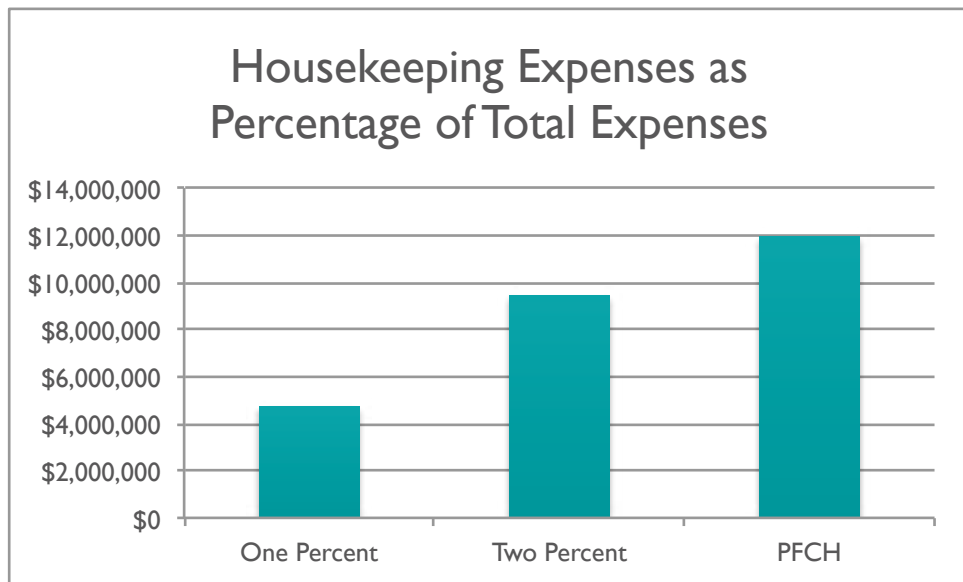
Even though the variance was relatively small, given the size of the account, I decided to look more closely. The EMS gave me further detail of the account and I saw that the entire variance was due to higher than budgeted supply expenses.

	Budget	Actual	Variance
Housekeeping Expense	\$11,781,000	\$11,939,438	1.34%
Salaries/Benefits	\$9,551,550	\$9,551,550	0.00%
Supplies	\$2,229,450	\$2,387,888	7.11%

My first thought was that it might have been caused by a capital expenditure—buying a new piece of cleaning equipment; however, another query of the EMS showed that supply expenses consistently exceeded budgeted amounts throughout 2012. Also, the amount of the variance varied each month.

	Budget	Actual	Variance
Supplies			
January	\$185,787.50	\$197,645.96	6.38%
February	\$185,787.50	\$197,928.03	6.53%
March	\$185,787.50	\$197,830.28	6.48%
April	\$185,787.50	\$198,210.99	6.69%
May	\$185,787.50	\$197,970.74	6.56%
June	\$185,787.50	\$200,413.80	7.87%
July	\$185,787.50	\$199,347.22	7.30%
August	\$185,787.50	\$197,555.86	6.33%
September	\$185,787.50	\$200,105.60	7.71%
October	\$185,787.50	\$200,457.51	7.90%
November	\$185,787.50	\$199,886.32	7.59%
December	\$185,787.50	\$200,535.69	7.94%
Total	\$2,229,450.00	\$2,387,888.00	7.11%

The size of the total account made me curious as to whether or not we were overspending for housekeeping services. With some research on the Internet, I discovered that, in general, hospital housekeeping costs should make up about 1.5% to 2% of total expenses. When you look at the hospital's total expenses for 2012 (\$471,538,860), our housekeeping expenses are well above 2%.



Investigate the cause of the variance and determine how it can be corrected. Look at the overall housekeeping expenses to see why they are higher than industry averages. Report any recommendations you have for lowering the expenses.

To: Missy Brotherton [missy.brotherton@PFCH.com]
From: Asst. Chief Financial Officer
Subject: Housekeeping Expenses
Sent: February 26 06:37 hrs.

Ms. Brotherton:

Mr. Hardie has asked me to investigate a budget variance that appeared on the 2012 housekeeping expenses. The total housekeeping expenses exceeded the budgeted amount by 1.34%. Our preliminary investigation has indicated that the variance was caused by the cost of housekeeping supplies exceeding the budgeted amount by \$158,438. Actual costs exceeded budgeted costs for each month of 2012, although the amounts of the variances were different for each month.

It also appears that the total housekeeping expenses exceed industry norms.

Please provide information regarding the cause of the variance in the supply costs. I would also appreciate information as to how the overall housekeeping budget was calculated.

Thank you,

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

To: Teresa Lemar [teresa.lemar@PFCH.com]
From: Missy Brotherton [missy.brotherton@PFCH.com]
CC: Asst. Chief Financial Officer
Subject: Re: Housekeeping Expenses
Sent: February 26 09:48 hrs.

Teresa:

Find below an e-mail from the CFO's office regarding questions about the housekeeping budget. Please provide the Assistant CFO with the information requested. Copy me with your reply. Thanks.

Missy Brotherton, Director of Environmental Services
PATTON – FULLER COMMUNITY HOSPITAL

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>
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>variance that appeared on the 2012 housekeeping
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>Asst. Chief Financial Officer
>**PATTON – FULLER COMMUNITY HOSPITAL**

To: Asst. Chief Financial Officer
From: Teresa Lemar [teresa.lemar@PFCH.com]
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Budget Discrepancy
Sent: February 26 16:29 hrs.

I have spoken to Frieda Ping, our Supplies Supervisor, regarding the increase in the supply costs. Frieda believes that it is due solely to increases in the amounts charged by Brooks Janitorial Supplies, the company we use for all of our cleaning supplies. Frieda has reviewed the 2012 purchase orders and invoices and all are in order. In addition, there were no problems discovered when she did her year-end inventories in 2011 and 2012.

Alycia and I create the budget for Housekeeping. Alycia Uthe is the Housekeeping Assistant Manager. For each employee, we add up the salary and benefit costs that we get from Human Resources. We prepare a list of expected merit raises and determine how these would affect the salary and benefits costs. We discuss the anticipated raises with Missy Brotherton and, if she approves, we add those amounts to the budget. For supplies, we compare the year-end inventories from the previous years to determine what supply amounts need to be increased. We then submit a list of the supplies to the company we purchase supplies from, and they give us the prices they will charge us for the coming year. Our final budget is sent to Missy Brotherton for approval.

Please let me know if you need any additional information.

Teresa Lemar, Housekeeping Manager
PATTON – FULLER COMMUNITY HOSPITAL

To: Teresa Lemar [teresa.lemar@PFCH.com]
From: Asst. Chief Financial Officer
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Re: Budget Discrepancy
Sent: February 27 10:58 hrs.

Thank you for your prompt response to my inquiry. I have a few additional questions.

Is Brooks Janitorial Supplies the only company we buy cleaning supplies from? Is there a reason we wouldn't buy from more than one company? Do you check market prices for the supplies we use?

Please describe your processes for ordering, paying for, and using cleaning supplies. I am particularly interested in what accounting and inventory controls you have in place.

Thank you.

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

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>
>
>Teresa Lemar, Housekeeping Manager
>PATTON – FULLER COMMUNITY HOSPITAL

To: Nadene Saetteurn [nadene.saetteurn@PFCH.com]
From: Asst. Chief Financial Officer
Subject: Housekeeping Department
Sent: February 27 11:22 hrs.

Ms. Saetteurn:

Mr. Hardie and I are investigating a discrepancy in the budget for housekeeping costs. We have discovered that the housekeeping costs are well above industry norms. It would be helpful if I could have some background information regarding the history of the department and its management.

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

Re: Housekeeping Department, February 27 14:36 hrs

To: Asst. Chief Financial Officer
From: Nadene Saetteurn [nadene.saetteurn@PFCH.com]
Subject: Re: Housekeeping Department
Sent: February 27 14:36 hrs.

In regards to your e-mail of today and our brief telephone conversation:

It will take a few days for my staff to put together the information you requested. The information is of a sensitive nature and cannot be sent via our e-mail system, so I will have a report delivered to your office.

Nadene Saetteurn, Chief Human Resources Officer
PATTON – FULLER COMMUNITY HOSPITAL

To: Asst. Chief Financial Officer
From: Teresa Lemar [teresa.lemar@PFCH.com]
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Cleaning Supplies - Processes
Sent: February 28 15:02 hrs.

When I took over the Housekeeping Manager position from Mrs. Chanley, we were already using Brooks Janitorial Supplies for our cleaning products. They carry an extensive line of cleaning products and equipment. Mrs. Chanley was very knowledgeable and I saw no reason to change suppliers. I think it is important to establish good relationships with suppliers. Brooks' carries many different brands that we can choose from, so if a better cleanser comes on the market, we can change to it without having to find a new supplier. They provide free delivery and quickly fill our orders. They also give us a discount if we pay our bill within 30 days.

When Mrs. Chanley was here, she insisted on handling the ordering of all the supplies and she kept them under lock and key so that the housekeeping staff had to come to her to restock their cleaning carts. I know that many of us resented being treated like criminals. After I was promoted to manager, I returned to college and got my Bachelor's degree in Business Administration. There, I learned the importance of employee morale. Rather than suspecting my employees of stealing, I gave everyone a key to the supply closet and made all housekeepers responsible for being sure their carts were properly stocked.

In college, I also learned about inventory controls and made sure my department had such safeguards. Recognizing that math was never my strong suit, I suggested that we create the position of Supplies Supervisor so that one person would be responsible for ordering supplies and maintaining the cleaning supply inventory. I made a presentation for why the position was necessary to my supervisor, Mrs. Brotherton, and it was approved.

Brooks Janitorial Supplies delivers our orders to the hospital's loading dock. A section of the basement warehouse is reserved for cleaning supplies and equipment. The area meets all state and federal requirements for the storage of hazardous chemicals. The area is secured and locked. In addition to the facilities personnel, the Housekeeping Assistant Manager, the Supplies Supervisor and I have keys to the supplies.

On two of the upper floors of the hospital, we have supply rooms from which the housekeepers can replenish the supplies on their carts. The Supplies Supervisor is responsible for making sure that the rooms meet the requirements for the storage of hazardous chemicals. The Supplies Supervisor keeps track of the level of supplies in these rooms and restocks them from the supplies in the basement warehouse as needed. The supply rooms are locked; however, all housekeepers have a key and are responsible for replenishing their own carts as needed. The Supplies Supervisor maintains a running inventory of supplies as they are removed from the basement warehouse and distributed to the supply rooms on the floors. The Supplies Supervisor prepares a monthly report on the usage of supplies. The report is reviewed by me and my assistant manager and summarized in my monthly report to Mrs. Brotherton.

As cleaning supplies and equipment run low, the Supplies Supervisor prepares a purchase order. The purchase order is approved by either myself or the assistant manager. The purchase order is then sent to Brooks Janitorial Supplies.

When Brooks Janitorial Supplies delivers the order, the Supplies Supervisor reconciles the packing list with the purchase order and advises me or the assistant manager of any discrepancies. The reconciled purchase order and packing list are then sent to Accounts Payable. The invoice from Brooks Janitorial Supplies is received directly by the accounting department and if the invoice, packing list, and purchase order match up, the invoice is paid. In this way, the person ordering the supplies is not involved in the payment for the supplies.

Let me know if I can be of any further assistance.

Teresa Lemar, Housekeeping Manager
PATTON – FULLER COMMUNITY HOSPITAL

Housekeeping Cleaning Supplies, March 1 09:00 hrs

To: Elden Echelberger [elden.echelberger@PFCH.com];
Zachary Heimel [zachary.heimel@PFCH.com];
From: Asst. Chief Financial Officer
Subject: Housekeeping Cleaning Supplies
Sent: March 1 09:00 hrs.

Gentlemen:

Mr. Hardie and I are investigating a discrepancy in the budget for housekeeping costs. As part of our inquiry, we want to rule out employee theft.

The discrepancy is due entirely to increased costs of our cleaning supplies. Given the size and timing of the discrepancy, any theft would have to be of a large amount of supplies and would have occurred throughout the 2012 calendar year.

Housekeeping has told us that all cleaning supplies are purchased from Brooks Janitorial Supplies and that the supplies are delivered to the hospital's loading dock. Upon delivery, the supplies are stored in a section of the basement warehouse that is secured and locked. Housekeeping is responsible for moving supplies from the basement to supply rooms on two of the hospital floors where the housekeeping staff has access to them.

Can you verify the information regarding the chain of control over the cleaning supplies? Do your records show any unusual activity relating to the cleaning supplies?

Given the sensitive nature of this inquiry, I would appreciate that you keep this matter in the strictest confidence and use your utmost discretion as you review your records. Thank you.

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

To: Asst. Chief Financial Officer
From: Zachary Heimel [zachary.heimel@PFCH.com];
CC: Elden Echelberger [elden.echelberger@PFCH.com]
Subject: Re: Housekeeping Cleaning Supplies
Sent: March 8 12:11 hrs.

In regards to your inquiry regarding the security of the hospital inventory of cleaning equipment and supplies, we have reviewed our security logs, warehouse logs, and security video footage for the last year. We also spoke to senior security personnel concerning any related incidents either in the warehouse or on patient floors.

According to our records, Brooks Janitorial Supplies is the only company that has made deliveries of cleaning supplies to the hospital. As you indicated in your e-mail, deliveries are made to the hospital loading dock. We have seen nothing suspicious in these deliveries. Deliveries have only been made during normal business hours. While deliveries are not on a set schedule, they occur every 7 to 10 days. We have seen nothing on video and security personnel have not reported seeing any materials leaving the hospital on the Brooks' trucks. A representative from Housekeeping is always present when a delivery is made and is responsible for verifying the items received. Our logs do not indicate that there were any discrepancies during the 2012 deliveries.

Cleaning supplies and equipment are kept in a locked area of the warehouse. While warehouse personnel do have keys to the area, we have seen no evidence that warehouse personnel have accessed or interfered with the supplies.

Materials are removed from the warehouse area and moved to the hospital floors by housekeeping personnel. Small amounts of materials are removed from the warehouse area almost every day and moved by housekeeping personnel to the hospital floors. The accessing of supplies is always done during normal business hours. Supplies have always been loaded onto carts and moved from the warehouse to the hospital floors. There have been no reports of any supplies being moved from the warehouse and out of the hospital via the loading dock.

We do not maintain the inventory of the supplies in the warehouse area or in the supply rooms on the hospital floors. We interpreted your direction for discretion to preclude us from trying to access any such inventory records.

We interviewed senior security personnel and reviewed daily logs to see if there were any reports of suspicious activity involving housekeeping staff or cleaning supplies. We found a few incidents where cleaning supplies had been spilled that were documented in the security logs. In each instance, the amount of the chemical spilled had been small, there was no evidence the spill was deliberate, and there was no danger to patients, the public, or hospital staff.

Please let me know if you need any additional information.

Zachary Heimel, Manager of Security
PATTON – FULLER COMMUNITY HOSPITAL

PATTON - FULLER

C O M M U N I T Y H O S P I T A L

MEMORANDUM

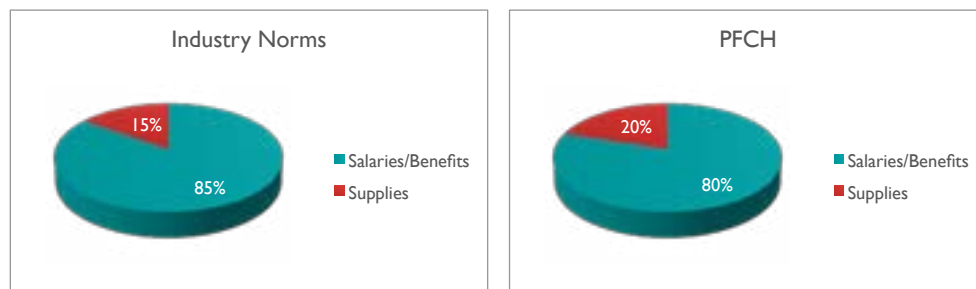
FROM: Asst. Chief Financial Officer
TO: Zachary Hardie, Chief Financial Officer
DATE: March 8
RE: Housekeeping Budget Variance

My investigation into the budget variance of the housekeeping supply costs has revealed that the hospital has been purchasing cleaning supplies from a single supplier and that has been the case for some years. Housekeeping believes that the variance is due to unexpected price increases from the supplier.

Given the size of the variance, it is unlikely that it was the result of employee pilfering. Hospital security records show no evidence that the excess materials were caused by leakage or spillage. Likewise, there is no evidence that there has been any large-scale theft of cleaning supplies.

I have drafted a letter for your signature, addressed to the supply company to determine whether they did, in fact, change prices by 7% during 2012. Please let me know whether it meets with your approval.

In my research into housekeeping costs in the health care field, I noticed that the industry norm is to have personnel costs account for 85% of housekeeping costs with another 15% representing supply and equipment costs. Our 2012 housekeeping expenses are approximately 80% personnel costs and 20% for supply costs.



I am waiting for historical information regarding the housekeeping department that should give me a better idea about the department's personnel and management issues.

PATTON - FULLER

C O M M U N I T Y H O S P I T A L

March 8, 2013

Brooks Janitorial Supplies
23 Keystone Dr.
Kelsey

Dear Sir or Madam:

Analysis of the 2012 financial performance of Patton – Fuller Community Hospital has uncovered a discrepancy in excess of 7% between the budgeted and actual cost of the hospital's cleaning supplies. Brooks Janitorial Supplies has been the sole provider of our cleaning supplies for some years. It is my understanding that, as part of the preparation of the 2012 housekeeping budget, your company was approached and asked for price quotes for the supplies and quantities the hospital expected to purchase during the year. Our housekeeping department believes the cause of the discrepancy is due to price increases instituted by your company after the beginning of the year. Would you be able to verify if this is the case?

Sincerely:

Zachary Hardie
Chief Financial Officer
Patton – Fuller Community Hospital

PATTON - FULLER

C O M M U N I T Y H O S P I T A L

CONFIDENTIAL **MEMORANDUM**

FROM: Nadene Saetteurn, Chief Human Resources Officer
TO: Asst. CFO
DATE: March 11
RE: Housekeeping Department

When Patton-Fuller Community Hospital opened in 1975, the Housekeeping Manager position was held by Mrs. Treva Chanley. Her personnel file indicates that she had an extensive background in housekeeping as she and her husband had operated a commercial janitorial service for about 10 years before she came to the hospital. Notes in the file indicate that her cleaning service had clients that included medical office buildings and an outpatient surgical center. It appears that her desire to work for the hospital was the result of a divorce and needing to be home at nights with her children. She consistently had good reviews and received regular merit pay increases. She retired in 2005.

When the hospital was first opened, the Housekeeping department consisted of 33 people. As the hospital grew, so did the department. By the time the hospital reached its current size of 600 beds, Housekeeping was at 126 people. On the day Mrs. Chanley retired, the department's headcount stood at 128. By all accounts, it appears that Mrs. Chanley did a good job of running the department. As stated above, she consistently had favorable performance reviews. An employee satisfaction study was done in the early 1990s and she received high marks from her employees. The department did have high turnover with most people staying with the job for 3 to 5 years. Employees with longer tenures gravitated to the supervisory positions in the department. Even among the supervisors though, there appeared to be regular turnover with most leaving after 10 or 12 years of service to the hospital. A sampling of exit interviews shows that employees generally left on good terms, were eligible for rehire, and often received letters of recommendation from Mrs. Chanley. Many of the files we reviewed indicated that the reason for leaving was that the employee had completed educational goals and was leaving for a job with better pay and prospects for advancement.

Upon Mrs. Chanley's retirement, the Housekeeping Manager position was given to her then Assistant Manager, but within a few weeks, she left the hospital to care full-time for her husband who had been suffering from Alzheimer's disease. The position was next offered to Teresa Lemar, a Housekeeping Supervisor, and the person with the most tenure in the department.

Mrs. Lemar was hired in 1994, shortly after graduating from high school. She worked steadily in the department, had good reviews, and was promoted to Housekeeping Supervisor in 2002. Her promotion to Housekeeping Manager was conditioned upon her enrolling in college and attaining her undergraduate degree within 3 years. The file indicates that she was awarded her Bachelor's degree in Business Administration in 2008.

Since her promotion, Mrs. Lemar has received favorable performance reviews. Turnover in the department has been curtailed sharply and the department has slowly grown to its current size of 140 people.

Organization of the department is as follows:

Mrs. Lemar holds the position of Housekeeping Manager. She has been with the hospital for 19 years. Her current salary is \$177,000. Four people report directly to the Housekeeping Manager:

- Housekeeping Assistant Manager
- Supplies Supervisor
- Scheduler
- Administrative Assistant

The position of Housekeeping Assistant Manager is held by Alycia Uthe. She has worked for the hospital for 17 years and has held her current position since 2005. Her current salary is \$135,000. Two employees report directly to the Housekeeping Assistant Manager, both positions are titled as Housekeeping Supervisor I.

The Housekeeping Supervisor I positions also have a dotted-line connection to the three shift supervisors who report to the Director of Environmental Services. The average salary for these positions is \$111, 214. Each of the Housekeeping Supervisor I positions have 7 Housekeeping Supervisor II positions reporting to them.

The average salary for the 14 Housekeeping Supervisor II positions is \$83,802. Each of the Housekeeping Supervisor II positions oversees 8 to 9 housekeepers. The average salary for the housekeepers is \$53,982.

You had also asked for information for any employee who had been hired by the department during the last 2 years. There are four employees who fit that description.

- Hayden Gable: Housekeeper hired December 5, 2011
- Terry Hixson: Housekeeper hired June 3, 2011
- Gerald Jakubov: Housekeeper hired June 3, 2011
- Frieda Ping: Supplies Supervisor hired March 8, 2011

Please let me know if you need any additional information.

To: Teresa Lemar [teresa.lemar@PFCH.com]
From: Asst. Chief Financial Officer
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Re: Budget Discrepancy
Sent: March 11 11:11 hrs.

The budget variance in the hospital's cleaning supplies began last January and continued throughout 2012. We are looking now at factors that would have changed between 2011 and 2012. Your department added the following four employees during 2011:

- Hayden Gable
- Terry Hixson
- Gerald Jakubov
- Frieda Ping

What can you tell me about these employees? What access do Gable, Hixson, and Jakubov have to the supplies, both in the basement and on the floors?

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

To: Asst. Chief Financial Officer
From: Teresa Lemar [teresa.lemar@PFCH.com]
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: RE: Re: Budget Discrepancy
Sent: March 11 13:46 hrs.

Terry Hixson and Gerald Jakubov are housekeepers and good employees. They are hard workers and are always willing to lend a hand to help someone. As I indicated in my earlier e-mail, as housekeepers, they have a key to the supply closets on the hospital floors and they can restock their carts anytime they wish. They would only have access to the supplies in the basement warehouse if they were to accompany Frieda Ping to either receive an order of supplies or to bring up supplies to restock the supply closets on the floors.

Hayden Gable was terminated last Friday. Lately, we had numerous instances that he was arriving late for his shifts or failing to call when he had to miss a shift. He had been given verbal and written warnings, but he was 20 minutes late last Friday morning and the decision was made to terminate his employment. Other than his tardiness, he did his work in a satisfactory manner. While he was not a stellar employee, I don't see how he could have affected the prices that we paid for supplies.

Frieda Ping, as I set forth in detail in my last e-mail, is the Supplies Supervisor and is primarily responsible for ordering and maintaining the inventory of our cleaning supplies. I probably shouldn't say this—especially in writing, but I get the impression that you think someone is stealing supplies. You couldn't be more wrong about Frieda.

Frieda is a very nice person. She is conscientious and dedicated to her work and is quite knowledgeable about cleaning supplies. Her husband had been out of work for more than a year and then started a cleaning company in 2011. During her off hours, Frieda helps her husband with the business. Through her work with her husband's business, Frieda has told us about other brands of cleaning products and has convinced us to try new and sometimes cheaper products. She wouldn't even take a vacation last year, because she felt she was needed here.

Maybe we are using more of the products because the housekeepers are using the cleaners incorrectly. Frieda has spoken to her contact at Brooks Janitorial Supplies and they are willing to conduct a training on any of the products that we use, free of charge.

Teresa Lemar, Housekeeping Manager
PATTON – FULLER COMMUNITY HOSPITAL

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>supplies began last January and continued
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>

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>

>Asst. Chief Financial Officer
>**PATTON – FULLER COMMUNITY HOSPITAL**

To: Nadene Saetteurn [nadene.saetteurn@PFCH.com]
From: Asst. Chief Financial Officer
Subject: Housekeeping Budgets
Sent: March 11 14:09 hrs.

Thank you for the history of the housekeeping department that you prepared for me. Can you tell me if the salaries you cited in the memo are competitive with those in the health care industry as a whole?

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

To: Asst. Chief Financial Officer
From: Nadene Saetteurn [nadene.saetteurn@PFCH.com]
Subject: Re: Housekeeping Budgets
Sent: March 11 14:12 hrs.

I'm sorry, but I cannot say. We did a compensation study for the hospital in the mid 1990s, but its results would be too outdated to be of any use. We can do another compensation study, either for the whole hospital or just the housekeeping department, but it will take time and I will need a budget for the project.

If you just need a rough idea of industry wages, you might try the Bureau of Labor Statistics site: <http://www.bls.gov/home.htm>. A search for *housekeeper* and *hospital* might get you some information. Wage data will not reflect regional factors that can affect salaries, but it could give a rough idea of industry norms.

Let me know if you want me to do the compensation study.

Nadene Saetteurn, Chief Human Resources Officer
PATTON – FULLER COMMUNITY HOSPITAL

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>competitive with those in the health care industry
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>
>Asst. Chief Financial Officer
>**PATTON – FULLER COMMUNITY HOSPITAL**

To: Teresa Lemar [teresa.lemar@PFCH.com]
From: Asst. Chief Financial Officer
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Housekeeping Budgets
Sent: March 11 18:16 hrs.

I am not accusing anyone of stealing supplies. I am just trying to determine how the budget could be off by so much.

In looking into the budget variance, we have also been looking at the housekeeping expenses here at PFCH and in the health care industry as a whole. One fact we found was that, in general, 85% of housekeeping expenses are for personnel expenses (salaries and benefits) with the remaining 15% being attributable to the costs for supplies and equipment. In looking at our 2012 housekeeping expenses at PFCH, we found that 80% of the housekeeping expenses were for personnel costs while 20% came from supply costs.

Part of the excess supply cost is undoubtedly due to the budget variance that I am investigating. Not engaging in competitive bidding for supplies may also be contributing to the situation.

At first glance, it would appear that personnel expenses are doing well because they are less than the industry average; however, another industry trend calls the assumption into question. Within the health care industry, housekeeping expenses make up 1.5% to 2% of the organization's total expenses. Our housekeeping expenses for 2012 amounted to more than 2.5% of the hospital's total expenses.

My research shows that your predecessor, Mrs. Chanley, was operating the housekeeping department with a total of 128 people and that was the headcount that you inherited. Within a couple of years of taking over the department, you began hiring 2 or 3 people a year and now, despite no change in the size of the hospital, the headcount for the department is 140. I am curious as to why you hired the extra people. If we could determine how Mrs. Chanley was able to run the department with fewer people, we may be able to lower the department expenses and benefit the hospital.

Asst. Chief Financial Officer
PATTON – FULLER COMMUNITY HOSPITAL

Brooks Janitorial Supplies

23 Keystone Drive
Kelsey
p: 555-0175
f: 555-0153
e: sales@BJS.net

March 13, 2013

Zachary Hardie
Chief Financial Officer
Patton – Fuller Community Hospital
6101 Jump Street
Kelsey

Dear Mr. Hardie:

We were sorry to hear that Patton - Fuller Community Hospital has had a budget issue with the cleaning supplies purchased from our company. Patton – Fuller Community Hospital is one of our premier customers and we will do whatever is necessary to retain your business.

We did not realize that we were now the sole supplier of cleaning products for the hospital. We were surprised when some years ago we were no longer requested to submit annual RFPs. Our records reflect that Frieda Ping from the hospital contacted us in late 2011 and again in late 2012. She presented us with a list of commonly purchased supplies and equipment and requested the prices that we would charge for those items. Although our prices increased slightly between 2012 and 2013, the prices we charged during the 2012 calendar year were not raised until the start of the new year. There were a few instances where brands were changed from what had been on Ms. Ping's original list, but those should not have amounted to a 7% variance in your budget.

We have tried to work closely with Ms. Ping (making accommodations for the consolidation of packing lists and invoices) and we believe we have a strong working relationship with PFCH. Our sales and accounting departments will work closely with you to determine the cause of the budget discrepancy. Would it be helpful if we assisted you in on-site audits of your two warehouse locations? Please let us know how we can help.

Sincerely,

Abe Triller
Sales Manager

To: Asst. Chief Financial Officer
From: Teresa Lemar [teresa.lemar@PFCH.com]
CC: Missy Brotherton [missy.brotherton@PFCH.com]
Subject: Budget Discrepancy
Sent: February 26 16:29 hrs.

In my Operations Management class in college, I wrote a paper on determining staffing levels and used the hospital as a case study. It was when I did my paper that I realized that Mrs. Chanley had seriously understaffed the housekeeping department.

In setting staffing levels, it is first necessary to determine the number of productive hours you can expect from a typical worker. Although an employee will be at work for 8 hours a day, not every hour will be productively spent. My textbooks estimated that an hour was lost with the employee getting ready to eat a meal, eating the meal, and then getting back to work. The average employee would also waste about 30 additional minutes goofing off, talking to coworkers, and so forth. So, the typical worker has about 6.5 hours of productive work during an 8-hour shift. With a 5-day work week, a worker has 32.5 hours of productivity a week.

My books also noted that while there are 52 weeks in a calendar year, you don't work every week. Between vacations, sick time, holidays, and required work obligations not actually doing the job (training, meetings, and so forth), there are only about 45 weeks each year when a worker is productively working. So, in a year, the typical employee can work a total of 1,462.5 hours. (32.5 x 45 = 1462.5)

Staffing for the cleaning industry is determined by the amount of square footage needing to be cleaned and the time a typical worker can clean the space. Generally, office spaces, waiting rooms, and so forth, can be cleaned at the rate of 3,000 sq. ft. per hour. A hospital room requires a bit more care and with a patient in the room, it will take longer to clean the space, usually 1,500 sq. ft. per hour. A space with a lot of technical equipment, such as an X-ray room or a lab, is generally cleaned at a rate of 2,000 sq. ft. per minute.

In my college paper, I took the square footages of PFCH and used them to estimate the time each day that would be required to clean the entire hospital.

- Patient rooms – 90,000 sq. ft.
- Labs, X-ray, etc. – 300,000 sq. ft.
- Office/Public spaces – 771,000 sq. ft.

My calculations showed that it would take 467 man hours each day to clean the hospital. That was rounded to 470 hours and multiplied by 365 days to get the total man hours needed each year to clean PFCH.

$(470 \times 365 = 171,550)$

The next step is to divide the man hours needed to clean the hospital each year by the number of productive man hours the typical worker has each year.

$(171,550 / 1462.5 = 117.29)$

I rounded that to 118 people who would be necessary to just clean the hospital.

The people cleaning the hospital need to be supervised. Mrs. Chanley had the supervisors managing 10 housekeepers. I know that was a very tiring workload for me when I was a supervisor. I felt managing 8 or 9 employees was more manageable. Using that guideline, my staffing plan was the following:

- Housekeepers – 118
 - Supervisors – 14
 - Second-tier supervisors – 2
 - Assistant Manager – 1
 - Manager – 1
 - Scheduler – 1
 - Supplies Supervisor – 1
 - Administrative Assistant – 1
- Total – 139

With the termination of Mr. Gable, the department is at its optimum level.

If you check, the department under Mrs. Chanley had a very high turnover rate. I've raised salaries and have been able to keep employees. Retaining employees gives us a more productive workforce and paying them a higher salary gives them more pride in their work. This is clearly evidenced by the high levels of satisfaction that housekeeping receives on the PFCH customer surveys.

Teresa Lemar, Housekeeping Manager
PATTON – FULLER COMMUNITY HOSPITAL

>I am not accusing anyone of stealing supplies. I am
>just trying to determine how the budget could be
>off by so much.
>

>In looking into the budget variance, we have also
>been looking at the housekeeping expenses here at
>PFCH and in the health care industry as a whole.
>One fact we found was that, in general, 85% of
>housekeeping expenses are for personnel expenses
>(salaries and benefits) with the remaining 15%
>being attributable to the costs for supplies and
>equipment. In looking at our 2012 housekeeping
>expenses at PFCH, we found that 80% of the house
>keeping expenses were for personnel costs while 20%
>came from supply costs.

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>Part of the excess supply cost is undoubtedly due
>to the budget variance that I am investigating. Not
>engaging in competitive bidding for supplies may
>also be contributing to the situation.

>

>At first glance, it would appear that personnel
>expenses are doing well because they are less than
>the industry average; however, another industry
>trend calls the assumption into question. Within
>the health care industry, housekeeping expenses
>make up 1.5% to 2% of the organization's total
>expenses. Our housekeeping expenses for 2012
>amounted to more than 2.5% of the hospital's total
>expenses.

>

>My research shows that your predecessor, Mrs.
>Chanley, was operating the housekeeping department
>with a total of 128 people and that was the head
>count that you inherited. Within a couple of years
>of taking over the department, you began hiring 2
>or 3 people a year and now, despite no change in
>the size of the hospital, the headcount for the
>department is 140. I am curious as to why you hired
>the extra people. If we could determine how Mrs.
>Chanley was able to run the department with fewer
>people, we may be able to lower the department
>expenses and benefit the hospital.

>

>Asst. Chief Financial Officer

>PATTON – FULLER COMMUNITY HOSPITAL