



LIFE SAFETY CONSULTING, LLC
State Licensing / Life Safety Code Compliance for Long Term Health Care NF, ALF, ICFMR & ADC

The True Cost of a Life Safety Code Survey Management Summary

Regardless of your facility type, you have likely noticed an increase in Life Safety Code citations in the last few years. While it is easy to identify and measure the costs of deficiency corrections and imposed penalties, there are many hidden factors that drive up the true cost of Life Safety Code survey citations. This document discusses both the direct and hidden costs associated with Life Safety Code deficiencies.

Direct Costs

Direct out-of-pocket expenses are generally easy to quantify. They include:

- ▶ **Repair or Replacement Costs**
- ▶ **Administrative and Civil Penalties**

Indirect or Hidden Costs

These are costs that cannot be directly linked to a single deficiency and are more difficult to quantify. They are:

- ▶ **Contractor Premium Charges**
- ▶ **Staff time**
- ▶ **Staff Turnover**
- ▶ **Negative Public Image Impact**

Case Study

Nursing Facility - Approximately 140 Beds

This facility incurred direct costs of **\$74,000** -- \$63,000 in direct repair costs and over \$11,000 in penalties. The facility also incurred other substantial indirect expenses – many of which involved management time to deal with fallout from the survey. We conservatively estimate total indirect expenses to be **\$155,000!**

With direct costs totaling \$74,000 (repair expenses plus administrative penalties) and indirect costs estimated to be \$155,000, we estimate the total short-term cost to this facility was **\$229,000!** Negative public image could continue to increase this cost in subsequent years.

EK Life Safety Can Help!

What if this facility had contracted with EK Life Safety Consulting? **We conservatively estimate that we could have saved this facility approximately \$175,000 – seventy percent of the true total cost!** Visit our website for additional information on our services at www.EKLifeSafety.com. Or better yet, call us at (713) 298-2336.

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The True Cost of A Life Safety Code Survey

Can A Survey Really Cost A Half Million Dollars?

According to the Government Accountability Office (GAO) statistics from 2003, a nursing facility in the State of Texas has approximately an 85 percent chance of being cited for Life Safety Code deficiencies. Regardless of your facility type, you have likely noticed an increase in Life Safety Code citations in the last few years. While it is easy to identify and measure the costs of deficiency corrections and imposed penalties, there are many hidden factors that drive up the true cost of Life Safety Code survey citations.

This document discusses both the direct and hidden costs associated with Life Safety Code deficiencies. In addition, we have included an actual case study of a nursing facility that illustrates the total cost incurred due to one Life Safety Code survey.

Direct Costs

- ▶ **Repair or Replacement Costs:** These include charges for services, materials, and labor paid to vendors such as architects, building contractors, skilled labor contractors, sprinkler system contractors, fire alarm contractors or other resources directly involved with the correction of the building deficiency. It might also include legal fees, consultant fees, municipal fees for building permits, inspection charges, and other miscellaneous charges.
- ▶ **Administrative and Civil Penalties:** It is not uncommon for administrative and civil money penalties to be imposed for Life Safety Code violations. The actual dollar amount of these penalties varies based on the scope and severity of the citations.

Indirect or Hidden Costs

In addition, there are hidden costs that cannot be directly linked to a single deficiency and are more difficult to quantify. They are:

- ▶ **Premium Charges:** Time constraints to get work completed generally leave insufficient time to solicit competitive bids. Furthermore, contractors frequently charge a premium for completing the required work in a limited time. Based on our experience, *we conservatively estimate that facilities pay an additional ten to fifteen percent premium over the usual contract amount to have the contractor meet short time constraints.*
- ▶ **Staff time:** This includes the time involved in identifying, contacting, and working with contractors to correct deficiencies. It also includes the time involved dealing with State and/or Federal regulatory officials developing Plans of Correction and other documentation as may be required. According to the most recent salary information from the U.S. Bureau of Labor Statistics, the mean hourly wage for an Administrator is \$34.37 and for a Maintenance



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Supervisor the mean hourly wage is \$16.16. *For example, forty hours of an Administrator's time is approximately \$1,375 and forty hours of a Maintenance Supervisor's time is approximately \$650 in hidden costs.*

- ▶ **Staff Turnover:** Another hidden cost is the toll a difficult survey can have on the staff. It is not uncommon for key staff members to leave voluntarily or otherwise. In this situation, a facility may likely incur:
 - ❖ Severance pay
 - ❖ Costs for job placement advertising
 - ❖ Time involved in reviewing resumes and job applications
 - ❖ Travel costs and time spent in interviewing candidates
 - ❖ Time involved in preparing and extending offers
 - ❖ Time to cover the job responsibilities until the positions are filled
 - ❖ Cost of using temporary employment, including agency fees. (Depending on the educational level and skill set required, one contract employee could cost from \$1,500 to \$2,000 per week.)
 - ❖ Cost of new employee orientation and on-the-job training.

Many of these costs recur until a suitable candidate accepts the position and is properly trained in company-specific policies and methods. *Assuming one week of contract labor, forty hours of an Administrator's time and only \$1,500 for out of pocket job placement expenses, we conservatively estimate recruiting and hiring expenses to be about \$4,000 to \$5,000 per new employee.*

- ▶ **Negative Public Image Impact:** In Texas, the Department of Aging and Disability Services (DADS) publishes results from both Health and Life Safety surveys in their Long Term Care Quality Reporting System (QRS). Furthermore, the QRS maintains a historical record of deficiencies, and ratings do not change until the next survey takes place. Nationally, the Centers for Medicare and Medicaid Services (CMS) reports nursing facility Life Safety citations on the "Nursing Home Compare" website.

More private organizations are also tracking health care facility performance and, with the Internet a common source of information in most households, public awareness of facility compliance is growing. This information is having an increasing effect on placement decisions of potential residents.

What impact could a negative survey in the QRS or Nursing Home Compare websites have on a facility? With the 2008 average Medicare / Medicaid reimbursement rate of \$106.59 per day in Texas, a facility would lose approximately \$38,900 per year if one potential resident reviews the survey history via the reporting websites and chooses a competitor for their living arrangement.



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Case Study

Nursing Facility - Approximately 140 Beds

This facility's 2007 Life Safety survey resulted in over seventy-five pages of deficiencies. Approximately **\$63,000** in direct repair costs were required to reach compliance.

Another direct cost was civil and administrative monetary penalties imposed by the State. The facility was assessed over **\$11,000** in penalties, which could have been avoided entirely if the owners and management had been better prepared for the Life Safety survey.

Facility management did not have an opportunity to budget for, or solicit, competitive bids for the many required repairs. The immediate goal was to find contractors that were able to do the work within the required 45 days – regardless of price. We estimate that the ownership paid a hidden cost of at least a fifteen percent premium on the cost of repairs, resulting in approximately **\$9,500** of unnecessary expense.

The facility also incurred other substantial indirect expenses – many of which involved management time to deal with fallout from the survey. The facility Administrator was required to develop a Plan of Correction for over seventy-five pages of deficiencies. Due to the complexity of the POC, it had to be resubmitted twice before it was approved by the State. Accounting for time expended by owners, consultants, and the Administrator to develop, write, and resubmit the Plans of Correction, a very conservative estimate of the cost of this effort was approximately **\$3,000**.

A second time-consuming effort involved contracting with outside firms to complete required building repairs. This process consisted of time to contact vendors, review estimates, supervise the work, and ensure that the ongoing work corrected the cited deficiencies. Again, owners, internal consultants, the Administrator, and the Maintenance Supervisor were involved. We estimate a cost of approximately **\$2,500** for time expended in this process.

The third major indirect cost resulted from staff turnover. As a result of this survey the building loan holder required a new management team to take over operations. The cost of this change is unknown, but undoubtedly high. Partially due to this change, the facility lost key staff members including the Director of Nurses, Assistant Director of Nurses, the MDS Nurse, the TILE Nurse, the Maintenance Supervisor, and the Bookkeeper. We conservatively estimate the recruiting and replacement cost for these positions, including temporary contractors, was approximately \$30,000. Additionally, the owners hired nursing and accounting consultants to evaluate systems and policies in those departments, and assist in training replacements. Most of the consultants stayed on staff five weeks, incurring an approximate cost of \$80,000. Therefore, the total cost incurred for staff turnover was approximately **\$110,000**. (Within a few months, the facility also lost the Administrator and several of the maintenance staff, but these costs are not included in this estimate.)

While negative public image is extremely difficult to quantify, it has an important and far-reaching impact on any facility and must be included when discussing indirect costs. Not only is there immediate potential for lost revenue due to a detrimental survey, but the lingering effect on the market's perception of the facility could last for years.



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If we assume that just one person reviewed the publicly available information via the DADS QRC or CMS Nursing Home Compare reporting systems and chose a different facility for their care, we estimate the monetary loss to be **\$38,900** for one year. However, the real marketing cost will be the years it will take for this facility to repair their public image. As an example, considering an average resident stay of three years, losing four residents due to this detrimental survey would yield an approximate half million dollar loss in revenue!

All told, what was the true cost of a harmful Life Safety Survey to this facility? With direct costs totaling \$74,000 (repair expenses plus administrative penalties) and indirect costs estimated to be \$155,000, we estimate the total short-term cost to this facility was \$229,000! Negative public image could continue to increase this cost in subsequent years.

Is this scenario typical? Ask any facility owner, Administrator, or Manager and you will find they have likely experienced many of these costs.

EK Life Safety Consulting Can Help!

What if this facility had contracted with EK Life Safety Consulting? **We conservatively estimate that we could have saved this facility approximately \$175,000 – seventy percent of the true total cost!**

The facility would still have incurred the cost of repairing the items that were out of compliance; however, with additional time available, they could have saved the premium paid for the repairs as they could have competitively bid the work. In addition, they could have avoided the administrative penalties, and most -- if not all -- of the indirect costs incurred. And longer term, they would have maintained a positive image in the marketplace as the number of deficiencies reported by the State QRS and CMS Nursing Home Compare systems would have been substantially reduced, if not entirely eliminated.

How could EK Life Safety Consulting have helped this facility avoid these costs? We would have conducted a comprehensive inspection and delivered a detailed report documenting Life Safety Code deficiencies and recommended corrective actions. Since our fees are related closely to the number of licensed beds, our fee for this large size facility would have been approximately \$8,000. Assuming the facility's management correctly repaired the deficiencies we identified and followed our recommendations, we are confident that we would have helped the facility save time and money as well as their reputation. At the facility's request, we could also have provided training for staff and advice on obtaining long-term, cost-efficient repairs to help prevent citations in the future.

Visit our website for additional information on our services at www.EKLifeSafety.com. Or better yet, call us at (713) 298-2336. Our consultants will be more than happy to speak with you to discuss your particular situation.