

Office of General Services

Efficiency of Warehouse Space

Report 2019-S-1 | January 2020

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Division of State Government Accountability



Audit Highlights

Objective

The audit objective was to determine if the Office of General Services (OGS) has reviewed the warehouse space used by State agencies for cost-savings opportunities. Our audit covered the period January 1, 2014 through March 29, 2019.

About the Program

The Spending and Government Efficiency Commission was formed to streamline State government operations by eliminating redundancies and implementing cost-savings measures. As part of these efforts, the Warehouse Consolidation Initiative (Initiative) was implemented to achieve cost savings through the consolidation of warehouse space used by State agencies. At the start of the Initiative, a survey was issued to all State agencies inquiring about warehouse and storage space and the associated costs, because there was no central source for this information.

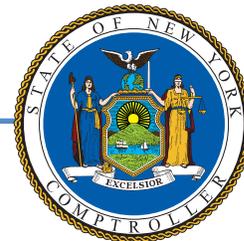
Key Findings

OGS has made progress in reducing leased warehouse space, having evaluated 29 leased warehouses, resulting in: the consolidation of 14, liquidation of 9, square footage reduction for 3, and no changes in the remaining 3. Three other warehouse evaluations were in progress during our audit. The Initiative realized cost savings of \$1,699,020 during our audit scope and a reduction of 434,266 square feet. However, we also found:

- We could not determine the Initiative's overall success, as an inventory of all State warehouses – leased and State owned – does not exist.
- OGS has not yet reduced any State-owned warehouse space as part of the Initiative, because OGS was directed to first evaluate and reduce leased warehouse space.

Key Recommendations

- Identify all State warehouses – both leased and State owned – including those previously evaluated and those yet to be evaluated as part of the Initiative, and maintain a comprehensive central listing.
- Evaluate all State-owned and leased warehouses to optimize repurposing and cost-savings opportunities.



Office of the New York State Comptroller Division of State Government Accountability

January 3, 2020

Ms. RoAnn M. Destito
Commissioner
Office of General Services
Corning Tower, 41st Floor
Albany, NY 12242

Dear Commissioner Destito:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Efficiency of Warehouse Space*. This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
DOCCS	Department of Corrections and Community Supervision	<i>Agency</i>
Gaming	Gaming Commission	<i>Agency</i>
Initiative	Warehouse Consolidation Initiative to achieve cost savings through consolidation of State agency warehouse space	<i>Key Term</i>
OGS	Office of General Services	<i>Auditee</i>
OPWDD	Office for People With Developmental Disabilities	<i>Agency</i>
REC	Real Estate Center	<i>Auditee Office</i>
SAGE Commission	Spending and Government Efficiency Commission formed to streamline operations to eliminate redundancies and implement cost-savings measures	<i>Key Term</i>
Support Services	OGS Administration and Operations' Support Services	<i>Auditee Office</i>
UGL Equis	United Group Limited Equis Operations	<i>Contracted Consultant</i>

Background

The Spending and Government Efficiency (SAGE) Commission formed in 2011, in compliance with Executive Order Number 4, to review State government operations and processes to eliminate redundancies and implement cost-savings measures. After significant cost savings were achieved by moving many State agencies from privately leased offices to State-owned office buildings, the Warehouse Consolidation Initiative (Initiative) was implemented to achieve further savings by consolidating warehouse space used by State agencies.

In 2012, the Executive issued a memo on the subject of eliminating and consolidating excess warehouse and storage space throughout the State. State agencies were required to report on all leases for warehouse and storage space, detailing the term, location, annual rent, and square footage for each location; and, for State-owned facilities, locations and square footage, including a comprehensive inventory of the contents of each warehouse and storage space. The memo also indicated that it expected the State agencies to purge unnecessary and surplus items and assess internal record retention and inventory control policies and practices. Agencies were to report the requested information to the Office of General Services' (OGS) Enterprise Real Estate Team in the Office of Real Estate Planning and Development, now referred to as the Real Estate Center (REC), which was expected to conduct site visits to validate the responses as part of the Initiative. In 2015, the Initiative was reassigned to OGS Administration and Operations' Support Services (Support Services).

Also in 2015, the Executive sent a second memo about the Initiative, stating that the REC was inventorying all State storage and warehouse space to determine whether to maintain existing space or to relocate, consolidate, or eliminate it. Commissioners and agency heads were directed to provide timely access to existing storage and warehouse locations, as well as information and records to OGS staff. OGS was required to assess warehouse contents and operations in an effort to identify immediate and future cost reductions and institute best practices.

Support Services staff, with State agency officials present, evaluate each warehouse to determine if it meets the agency's needs, including an assessment of the following:

- Overall condition of the warehouse, its contents, and staffing;
- Contents of the warehouse to determine if they should be sold or repurposed and the warehouse liquidated; and
- Operations to determine if they should be sustained at the existing location (because there is a true business value and operations are

being efficiently managed) or if they should be suspended and contents should be consolidated at an OGS-managed warehouse.

Consolidation occurs when Support Services evaluates, recommends, and receives approval that the lease should not be renewed. The contents of the warehouse will generally be reduced and the remaining contents consolidated and moved to an OGS-managed warehouse. Liquidation occurs when it is determined that the agency's lease should not be renewed and the warehouse items are to be disposed of, repurposed, or sold, and the State agency no longer has warehouse space. Space reduction occurs when a State agency keeps its warehouse space, but with reduced square footage.

As part of the Initiative, Support Services established three consolidated warehouse/distribution centers in the Capital Region: the Albany, Guilderland, and Menands Distribution Centers.

Audit Findings and Recommendations

OGS has made progress in reducing leased warehouse space. The Initiative realized cost savings of \$1,699,020 and a reduction of 434,266 square feet for the period January 1, 2014 through March 29, 2019. OGS has not yet reduced any State-owned warehouse space as part of the Initiative, due to a directive to focus first on leased space. We could not determine the Initiative's overall success, as an inventory of all State warehouses – leased and State owned – does not exist.

Warehouse Evaluation

Because State warehouse space information had not previously been maintained centrally, a survey of all space and associated costs was needed at the start of the Initiative. The Division of Budget contracted with United Group Limited Equis Operations (UGL Equis) to oversee the Initiative. The completed State agencies' surveys, which included descriptions of all types of storage space, were received by the REC. The REC reviewed the responses and followed up with agencies for missing information such as square footage and contents. The survey information was then forwarded to UGL Equis, which directed the REC to first evaluate and reduce leased warehouse space to generate the largest cost savings and then to focus on State-owned warehouses. UGL Equis also recommended a cost-benefit analysis be performed before storing furniture.

The REC and Support Services combined have evaluated 29 leased warehouses, resulting in the consolidation of 14, liquidation of 9, square footage reduction in 3, and 3 remaining unchanged (2 Department of Motor Vehicles warehouses due to climate control needs and 1 Department of Law warehouse for evidence chain-of-custody issues). Support Services officials stated they are now beginning to evaluate State-owned warehouses.

During the three years the REC was responsible for the Initiative, it completed 11 leased warehouse evaluations. Responsibility for the Initiative was then transferred to Support Services, and it completed 18 leased warehouse evaluations from 2015 through 2019. It has several evaluations in progress. During the audit, we primarily worked with Support Services to acquire information and documentation. However, on multiple occasions, Support Services had to refer back to the REC to obtain information. For example, this occurred when we were obtaining summary information from the survey results, leases for warehouses, and warehouse inventories. Similarly, while reviewing a list of 29 evaluated warehouses with us, Support Services had to refer back to REC to determine whether 7 sites were actually warehouse/storage locations. Thereafter, we included the REC in meetings as needed.

The REC still maintains the lease information for warehouses. This

information is generally forwarded to Support Services 14 months in advance of lease termination to give Support Services time to evaluate each warehouse and determine whether to consolidate or liquidate prior to expiration of the lease. However, the lease information has not always been provided timely, which has resulted in some lease holdovers.

OGS stated it recognizes the internal communication weaknesses and, starting in July 2018, began to meet regularly with the REC and Support Services to discuss the Initiative. However, we believe Support Services still needs to reach out to the REC for key pieces of information, and the Initiative would be more efficient if all needed information had been provided at the time Support Services took ownership of the Initiative.

The process of evaluating State agencies' need for warehouse space has not always been well received and, in certain instances, agencies have resisted giving up warehouse space as they believe their operational needs outweigh or compete with the Initiative's goals. For example, the Office for People With Developmental Disabilities (OPWDD) has a collection of furniture that was moved to the Albany Distribution Center in June 2014 as part of an OGS-led consolidation. An OPWDD official told us they now plan to distribute the remaining items, purchased at a cost of more than \$26,000, except for 58 mattress and box spring sets, to OPWDD homes. OPWDD plans to retain the mattress sets at the Albany Distribution Center, to be used as replacements in the event of emergencies at client residences.

Earlier recommendations for the Initiative advised against stockpiling items and encouraged agencies to purchase items as needed in real time. OGS stated that OPWDD's disaster preparedness storage is entirely appropriate and is not only in the best interests of the State, but, more importantly, critical to OPWDD's clients. However, when we asked if this is a standard practice for OPWDD and whether this practice is occurring elsewhere in the State or just in the Albany area, OGS was unsure. We agree it is important to be ready to quickly assist OPWDD clients, but, with access to suppliers who generally will provide same-day delivery, it is no longer necessary to store home furnishings for long durations.

The Initiative recommends warehouse facilities implement acceptance criteria for items being stored and use real-time delivery of office supplies to reduce the need for storage. We found that OGS is not operating the Guilderland Distribution Center as efficiently as possible, as the Gaming Commission (Gaming) has requested OGS not distribute a large portion of its inventory for more than a year. This portion of Gaming's inventory takes up approximately 14,094 square feet (80 percent) of Gaming's warehouse space at an estimated annual storage cost of \$85,879. The inventory is

valued at more than \$526,000 and includes 410,833 promotional items such as 17,600 refrigerator magnets, 5,000 flash drives, 35,000 tote bags, and 87,000 key chains. In a May 2018 email to OGS, Gaming stated the inventory could not be distributed and that it was not sure when these items would be used. However, when we and OGS asked Gaming about its intentions for this inventory, it responded that all of it would be distributed within the next 18 to 24 months.

Support Services has recommended the Department of Corrections and Community Supervision (DOCCS) not enter into a lease renewal and that it establish a timeline to consolidate operations for its central New York warehouse, which contains items such as a large amount of old equipment, used furniture, moldy mattresses, and a large pile of lockers that could be surplused or disposed of. However, DOCCS is reluctant to consolidate the warehouse with OGS, and the two agencies continue to negotiate.

OGS does not have authority over State agencies' purchasing or their inventories, but the Initiative encourages cost-benefit analyses prior to placing items in storage, elimination of stockpiles, and the purchase of supplies as needed. We believe OGS, under these circumstances, could have reached out to the SAGE Commission or the Executive for support when negotiating with reluctant agencies.

OGS uses a standard evaluation form for reviewing warehouse infrastructure, contents, and staffing, but it does not retain the forms. However, these forms could help Support Services justify that a warehouse should be consolidated or liquidated. Support Services officials stated they will retain the evaluation forms going forward.

Initiative Project Management

We believe, to efficiently implement the Initiative, Support Services needs to develop an inventory of leased and State-owned warehouses. The survey results include information on 1,300 facilities that vary in size and may not all be subject to the Initiative. For example, we believe a 64-square-foot structure identified by the survey at a State campground may be a small shed, or another 100-square-foot structure at an office building could be a maintenance closet. OGS officials stated they understood our interpretation of the survey data and the need to refine it. Refined survey data and a properly identified population of warehouses would aid Support Services in evaluating the need for warehouses, monitoring the Initiative's timeliness, and completing projects. These improvements would also allow for leased and State-owned warehouses to be evaluated concurrently, instead of sequentially, which could create more opportunities for repurposing. The

current process of only evaluating leased warehouses 14 months in advance of the lease termination slows the Initiative’s progress, as OGS has multiple leases that don’t expire for five or more years. Also, it does not allow for the opportunity to seek renegotiation of lease terms and prevents potential cost savings from being realized sooner.

Recommendations

1. Identify all State warehouses – both leased and State owned – including those previously evaluated and those yet to be evaluated as part of the Initiative, and maintain a comprehensive central listing.
2. Evaluate all State-owned and leased warehouses to optimize repurposing and cost-savings opportunities.
3. Improve internal communication between the REC and Support Services to efficiently and effectively meet the Initiative’s goals.
4. Collaborate with State agencies to perform cost-benefit analyses of items being considered for warehouse storage.
5. Work with State agencies to efficiently utilize State warehouse space.
6. Retain forms used for reviewing and evaluating warehouses.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine if OGS has reviewed the warehouse space used by State agencies for cost-savings opportunities. The audit scope covered the period January 1, 2014 through March 29, 2019.

To accomplish our objective and assess the internal controls related to our objective, we reviewed Executive Order Number 4 and the mission of the SAGE Commission as they relate to the Initiative. We also interviewed OGS officials, reviewed and analyzed documentation provided by OGS, conducted site visits at warehouses, and analyzed and attempted to reconcile the population of leased and State-owned warehouses with OGS officials. As part of the attempt to reconcile the population of leased warehouses, we reviewed information from the Statewide Financial System.

Statutory Requirements

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

As a matter of disclosure, we note that the Office of the State Comptroller had leased storage space evaluated as part of this Initiative and voluntarily reduced the space. Except for this matter, we conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

A draft copy of the report was provided to OGS officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety to the end of this report. OGS officials generally agreed with the audit's recommendations. Our responses to certain OGS comments are included in the report's State Comptroller's Comments.

Within 180 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of General Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Agency Comments



Office of General Services

ANDREW M. CUOMO
Governor

ROANN M. DESTITO
Commissioner

December 17, 2019

Mr. Brian Reilly
Audit Director
Office of the State Comptroller
Division of the State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236-0001

Re: Draft Audit Report- 2019-S-1, Issued 11/21/2019

Dear Mr. Reilly:

The Office of General Services (“OGS”) has reviewed the Office of the State Comptroller’s (“OSC”) above-referenced draft report relating to Audit Report Number 2019-S-1 titled Efficiency of Warehouse Space.

Under the Warehouse Consolidation Initiative (the “Initiative”) OGS has leveraged in-house leasing, warehousing and logistics, and asset management expertise to evaluate the receiving, storage and distribution needs of State agencies. As part of the evaluation process, OGS conducts cost-benefit, spatial, and operational analyses while considering the lessee obligations of the agencies and market conditions. OGS develops recommendations and best practices tailored to the unique needs of the agencies for their consideration. To date, the Initiative has reduced leased warehouse space by over 430,000 square feet. This has generated a savings of nearly \$1.7 million in lease payments alone.

There are a few statements in the Report with which we disagree. Suggested additions are identified with underlines and suggested deletions are identified with ~~strikethroughs~~.

- **Page 6:** The following statement should be revised to note that “Consolidation occurs when Support Services ~~decides~~ evaluates, recommends, and receives approval that the lease should not be renewed.” Currently, the statement implies that OGS’s decision to consolidate guarantees that the consolidation will occur which is inaccurate. OGS can recommend but cannot consolidate without the agency’s approval.
- **Page 8:** The following statement is inaccurate: “For example, the Department of Labor and Department of Corrections and Community Supervision (DOCCS) have holdover leases because Support Services did not receive timely lease information from the REC.” The Real Estate Center (“REC”) did not renew the Department of Labor lease because of compliance issues with the landlord. The DOCCs review was delayed because of other priorities and not because of communication issues with the REC.
- **Page 8:** The last statement in the following sentence should be removed as it is inaccurate. “However, Support Services still needs to reach out to the REC for key pieces of information, ~~and the Initiative would be more efficient if all needed information had been provided at the time Support Services took ownership of the Initiative.~~” It is appropriate for Support Services to receive current lease information from REC because it is REC’s core mission to obtain and maintain these contracts and data.
- **Page 8:** The first paragraph referring to OPWDD should include a sentence describing the reduction in space that was achieved: “Support Services consolidated OPWDD from 88,000 square feet to 2,000”

[Comment 1](#)

[Comment 2](#)

[Comment 3](#)

[Comment 4](#)

Mayor Erastus Corning 2nd Tower, Governor Nelson A. Rockefeller Empire State Plaza, Albany, New York 12242 | www.ogs.ny.gov

square feet.” Additionally, it should be noted that “the 58 mattress and box spring sets in storage is equivalent to .05% of the agency’s current residential inventory.”

- **Page 8:** We object to the statement that “OGS is not operating the Guilderland Distribution Center as efficiently as possible.” The only evidence cited in the Report is that the Gaming Commission has not distributed some of its inventory as quickly as OSC believes it should. That fact should not reflect poorly on OGS. Furthermore, that fact has nothing to do with efficiency, which should be properly evaluated in light of the overall operations of the warehouse, including receiving, inventory, spatial storage, and distribution.

[Comment 5](#)

Responses to Recommendations:

OSC Recommendation 1: Identify all State warehouses – both leased and State owned – including those previously evaluated and those yet to be evaluated as part of the Initiative and maintain a comprehensive central listing.

OGS Response: While we generally agree with this recommendation, it is important to note that a “comprehensive central listing” of warehouse space did not exist prior to the Initiative and that not all State-owned warehouses are under the control of OGS. We are continuously working with fellow agencies to obtain accurate and complete information on warehouse space, and the centralized listing will improve as warehouse data is received and evaluations are conducted.

OSC Recommendation 2: Evaluate all State-owned and leased warehouses to optimize repurposing and cost-savings opportunities.

OGS Response: We agree with this recommendation. Optimizing warehouse space and identifying cost savings are the core purposes of the Initiative. We do not, however, apologize for prioritizing the evaluation of leased warehouse space over State-owned space, because as demonstrated by the nearly \$1.7 million in savings already achieved, the reduction in leased warehouse space resulted in immediate savings.

OSC Recommendation 3: Improve internal communication between the REC and Support Services to efficiently and effectively meet the Initiative’s goals.

OGS Response: We agree that during the initial transition of the program from REC to Support Services there were deficiencies in communications. However, continuous outreach between the two programs along with monthly meetings assisted in resolving this issue. All staff involved in this Initiative remain committed to maintaining these open lines of communication and continuous improvement to ensure effective program administration.

OSC Recommendation 4: Collaborate with State agencies to perform cost-benefit analyses of items being considered for warehouse storage.

OGS Response: We agree with this recommendation. This function is ongoing and will continually progress during evaluations.

OSC Recommendation 5: Work with State agencies to efficiently utilize State warehouse space.

OGS Response: We agree with this recommendation. This function is ongoing and will continually progress throughout evaluations.

Mr. Brian Reilly
Page 3
December 17, 2019

OSC Recommendation 6: Retain forms used for reviewing and evaluating warehouses.

OGS Response: We agree with this recommendation and are retaining forms used for the review and evaluation of warehouses.

Please let us know if you have any questions or require any further clarification.

Sincerely,

Theresa Bonneau
Director of Internal Audit
(518) 402-5846
theresa.bonneau@ogs.ny.gov

State Comptroller's Comments

1. The requested wording change was made to the report.
2. DOCCS and Department of Labor warehouse examples have been removed from this section.
3. We did not make the requested change, as this is our conclusion related to the efficiency of OGS' warehouse operations.
4. The square foot reduction and cost savings achieved related to OPWDD's warehouse is included in our overall summary for the Initiative: cost savings of \$1,699,020 and a reduction of 434,266 square feet.
5. Gaming's inventory – with an annual cost of \$85,879 – was undistributed for over a year. While Gaming plans to distribute these promotional items over the next year and a half to two years, these are the costly scenarios the Initiative was designed to eliminate.

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