

Vanguard Resources, Inc.

Departmental Assessment Report

July 2001

Security

Security: Departmental Functions

The primary functions performed are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

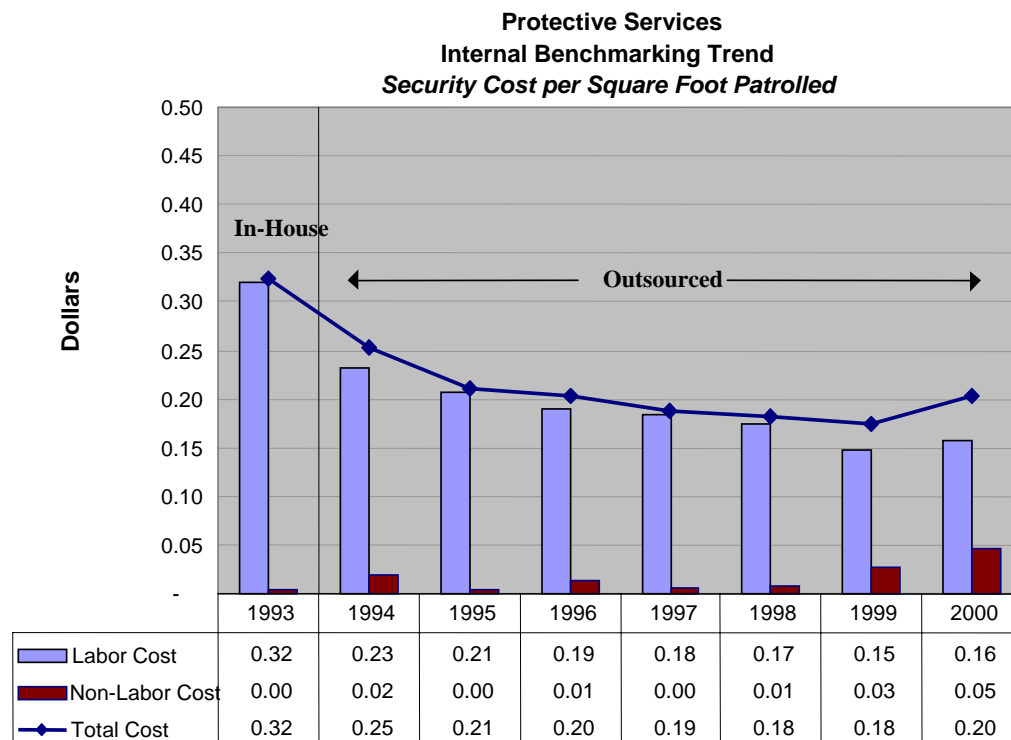
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Provide patient, visitor, staff escort	✓		
▪ Provide auto traffic control and parking enforcement	✓		
▪ Patrol and respond to situations in main facility, exterior buildings, and parking areas	✓		
▪ Perform safety inspections and fire safety instructions and drills	✓		
▪ Administer facility lockshop and perform lost and found	✓		
▪ Secure facilities and respond and investigate alarms	✓		
▪ Perform valet parking service and public assist with vehicle boost, lock-outs, etc.		✓	
▪ Provide hazardous material response and control		✓	
▪ Perform patient transport (MRI, CTC, CHC, Doctors' offices)			✓
▪ Perform outside transports, e.g. VIPs, catering, change for cashier, and rural laundry, nursing homes			✓
▪ Issue and collect audio visual equipment			✓

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Security: Internal Performance Trend

Internal benchmarking indicates cost containment exists within protective services. Operating cost has decreased from \$0.32 per square foot patrolled in 1993 to a current 2000 level of \$0.20 per square foot patrolled. Under current square footage coverage, this suggests a cost savings of approximately \$268 thousand per annum.

- In 1993, in-house security cost \$0.32 per square foot patrolled. At the end of 1993, the facility initiated the outsourcing of protective services by contracting for departmental management. Gradually over the years, the facility's patrolled area steadily increased, and contracting terms for protective services were expanded to include contracting of security staff.



- Over the 1994-2000 outsourced period, internal trend reveals consistently lower outsourcing cost per square foot over the in-house cost experienced. Total cost for protective services has decreased to \$0.20 per square foot patrolled as of year-end 2000.
- The lower level of outsourcing expense over in-house cost experienced represents a cost savings of \$0.12 per square foot patrolled.
- Using the area of square footage patrolled and cost level as of FY2000, the cost savings resulting from outsourcing protective services is approximately \$268,043 per annum.

Security: External Benchmarking

A comparison of direct cost performance for Security Services against external benchmarks indicated that the 2000 departmental performance was between the median and top quartile range. By first quarter 2001, Security Services achieved the 25th percentile performance level.

SECURITY		I. HBSI PEER GROUP				II. PwC INTERNAL DATABASE			
		CUSTOM SOUTH < 600 BEDS				NATIONAL < 800 BEDS			
		HBSI Benchmarks		Annual Cost Opportunity Based on 2000 Data		PwC Internal Benchmarks		Annual Cost Opportunity Based on 2000 Data	
Performance Period	Direct Cost per UOS*	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %
Average Annual CY2000	0.52	0.57	0.48		\$33,795	0.68	0.36		\$138,577
1st Qtr CY2001	0.37	0.56	0.43		✓	0.68	0.36		\$78
(A) Atypical Duty Adjustments	0.35	0.56	0.43		✓	0.68	0.36		✓
(B) FY02 Cost Reductions	0.32	0.56	0.43		✓	0.68	0.36		✓

- * Departmental unit of service (UOS) = 1000 gross square foot patrolled per calendar day.
 ✓ Achieved 25th percentile performance level.

- Based on the average CY2000 direct cost performance for Security Services, to achieve the 25th percentile performance level, an initial cost savings opportunity was identified at \$34 thousand per HBSI benchmarks and at \$139 thousand per PwC internal benchmarks.
- By first quarter 2001, the department operated at the 25th percentile level. Subsequent to adjustments and planned cost reductions, departmental performance is expected to further improve by an additional cost decrease of \$0.05 per unit of service.

Plant Operations and Maintenance Services

Plant Operations and Maintenance: Departmental Functions

The primary functions performed within the plant operations and maintenance services are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

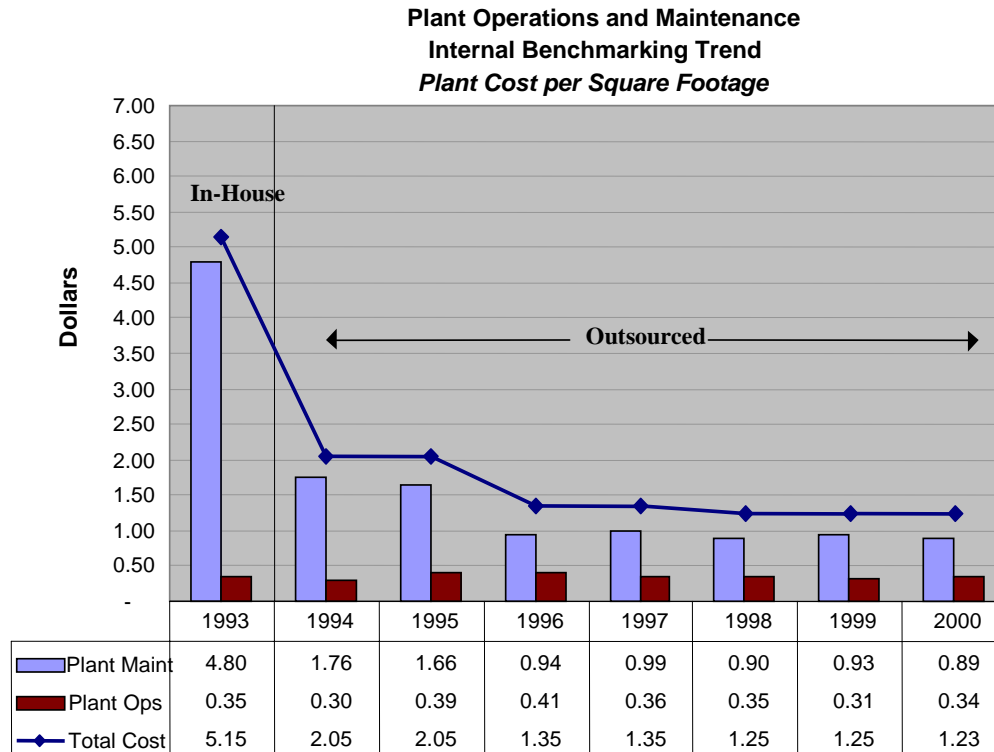
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Maintain physical facilities	✓		
▪ Perform grounds maintenance functions	✓		
▪ Provide safety, life safety, equipment, utilities, and inventory management	✓		
▪ Perform routine painting	✓		
▪ Prepare and provide documents for buildings, e.g. inspection certificates	✓		
▪ Provide engineering services	✓		
▪ Maintain electronic equipment	✓		
▪ Perform safety and fire safety instructions and drills		✓	
▪ Repair of beds		✓	
▪ Perform locksmith services		✓	
▪ Provide carpentry services			✓
▪ Perform courier services and outside transports, e.g. VIPs			✓

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Plant Operations and Maintenance: Internal Performance Trend

Internal trending of plant operations and maintenance areas indicates effective cost management over the years. Cost per square foot maintained decreased from \$5.15 to \$1.23 over the 1993-2000 period. Applied against the current square footage maintained, this cost reduction is equivalent to \$5.8 million per annum in savings.

- In 1993, plant operations and maintenance services were performed in-house at a total cost of \$5.15 per square foot. Outsourcing of plant operations and maintenance functions was initiated late in 1993.



- Over the subsequent 1994-2000 outsourced period, internal trend reveals a steady decline in total cost per square foot. By year-end 2000, departmental cost for plant operations and maintenance has decreased to \$1.23 per square foot maintained.
- Current 2000 cost level over the 1993 cost experienced from in-house service of plant operations and maintenance represents an average cost savings of \$3.92 per square foot maintained.
- At FY2000 cost level and coverage area, this lower cost structure is equivalent to a savings of \$5,829,848 per annum.

Plant Operations and Maintenance: External Benchmarking

A comparison of direct cost performance for Plant Operations and Maintenance Services against external benchmarks indicated that 2000 departmental performance was between the median and top quartile range. By first quarter 2001, Plant Operations and Maintenance Services has achieved the 25th percentile performance level.

PLANT OPER. & MAINT.		I. HBSI PEER GROUP				II. PwC INTERNAL DATABASE			
		CUSTOM SOUTH < 600 BEDS				NATIONAL < 800 BEDS			
		Direct Cost per UOS	HBSI Benchmarks		Annual Cost Opportunity Based on 2000 Data		PwC Internal Benchmarks		Annual Cost Opportunity Based on 2000 Data
Median	Top 25th %		Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	
Average Annual CY2000	9.12	10.65	9.06		\$28,857	10.05	9.04		\$37,215
1st Qtr CY2001	8.87	10.86	10.42		✓	10.05	9.04		✓
(A) Atypical Duty Adjustments	8.86	10.86	10.42		✓	10.05	9.04		✓
(B) FY02 Cost Reductions	8.63	10.86	10.42		✓	10.05	9.04		✓

* Departmental unit of service (UOS) = 1000 interior gross square foot maintained per calendar day.

✓ Achieved 25th percentile performance level.

- Based on the average CY2000 direct cost performance for Plant Operations and Maintenance Services, to achieve the top 25th percentile performance level, an initial cost savings opportunity was identified at \$29 thousand per HBSI benchmarks and at \$37 thousand per PwC internal benchmarks.
- By first quarter 2001, the department operated at the 25th percentile level. Subsequent to adjustments and planned cost reductions, departmental performance is expected to further improve by an additional cost decrease of \$0.24 per unit of service.

Laundry Services

Laundry: Departmental Functions

The primary functions performed within the laundry services are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

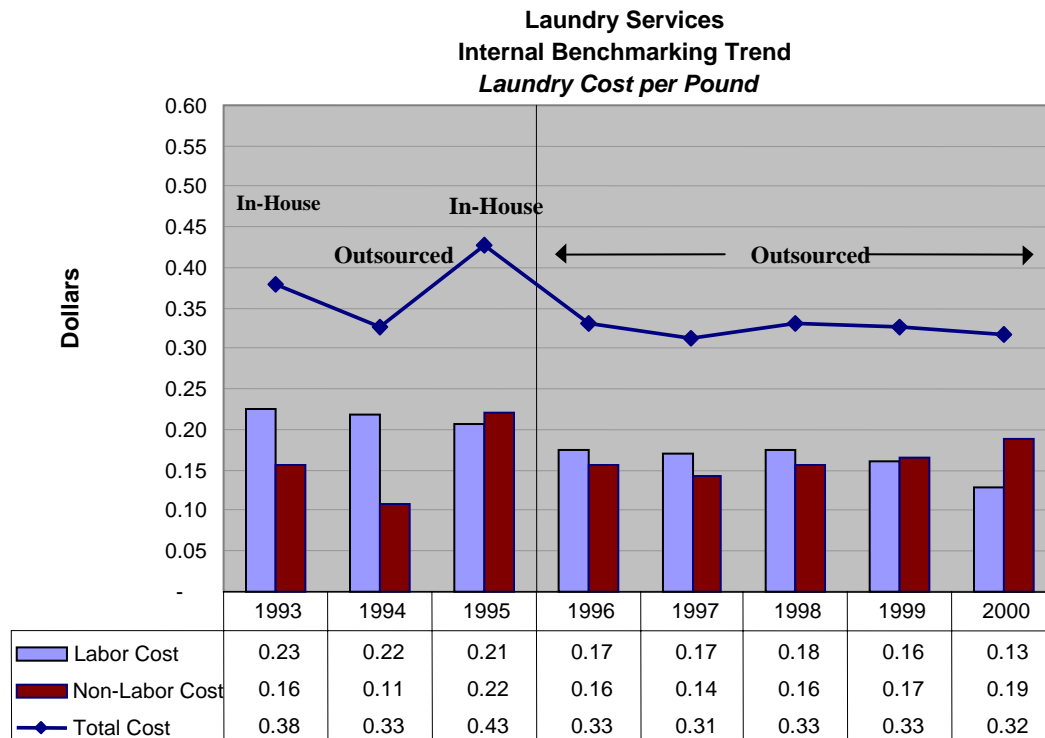
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Collection of soiled laundry and linen	✓		
▪ Sort soiled laundry and linen	✓		
▪ Mend and repair or remove damaged linen	✓		
▪ Wash, dry and fold linen	✓		
▪ Distribute clean laundry and linen	✓		
▪ Maintain par levels, and order new linen	✓		
▪ Process laundry for other affiliated entities within the network (e.g. rural hospitals)		✓	
▪ Prepare reusable surgical procedure packs		✓	

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Laundry: Internal Benchmarking Trend

Internal benchmarking trend indicates a lower cost structure to outsource laundry services. At the current cost level and poundage, outsourcing laundry services represents a cost savings of approximately \$174 to \$319 thousand per annum.

- In 1993, in-house laundry cost \$0.38 per pound. Late in 1993, outsourcing of laundry services was initiated and laundry cost declined to \$0.33 per pound by the end of 1994. In 1995, laundry services was again taken in-house where cost increased to \$0.43 per laundry pound. The outsourcing of laundry services was resumed in 1996.



- Historical experience revealed that laundry cost from in-house processing was between \$0.38 to \$0.43 per pound.
- Over the 1996-2000 outsourced period, internal trend indicates that total laundry cost has been consistently maintained at the \$0.31 to \$0.33 per pound level.
- This lower level of outsourcing cost over in-house processing represents a savings of \$0.06 to \$0.11 per pound.
- At the cost and poundage levels as of FY2000, the savings from outsourcing is equivalent to \$173,906 to \$318,827 per annum.

Laundry: External Benchmarking

A comparison of direct cost performance for Laundry Services against external benchmarks indicated that 2000 departmental performance approximated the median peer level. By first quarter 2001, Laundry Services has achieved the 25th percentile performance level.

LAUNDRY & LINEN		I. HBSI PEER GROUP				II. PwC INTERNAL DATABASE			
		CUSTOM SOUTH < 600 BEDS		NATIONAL < 800 BEDS		CUSTOM SOUTH < 600 BEDS		NATIONAL < 800 BEDS	
Performance Period	Direct Cost per UOS*	HBSI Benchmarks		Annual Cost Opportunity Based on 2000 Data		PwC Internal Benchmarks		Annual Cost Opportunity Based on 2000 Data	
		Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %
Average Annual CY2000	27.39	25.62	21.85	\$56,350	\$176,699	29.21	24.79		\$82,846
1st Qtr CY2001	19.57	29.14	23.45		✓	29.21	24.79		✓
(A) Atypical Duty Adjustments	N/A	29.14	23.45	N/A	N/A	29.21	24.79	N/A	N/A
(B) FY02 Cost Reductions	18.85	29.14	23.45		✓	29.21	24.79		✓

* Departmental unit of service (UOS) = 100 pounds processed.

✓ Achieved 25th percentile performance level.

- Based on average CY2000 direct cost performance for Laundry Services, to achieve the 25th percentile performance level, an initial cost savings opportunity was identified at \$177 thousand per HBSI benchmarks and \$83 thousand per PwC internal benchmarks.
- By first quarter 2001, the department operated at the 25th percentile level. Subsequent to planned cost reductions, departmental performance is expected to further improve by an additional cost decrease of \$0.72 per unit of service.

Food and Nutritional Services

Food and Nutritional: Departmental Functions

The primary functions performed within the food and nutritional services are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

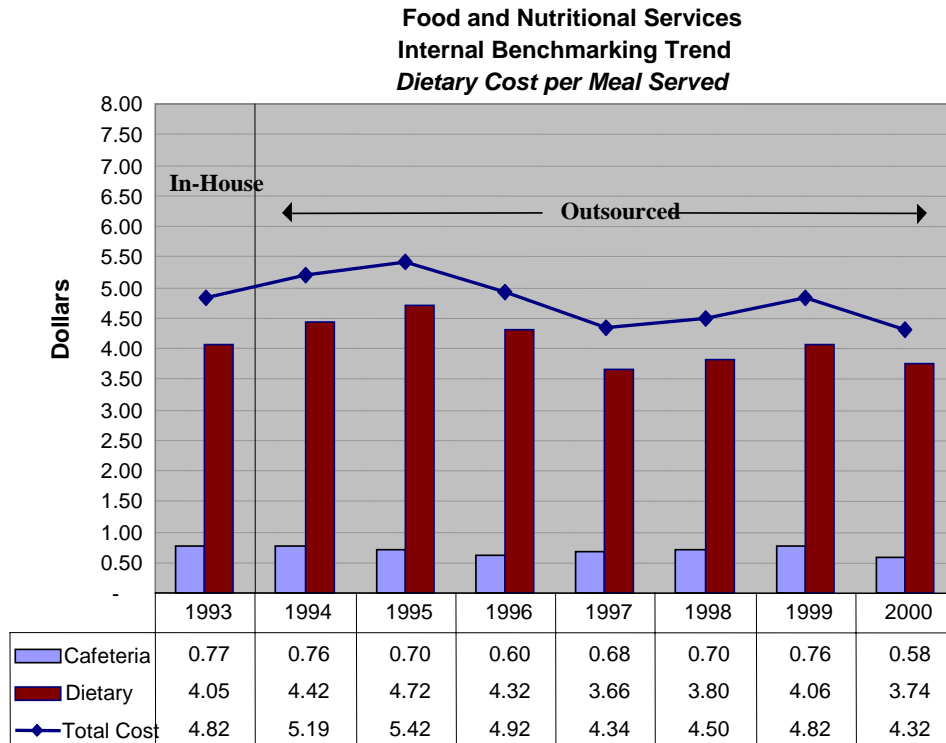
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Prepare food for cafeteria and catering	✓		
▪ Distribution and pick up meal trays	✓		
▪ Provide nutritional and dietary consultations, screenings, and education	✓		
▪ Assist patients in menu selection and feed patients correct diet	✓		
▪ Clean kitchen and cafeteria floors and surfaces	✓		
▪ Purchasing and storing of food and supplies	✓		
▪ Provide catering services	✓		
▪ Purchase, distribute oral supplements	✓		
▪ Provide care to IPs receiving TPN	✓		
▪ Provide outside meals, e.g. Sisters' meals, meals on wheel		✓	
▪ Provide midnight cafeteria shift		✓	
▪ Perform hostess duties for physician dining room		✓	

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Food and Nutritional: Internal Performance Trend

Although the total cost from its outsourced food and nutritional services has fluctuated from its in-house 1993 level due to various reasons, as of year-end 2000, a \$0.50 reduction per meal served has been realized. This savings totals \$251 thousand per annum assuming the current number of meals served and cost level.

- Food and nutritional services comprise of two distinct departments; cafeteria and dietary. In 1993, the total cost for in-house food and nutritional services was \$4.82 per meal served. Starting in 1994, food and nutritional services were outsourced.



- Over the 1994-2000 outsourced period, total cost for food and nutritional services fluctuated for various reasons. As an example, in 1997, total dietary cost decreased due to the decision to transfer the management of the dieticians under Patient Care Services. This transfer was reversed in 1999 following a decision to return to centralized core competency.
- By the end of 2000, the total combined cost for food and nutritional services averages \$4.32 per meal served, a \$0.50 decline from the 1993 in-house cost of \$4.82.
- Using FY2000 number of meals served and cost level per meal, the cost reduction that resulted since the decision to outsource food and nutritional services is equivalent to \$250,897 per annum.

Food and Nutritional: External Benchmarking

A comparison of the direct cost performance for Food and Nutritional Services against external benchmarks indicated that both 2000 and first quarter 2001 departmental performance were between the median and top quartile range.

FOOD & NUTRITIONAL		I. HBSI PEER GROUP				II. PwC INTERNAL DATABASE			
		CUSTOM SOUTH < 600 BEDS				NATIONAL < 800 BEDS			
		Performance Period	Direct Cost per UOS*	HBSI Benchmarks		Annual Cost Opportunity Based on 2000 Data		PwC Internal Benchmarks	
Median	Top 25th %			Median	Top 25th %	Median	Top 25th %	Median	Top 25th %
Average Annual CY2000	4.00	4.03	3.79		\$156,286	4.38	3.92		\$58,986
1st Qtr CY2001	3.65	4.05	3.41		\$222,950	4.38	3.92		✓
(A) Atypical Duty Adjustments	N/A	4.05	3.41	N/A	N/A	4.38	3.92	N/A	N/A
(B) FY02 Cost Reductions	3.48	4.05	3.41		\$67,610	4.38	3.92		✓

* Departmental unit of service (UOS) = meal equivalent.

✓ Achieved 25th percentile performance level.

- Based on average CY2000 direct cost performance for Food and Nutritional Services, to achieve the 25th percentile performance level, an initial cost savings opportunity range was identified at \$156 thousand per HBSI benchmarks and \$59 thousand per PwC internal benchmarks.
- By first quarter 2001, although departmental performance improved through a cost decrease of \$0.35 per unit of service, a change in HBSI's 25th percentile benchmark level implied that peer organizations also reported a cost improvement. As a result, the potential cost savings opportunity to reach the 25th percentile level (per HBSI benchmarks) was increased to \$223 thousand. Subsequent to planned cost reductions, the potential cost savings to achieve HBSI's 25th percentile level is expected to be reduced to \$68 thousand.

Housekeeping

Housekeeping: Departmental Functions

The primary functions performed within the housekeeping services department are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

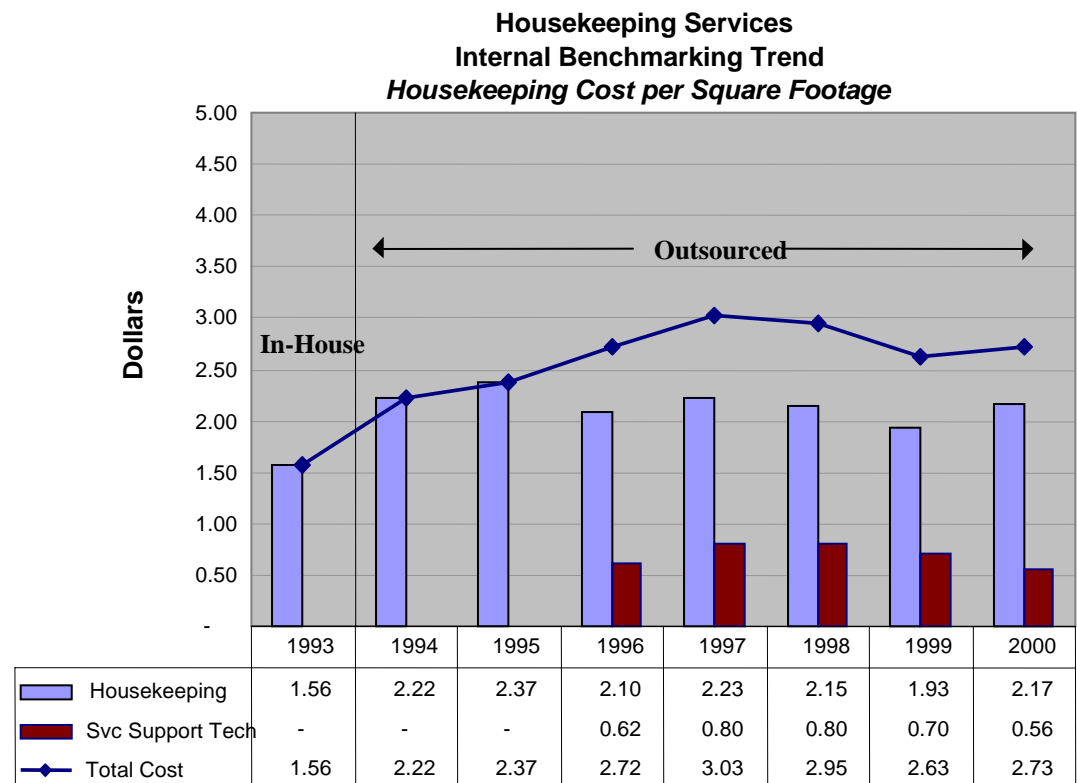
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Clean patient rooms as a result of discharge/transfer	✓		
▪ Perform floor and carpet care and clean surfaces	✓		
▪ Dispose general, hazardous, and infectious waste	✓		
▪ Clean facility grounds	✓		
▪ Set up and clean meeting rooms	✓		
▪ Perform inventory management	✓		
▪ Move patient beds	✓		
▪ Move furniture		✓	
▪ Collect and sort soiled laundry and distribute linen		✓	
▪ Clean and transport equipment		✓	
▪ Transport patients for room transfer or discharge			✓
▪ Distribution of nourishment and trays and collection of trays			✓ Transitional function

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Housekeeping: Internal Performance Trend

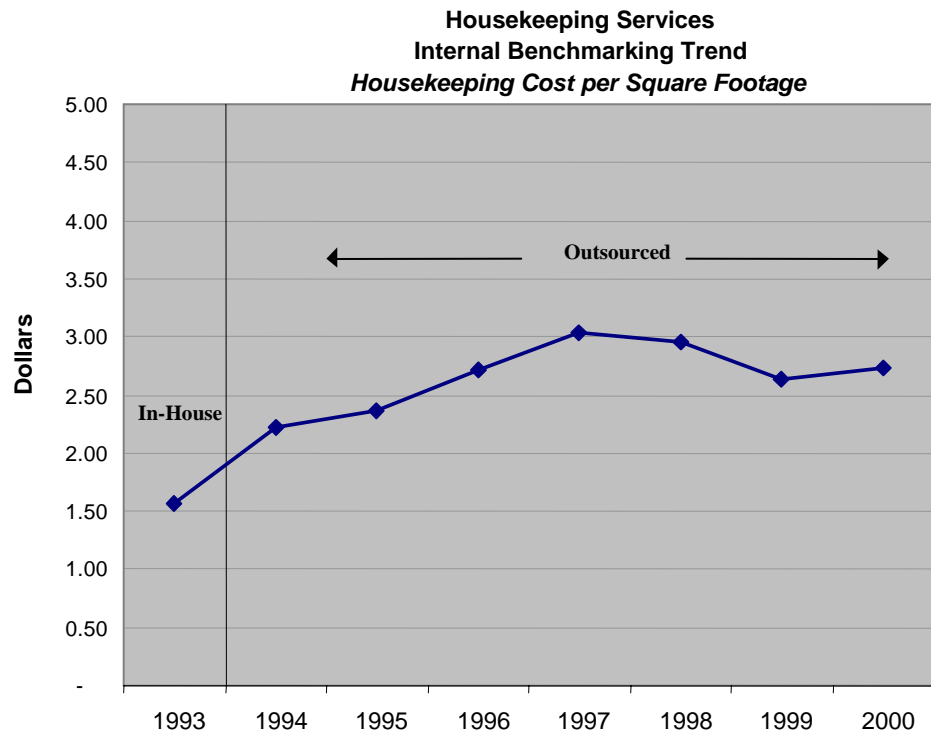
The implementation of patient focused care shifted non-clinical patient responsibilities to housekeeping services and led to the creation of the role of “service support tech”.

- Housekeeping services functions were predominantly performed in-house until late 1993 when the outsourcing of management services was initiated for this department.
- In 1994, departmental staffing was deemed insufficient causing the facility to staff up on personnel. Cost per square foot serviced rose from \$1.56 to \$2.22.
- In 1996, the implementation of the patient focused care model resulted in the creation of the role of “service support tech” (SST) within housekeeping services. The role of an SST was to perform non-clinical patient care on the nursing units, historically the duties of nurses’ aides.



Housekeeping: Internal Performance Trend

Departmental cost structure increased as a direct result of higher staffing to support non-clinical patient functions. The transition back to core competency gradually eliminated the role of the “service support tech” and the duties assigned to the SST are now shared between Patient Care and Housekeeping Services.



- With the decision to share non-clinical patient care between Patient Care and SST staff, the associated cost of performing non-clinical patient care was, in effect, shifted over from the nursing units to housekeeping services. Based on internal performance data for 1996-2000, the higher cost and staffing levels for housekeeping services within this period are primarily attributable to the addition of these non-clinical patient functions.
- In 1999, a transition was initiated back to core competency and by late 2000, the SST position was eliminated with the associated responsibilities now shared between Patient Care and Housekeeping Services.
- Due to the lack of consistency for comparison purposes (i.e. the shifting and sharing of “SST” duties), the quantification of any savings related to the outsourcing of housekeeping services cannot be determined at this time.

Housekeeping: External Benchmarking

An initial comparison of the direct cost performance for Housekeeping Services against external benchmarks indicated that 2000 departmental performance was between the median and top quartile range. By first quarter 2001, Housekeeping Services has achieved the 25th percentile performance level.

HOUSEKEEPING		I. HBSI PEER GROUP				II. PwC INTERNAL DATABASE			
		CUSTOM SOUTH < 600 BEDS				NATIONAL < 800 BEDS			
		HBSI Benchmarks		Annual Cost Opportunity Based on 2000 Data		PwC Internal Benchmarks		Annual Cost Opportunity Based on 2000 Data	
Performance Period	Direct Cost per UOS*	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %
Average Annual CY2000	7.54	8.49	6.55		\$229,559	7.77	6.26		\$296,630
1st Qtr CY2001	6.21	7.69	6.21		✓	7.77	6.26		✓
(A) Atypical Duty Adjustments	N/A	7.69	6.21	N/A	N/A	7.77	6.26	N/A	N/A
(B) FY02 Cost Reductions	6.02	7.69	6.21		✓	7.77	6.26		✓

* Departmental unit of service (UOS) = 1000 square foot cleaned per calendar day.

✓ Achieved 25th percentile performance level.

- Based on average CY2000 direct cost performance for Housekeeping Services, to achieve the 25th percentile performance level, an initial cost savings opportunity was identified at \$230 thousand per HBSI benchmarks and at \$297 thousand per PwC internal benchmarks.
- By first quarter 2001, the department operated at the 25th percentile level. Subsequent to planned cost reductions, departmental performance is expected to further improve by an additional cost decrease of \$0.19 per unit of service.

Clinical Engineering Services

Clinical Engineering: Departmental Functions

The primary functions performed within the clinical engineering services are listed in the table below. These departmental functions are classified into three categories: traditional functions, value-added functions, and atypical functions (e.g. functions not performed within this department at other similar organizations).

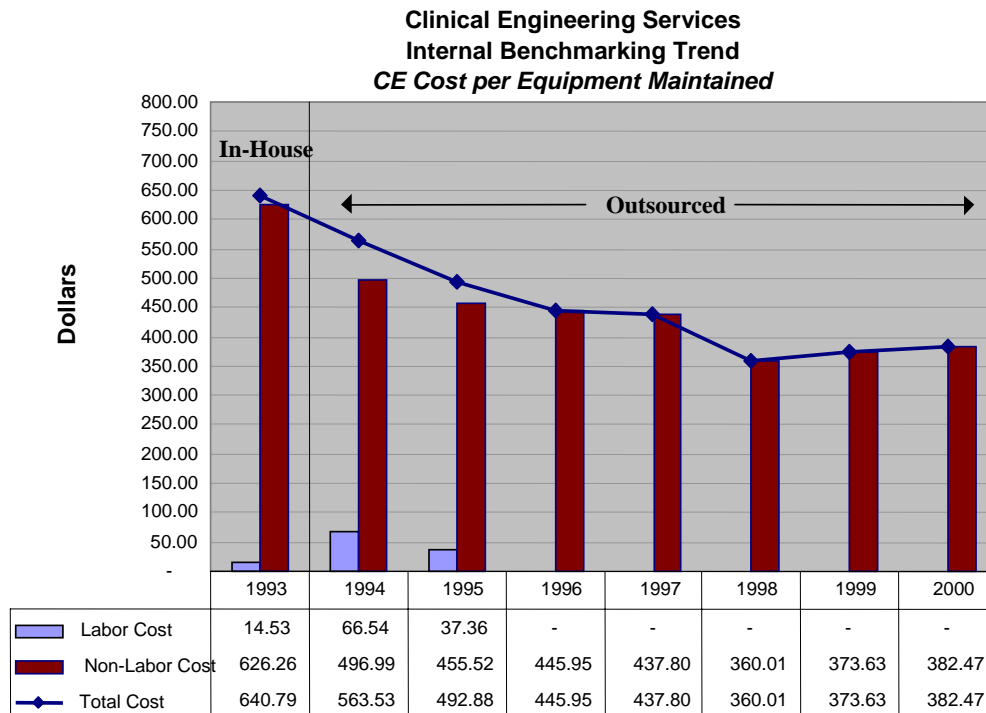
Main Functions	Departmental Functions		
	Traditional	Value-Added	Atypical
▪ Maintain/service nursing-related equipment, i.e. general care and critical care	✓		
▪ Maintain/service surgical devices and machines	✓		
▪ Maintain/service ancillary-related equipment, i.e. radiology, CT, cath labs, nuclear medicine	✓		
▪ Maintain/service imaging devices with in-house engineers		✓	
▪ Maintain/service video and audio systems, entertainment devices, and computers (non-hospital network PCs)		✓	
▪ Maintain/service telecommunications devices (excluding telephones)		✓	
▪ Perform audio visual set ups, taping and production, and satellite broadcasts and presentations			✓

Note: The main functions listed above are not meant as an exhaustive list of departmental responsibilities.

Clinical Engineering: Internal Performance Trend

Internal benchmarking indicates that outsourcing of clinical services has yielded cost benefits. Trend comparison of cost level from outsourcing versus in-house servicing suggests a cost savings approximating \$1.4 million per annum.

- In 1993, clinical engineering services were predominantly performed in-house and incurred a total cost of \$640.79 per equipment maintained. Late in 1993, the outsourcing of CE services was initiated.
- Over the succeeding outsourced years, internal performance trend reveals a steady decline in total CE cost through 1998. In 1999 and continuing through 2000, the CE department witnessed a slight increase in its cost structure attributable to the absorption of additional equipment expenses previously allocated to the respective user departments (e.g. MRI equipment).



- Despite the assumption of additional equipment costs, total CE cost has declined to \$382.47 (per equipment maintained) by year-end 2000.
- The lower level of expense experienced during the outsourced period represents a cost savings of \$258.32 per equipment maintained over the in-house expense level.
- At the cost and equipment levels as of FY2000, the reduction in cost implies an equivalent savings of \$1,369,096 per annum.

Clinical Engineering: External Benchmarking

Currently, limited external benchmarking indicators exist for clinical engineering services. Comparing direct cost per unit of service across peer organizations has not proven reliable, particularly in regards to the usage of “pieces of equipment maintained” as a unit measurement indicator. Instead, for purposes of this departmental analysis, a comparison of productivity is more often used as a measure of performance.

- Based on PwC internal benchmarks, a review of average CY2000 productivity performance for Clinical Engineering Services revealed that departmental productivity performance approximated the median peer level.
- As of first quarter CY2001,
 - (a) using “100 devices serviced” as the unit of service, departmental productivity had improved to reach the 25th percentile performance level.
 - (b) using “discharge” as the unit of service, operating this department at the 25th percentile performance level would imply a potential savings opportunity of 1.6 FTE (or approximately \$82 thousand in salary).

CLINICAL ENGINEERING	Worked Hrs per UOS ^(a)	I. PwC INTERNAL DATABASE (PRIMARY)				SFMC's Worked Hrs per UOS ^(b)	II. PwC INTERNAL DATABASE (SECONDARY)			
		NATIONAL > 400 BEDS		NATIONAL < 800 BEDS			NATIONAL > 400 BEDS		NATIONAL < 800 BEDS	
		PwC Internal Benchmarks		Potential FTE Savings Based on 2000 Data			PwC Internal Benchmarks		Potential FTE Savings Based on 2000 Data	
Performance Period	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %	Median	Top 25th %
Average Annual CY2000	243.99	243.80	199.90	0.01	1.49	1.03	1.02	0.78	0.10	2.02
1st Qtr CY2001	192.25	243.80	199.90		✓	1.01	1.02	0.78		1.88
(A) Atypical Duty Adjustments	186.57	243.80	199.90		✓	0.98	1.02	0.78		1.63
(B) FY02 Cost Reductions	N/A	243.80	199.90	N/A	N/A	N/A	1.02	0.78	N/A	N/A

(a) Unit of service (UOS) = 100 devices serviced.

(b) Unit of service (UOS) = discharge.

✓ Achieved 25th percentile performance level.

Summary of Results

Summary of Results

Based on internal trend performance, it appears that the outsourcing of the areas below has proven cost effective. In addition, external benchmarking indicates that five out of these six selected areas reviewed are performing at the top quartile or 25th percentile benchmark level. The last remaining area is operating better than the median performance level and near the 25th percentile range.

	Internal Performance	External Benchmarking			
	Estimated Cost Savings Realized (per Annum)	Expected Performance Level *			
Selected Departments	Outsourced over In-House	Bottom Quartile	Median	Top Quartile	Assessment
▪ Plant Operations and Maintenance	\$5,829,848				★ Cost
▪ Security	\$268,043				★ Cost
▪ Laundry	\$173,906-\$318,827				★ Cost
▪ Food and Nutritional/Dietary	\$250,897				★ Cost
▪ Housekeeping	N/A				★ Cost
▪ Clinical Engineering	\$1,369,096				★ Productivity

* Expected performance level = 1st Qtr CY2001 performance +/- adjustments - planned FY02 cost reductions.