An Overview of Overhead

The current headlines about university overhead costs have the potential for great damage to the research community. There is also an opportunity to correct a situation that is in need of repair. The danger comes from an overreaction to the correct opinion that the current overhead system has problems. The opportunity comes from the chance to make modifications that would convert a well-intentioned system into a well-functioning one.

Scientists suspect that their hard-earned money is being diverted to support the humanities or inappropriate administrative expenses, and the humanities suspect universities are subsidizing the sciences. Suspicion is further heightened when individual professors, trying to find out what has been promised in overhead services, receive replies of the type, “It’s much too complicated to explain.” Administrators, on the other hand, who are facing tight budgets, see constantly increasing demands such as legislation for safety and animal procedures without concomitant congressional outlays to pay for them.

It is time, therefore, to develop a universal procedure for setting overhead rates, to make standard rates which can be adjusted only on the basis of specifically expressed exceptions, and to make the procedures clear and available to all interested parties. Many of the components of the overhead rate are essentially the same from institution to institution. In a 1988 Association of American Universities report, some general items of accounting, record keeping, and sponsored project administration could be lumped together and were found to be 27 ± 5 percent of direct costs for 14 public and private universities. However, others such as library rates, amortization of buildings, and student services varied widely. It should not be difficult to assess the true average lifetime of buildings, the cost of adequate library support, and similar expenses, and to develop some rates for universities to routinely qualify based on performance. To those who argue that there will always be some exceptions, one could establish an adjustment procedure whereby 5 percent of the total overhead funds would be put aside in a general fund to which institutions could make their cases for special treatment. That money would be allocated on a priority basis by a committee of peers, exactly as peer-review panels currently assess requests from individual scientists.

Besides giving flexibility, it would develop camaraderie between college presidents and researchers, both facing the common hazards of grantmanship and priority scores. Such a universal rate should be generous because the infrastructure of universities is at present very fragile and the federal government and research scientists have a big stake in its survival in a healthy and flourishing manner. A fair rate should be established objectively and should include the proper costs of building depreciation. Such a rate would probably require more money, and it should not come out of a hard-pressed research base. Thus, scientists, administrators and government officials need to band together to raise more money for research grants and overhead. Otherwise, there will be constant bickering over how to slice an inadequate pie.

A fair universal rate might approach 70 percent if it included correct building and equipment depreciation, but it would obviate the need for facilities by pork-barrel legislation because the repayment of facilities would be built into the system. The more accessible bookkeeping would highlight the inequity of passing laws dealing with such subjects as animal research, radioactive waste, stricter accounting and so forth, without providing the money to pay for more stringent requirements. Currently, stricter requirements are converted into “direct” charges, further diminishing research funds. Scientists would support a fair overhead rate because they need strong institutions, administrators would support more grant funds because they need competitive scientists, and politicians should help both for a stronger country.

In brief, the present system of individualized university negotiations on overhead costs should be redesigned to put in place a straightforward procedure and a universal rate subject to minor adjustment. Then universities would only need to provide documentation that those services are provided in order to receive overhead in proportion to grant support. University presidents, faculty, and government could unite in a glass-bowl system that would promote one of the great accomplishments of modern times, the university-government partnership in basic research.—DANIEL E. KOSHLAND, JR.
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