

## Outsourcing the Property Function:

# The Right Decision for Your Organization?

By Betsy Lombardo, CPPS, Federal Center Chapter

In both the public and private sectors, for organizations large and small, a strong property management plan is no longer only a convenience, but an absolute necessity. Reporting mandates are becoming stricter, forcing both public and private organizations to account for the property more often and with more accuracy than ever before. In an economic environment where all organizations must become more efficient and “leaner,” they must look to their procurement, disposal, and reutilization processes to identify areas where extraneous spending, waste and abuse may be occurring. In addition, with the proliferation of smaller, pilfer-able IT hardware, the accurate tracking and maintenance of IT devices from cradle to grave, especially when those devices can carry sensitive, confidential or personal information, is a must. Because the property function is becoming as important as other major business functions



within an organization, a decision must be made with regard to whether it can be adequately maintained within the organization, or if the option of outsourcing should be considered. The choice will vary from organization to organization, and there is not one right answer for all -- but there are several factors that should be considered when making the decision, as well as some risks that can be associated with outsourcing the property function.

The first task that should be undertaken in deciding whether or not to outsource the property function is a thorough cost-benefit analysis - to determine if outsourcing is truly the most economical option. Cost-benefit analyses are performed in every industry, by every business function to make this determination, and the property function should be no exception. As part of George W. Bush's “A-76 Initiative” introduced in 2003, federal agencies typically must perform a formal financial analysis to determine the Most Efficient

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Organization (MEO) to perform a particular function – an internal group of federal employees or an external group of contractors. Whether the financial analysis is required or undertaken voluntarily, it is of utmost importance to identify certain financial considerations that will be associated with pursuing either avenue. Costs that may be associated with keeping the property function in-house are salaries, benefits, overhead costs and IT equipment for hired personnel, software license fees for asset management software, and procurement of barcode scanning equipment or other hardware.

Conversely, the cost of outsourcing the function can be considerable, depending on the number of contractor's needed, hourly billing rates, overhead for onsite personnel, costs associated with obtaining necessary clearances, and related travel costs. An organization should create an exhaustive list of costs related to each option, and calculate (to the best of its ability) which option will provide the desired outcome at a lower cost. To this point, it is extremely important that this assessment is made with input from all business areas. The decision to outsource a function or maintain it within an organization should not be made by any one business unit alone. Property and property management is something that touches every business function within an organization -- property, human resources, finance, and information technology to name just a few. However, while economic efficiency is crucial, and the driving factor for all business areas in the decision-making process, an organization must be sure that those in charge of the property function (employees or contractors) can adequately perform all duties related to property management.

Outsourcing the property function to a contractor at a "bargain price" might be enticing in the short-term, but costs that can be associated with such things as audits or excess procurement due to inaccurate property management can be crippling to an organization over the long term. Along those same lines, an organization that chooses to keep the property function in-house must assess its ability to allocate adequate resources to property management. Implementing a property management system and plan is just the first step. Ensuring that skilled property professionals are available to administer and enforce compliance with that plan is even more crucial. The availability of trained property professionals within an organization should not and cannot be overlooked. All too often, organizations tend to place little importance on the property function, regarding it as a second-tier business consideration. The maintenance and management of extremely valuable or sensitive equipment is not a "side job" or a responsibility that can be undertaken in one's spare time -- it requires full-time, skilled personnel. Many organizations simply do not have the bandwidth or technical expertise to carry out the duties of the property professional, and may

decide that spending money and resources to purchase a property management system and hire and train individuals to administer it is simply not economical. These organizations may elect to outsource the function. However, when embarking upon this path, several factors must be considered to ensure that the many risks that outsourcing can pose are managed and mitigated accordingly.

Arguably the most important factor to consider when deciding to whom your organization's property function will be outsourced is reputation; that is, the organization's demonstrable record of past property management. The outside party should have a proven property management system and be able to display successful property management qualifications. Many organizations to which IT property management is "outsourced" are qualified only to support that equipment from an IT perspective. It is crucial the organization that will be entrusted with the maintenance of your assets has a proven, effective property management plan as well as skilled property professionals who will be available on site to track and maintain your equipment and ensure compliance with that plan. The people to whom your property is entrusted should have a comprehensive understanding of property management rules and regulations across all environments -- public and private -- as those rules can vary greatly between a federal agency and a private corporation. Equally important is that these property professionals engage in a "transition period" with members of your organization so that a transfer of knowledge can occur without delay or disruption. Even though another organization will now be maintaining your property function, members of your organization possess the historical and institutional property knowledge that must be transferred to the new administrators of that function.

Once the decision has been made to outsource the property function and an organization has been chosen to maintain your property, the first order of business is to conduct a physical inventory – with an eye on accurately determining the scope of the management of your organization's property. The importance of the physical inventory cannot be overlooked, and physical inventories should be conducted periodically for every organization regardless of who maintains the property function. ASTM has issued Voluntary Consensus Standard E-2132: Standard Practice for Physical Inventory of Durable, Moveable Property, which outlines the reasons for conducting a physical inventory as well as the procedures that should be employed when planning and carrying out the inventory. As E-2132 states, organizations can conduct physical inventories in a variety of ways for myriad reasons, but when outsourcing the property function, it will be necessary for both parties to conduct an inventory in order to obtain an accurate account of the number of items and types of

equipment that will be managed, as well as details such as that property's location, value, and useful life. In order to determine these factors, both parties should conduct separate physical inventories so that discrepancies can be identified and resolved before the transfer of accountability occurs.

Again, the scope of the property management that is outsourced should be clearly defined. An organization may determine only to outsource property management for items above or below a certain dollar threshold, or for items that are considered information technology equipment. Conducting a physical inventory and clearly defining which assets are to be maintained by both parties will eliminate any gray areas surrounding accountability or responsibility. Once the transfer of that accountability occurs and the property management function has been handed over to an outside party, the outside party should be held accountable to periodic reporting guidelines. Your organization should require that the outside party conduct periodic inventories at pre-determined intervals that are deemed appropriate and agreed upon by both parties. At the end of the day, the ownership and ultimate responsibility for your organization's equipment, while "maintained" by another organization, remains with your organization. For this reason, any outside party should be responsible for submitting periodic reports to their client organization

regarding the property that is managed.

The decision to outsource the property management function may not be the correct one for every organization, which is why a firm must first assess its ability to maintain the property function "in-house" before attempting to embark on any property management endeavor. However, whether an organization chooses to outsource its property management or keep the function within the organization, certain criteria must be met before any property management system can be considered a success. Those criteria are a proven, effective property management system or software, a documented property management plan, a staff of skilled property professionals to carry out the mission of that property plan to ensure compliance across all sectors of your organization, and regular reports that provide transparency into your managed assets. Without each one of these factors, hundreds of thousands of dollars can be wasted due to a lack of visibility into your organization's property. ■

#### **BIOGRAPHY**

Betsy Lombardo, CPPS is a Business Analyst with Sunflower Systems, Inc. located in Arlington, Virginia. Betsy has over four years of consulting experience with most of her work focusing on federal agencies. Betsy's focus areas in property management include systems enhancement, program operations and environmental initiatives. Betsy is a member of the NPMA Federal Center Chapter.