

Streamlining Your Surplus Property Program
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Abstract

Over the past three years the University's state funding has been reduced by \$51.5 million and \$103 million since fiscal year 2002. The University was faced with continuing the level of service that has made us one of the top public universities in the nation while addressing a significant reduction in funding. The University challenged its management to identify activities that were not essential to the core business, support, and academic programs of the University. The initiatives could focus on our department or more broadly across the University. The objective was to contain costs or generate revenue without decreasing services. At the same time Procurement Services was faced with the need to release warehouse space for conversion to space more suitable to support academic programs. Although the disposal of surplus property is an important function to the institution as a good steward of our environment (the desire to reduce, reuse, and recycle in an environmentally friendly means) and a protector of the sensitive data of our students and patients, it is not core to our mission as a teaching higher education institution. Procurement Services rose to the challenge by reengineering the University Surplus Property Program. We were able to reduce costs, generate additional revenue, reduce space, and reduce administrative effort. The Surplus Property Program transformed from one that occupied over 24,000 square feet and cost departments \$136,000 annually in transportation expenses to one that freed up over 16,000 square feet of warehouse space, reduced transportation costs by \$68,000, and almost tripled the average selling prices of items. Procurement Services did this while ensuring equipment with sensitive University data was disposed of securely with a zero landfill policy and minimizing the effort associated with traditional methods of disposal, and allowing the University to run the program with two FTEs. In addition, surplus items now leave the institution on an average of 7 days instead of 21 days.

Introduction of the Organization

The University of Virginia is distinctive among institutions of higher education. Founded by Thomas Jefferson in 1819, the University sustains the ideal of developing, through education, leaders who are well prepared to help shape the future of the nation. The University remains public, supported by the Commonwealth of Virginia while also nourished by the strong support of its alumni. It is also selective; the students who come to the University have been chosen because they show exceptional promise. With nearly 13,000 undergraduate and 6,000 graduate students, the University provides a personalized and well rounded education for all students.

The University offers 48 bachelor's degrees in 46 fields, 94 master's degrees in 64 fields, six educational specialist degrees, two first-professional degrees (law and medicine), and 55 doctoral degrees in 54 fields.

The operating budgets for July 1, 2009, through June 30, 2010, for all divisions of the University of Virginia totaled \$2.25 billion. Of the total budget, \$1.2 billion relates to the Academic Division, \$989.9 million to the Medical Center, and \$34.7 million to the University of Virginia's College at Wise.

Statement (restatement) of the Problem/Initiative

Faced with continued reduction in funding, the University challenged its management to identify activities that were not essential to the core business, support, and academic programs of the University, and to develop initiatives that contained cost or generated revenue. At the same time Procurement Services needed to relinquish warehouse space for conversion to space more suitable to support academic programs. Therefore, Procurement Services' Surplus Property Division was challenged to find ways to contain cost and/or generate additional revenue, and free up vital space used to store surplus property prior to sale.

The program consisted of departments transporting all surplus items to a central warehouse supported by two FTEs. Although some items were donated to non-profit organizations and very large or complex items were sold by seal bid, the majority of items were sold through live auction every six to eight weeks. To accommodate live auctions, Surplus Property occupied a 24,000 square foot warehouse in a prime location on University grounds. Transportation costs to the central warehouse often exceeded the proceeds by 100% or more. Although departments were required to certify that hard drives had been removed from computers for secure disposal, internal audits often found auction-ready equipment contained potentially sensitive University data.

Design

Procurement Services' Director appointed a team made up of the Surplus Property Manager, the Business Operations Manager, and two Information Technology Specialists to examine the functions of the surplus property program. Our examination revealed the following:

1. It took two FTEs from Procurement Services to run the warehouse and approximately two FTEs from Facilities Management for transporting items to the warehouse. With overhead expenses, it cost the University approximately \$272,000 annually.
2. The program generated annual revenue of \$373,952 in FY08.
3. On-line auction site fees averaged 7% of the sales price and we were paying 15% for on-site auctioneer fees.
4. Converting to on-line auctions could increase turnover to 10 days verses 6 to 8 weeks by live auction, thus reducing the warehouse space and increasing customer satisfaction.
5. On-line auction increased competition and possibly increased proceeds.
6. Furniture, building material, and appliances sold at live auctions for pennies on the dollar and not for much more through on-line auction. In most cases departments paid transportation fees that far exceeded the proceeds received from the sale of these items, resulting in low customer satisfaction.
7. Departments stockpiled computers in hallways or loading docks because of the lack of time or resources to securely dispose of the data before sending the computers to Surplus Property.

In reviewing and prioritizing the findings, we believed the need for a proven system for safeguarding University data outweighed the need to cut cost, generate additional revenue, and

reduce space. One breach of sensitive data could cost the University thousands in legal and punitive damages, and tarnish the University's reputation. We began by looking at the Commonwealth of Virginia contract for the disposal of equipment with electronic data storage (i.e. Computers) because it had a proven success rate at other State agencies. This contract offered on-site pickup for all electronic office equipment whether it had data or not. The hard drives could stay intact, therefore relieving departments of the expense and drain on resources to clean the equipment. The firm either recycled it with a zero landfill policy or cleared the data to HIPAA, Sarbanes-Oxley, Department of Defense and EPA standards and resold it, returning some of the proceeds back to the institution. The program provided the University with confidence that data would be removed, that it would eliminate the removal and disposal cost of hard drives and eliminate the cost to transport computers to the central warehouse for auction, reduce the warehouse space required to hold items for auctions, and reduce the auctioneer fees and warehouse staff time to manage these assets. Determining that most of this electronic equipment could not be sold, we opted to fund the new service by retaining proceeds for items that sold at auction under \$100. Departments quickly embraced the new service and began cleaning out their storage areas. We soon learned the funding to support the program was insufficient since most of the computers could not be sold and very few proceeds were returned. We negotiated a contract that allowed the firm to retain all proceeds from resells, therefore relieving Procurement Services from reconciliation costs in exchange for reduced pricing. By doing this, we reduced our fees from a projected annual cost of \$120,000 to \$35,000.

The next step was to continue to reduce space and generate additional revenue. We contracted with a firm to sell the remaining items on-line instead of by live auction. With this and the new

computer disposal contract we reduced our warehouse space by 10,000 square feet, reduced our auction fees by 50%, and increased the average sales price per item from \$28.30 to \$75.83 or by 267%.

Although the on-line auction helped to reduce our cost and generate additional revenue, we needed to further reduce our space requirements. We contracted with a local firm to pick up furniture, building material, and appliances at the department's site weekly at no charge, sell the items, and return 10% of proceeds to the University. This is the last change implemented and we are just beginning to receive proceeds from the sale of items. However, it has already reduced transportation cost to departments by \$68,000, reutilized one FTE previously used for transportation, freed up an additional 6,000 square feet of warehouse space, and improved our customer satisfaction drastically.

Implementation

To implement three changes were needed: outsource the disposal of equipment with electronic data, convert from on-site auctions to on-line auctions, and outsource the disposal of bulky items. We decided to complete one at a time because they all three required IT resources and were radical changes for our Surplus Property customers.

The disposal of equipment with electronic data took approximately six months to implement since we had to make a number of system changes. We were able to use our existing surplus property system which made it easier for users. Our system creates weekly files which are uploaded to the contractor system. All requests entered by the departments by noon on Monday are picked up on Thursday by the contract vendor. Updates were made to our Surplus Property website providing instructions for the new process and email notification was sent to University staff with financial responsibilities and to all computing support staff notifying them of the change.

The conversion to on-line auctions was basically seamless for departments, but we had to coordinate it with the end of our contract for on-site auctioneer services. We handed out fliers at our last live auction to notify our bidders and had staff from the on-line firm at the sale to register them as a bidder in their system and answer any questions. The contracted on-line firm provided on-site training for our warehouse staff.

Once Procurement signed the contract for the disposal of bulk items, we had one month to implement changes to our existing surplus property system to produce a weekly pick up ticket

for the firm, and provide notification to departments. Notification was made by email to all departments listing the benefits on weekly on-site pickups, therefore eliminating the transportation costs.

Benefits

The implementations of all the changes have taken place over two fiscal years. In FY 08 we increased our net revenue to the University after expenses by \$20,000 compared to FY 07. We project it will increase another \$20,000 this year for an on-going savings of \$40,000 per year.

Other benefits include:

1. Increased data security.
2. Increased customer satisfaction because departments no longer have to incur costly transportation fees, track and reconcile small dollar transactions for surplus items, remove hard drives, and items sell faster.
3. One Facilities Management FTE reutilized, valued at \$68,000 annually.
4. Reduction of the central warehouse space by 16,000 square feet, valued at \$160,000 per year.

Retrospect

In retrospect if Procurement Services had outsourced the entire operations, it may have been a smoother transition for our users and perhaps generated greater savings and/or revenue. Given the urgency of the impact of the budget reductions and the need to free up space, Procurement Services decided to manage the project internally. This allowed the University to retain the current staff, and it took less time to fully realize the cost savings and benefits of the program.