guest comment

How to reform indirect costs

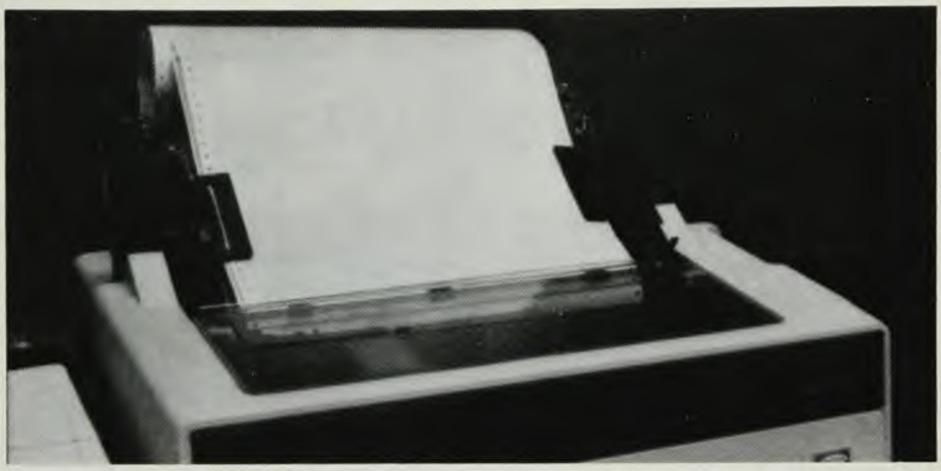
John G. Cramer

I have noted with some interest that the August and several previous issues have been providing a forum on the controversy surrounding indirect cost (IDC) charges for research at universities. Unfortunately, the letter by Robert Adair, (August, page 11), Stanley Pickart and Robert Yaes and the rebuttal by D. H. Douglass (August, page 13) all miss what I consider to be the central point of the indirect-cost question.

I am afraid that it is quite beside the point that European and Canadian universities encourage research on their campuses without requiring reimbursement for their costs. It is beside the point that a sizable fraction of IDC charges reflect the cost of cumbersome university, state and federal regulations and "centralizations" rather than the cost of the research. It is beside the point that the University of Rochester can justify its elephantine IDC charges to the federal auditors and can still contend that it is short by 15%. It is beside the point whether the IDC charges of most universities are justified or not, excessive or not, fraudulent or not.

The real point is that we have created a system within our universities that is not responsive to needs and which lacks intrinsic stability, for it lacks the negative-feedback loops that are necessary for stability. This is a serious problem because this instability, the uncontrolled growth of IDC, threatens to devour the whole enterprise of research at universities. We physicists, along with our engineering colleagues, invented the concept of negative-feedback stabilization, and we should be more perceptive than most as to its presence or absence in our own institutions.

In the case of the IDC system as it presently exists, we have an institution with three parties involved (government, university, and researcher) in which only two of the three parties



negotiate to determine the rules and standards. The government auditors who negotiate with university officials on IDC rates are concerned only that the charges assessed are the true costs related to research activities. They are not concerned about the quality of the service or its value (positive or negative) to the research contract. If a purchasing agent loses a purchase order for essential equipment in a tightly scheduled experiment, if a contract accountant produces ludicrously inaccurate balance sheets that require days of the researcher's time to correct, if a personnel agent blocks a key promotion causing a highly trained and valuable employee to resign, the researcher can only register a complaint (which will probably be ignored) and must nevertheless pay the IDC charges for these "services." If a research-contract oriented "service" organization expands without rational limit in the traditional bureaucratic fashion or becomes a dumping ground for substandard staff and university officials "put out to pasture," the research contracts which are the recipients of these "services" have no recourse but to accept what is offered and to pay for it. If the costs of these "service" organizations are high because of overstaffing, incompetence, inefficiency or misplaced priorities, there is no mechanism for detecting and correcting the problems of these organizations. The federal auditors cannot be depended on to perform this function, for the interests and priorities of these public servants are not the same as those of the researchers, and so such problems do not enter into the government-university negotiations.

The existing IDC system can probably not be eliminated, no matter how much we protest and complain about abuses; but it can be changed to make it more responsive, more self-stabilizing and self-correcting. This can be accomplished by introducing some negative feedback into the system, and it is toward this goal that we victims of the present system should direct our efforts. In that context, I would like to put forward the following suggestions:

▶ Create the on-campus position of Research Contract Auditor, an agressive individual trained in law and accounting who works part- or full-time defending the interests of the research contracts in negotiations between federal auditors and university officials. This person would be hired by and responsible to an organization of researchers and would be paid from IDC charges. The person would serve as an "ombudsperson" who would channel complaints from researchers about substandard service and abuses to the appropriate levels of the university and federal funding agencies. This person would be an advocate for our interests.

▶ Move away from "averaging" in IDC charges and toward direct billing for

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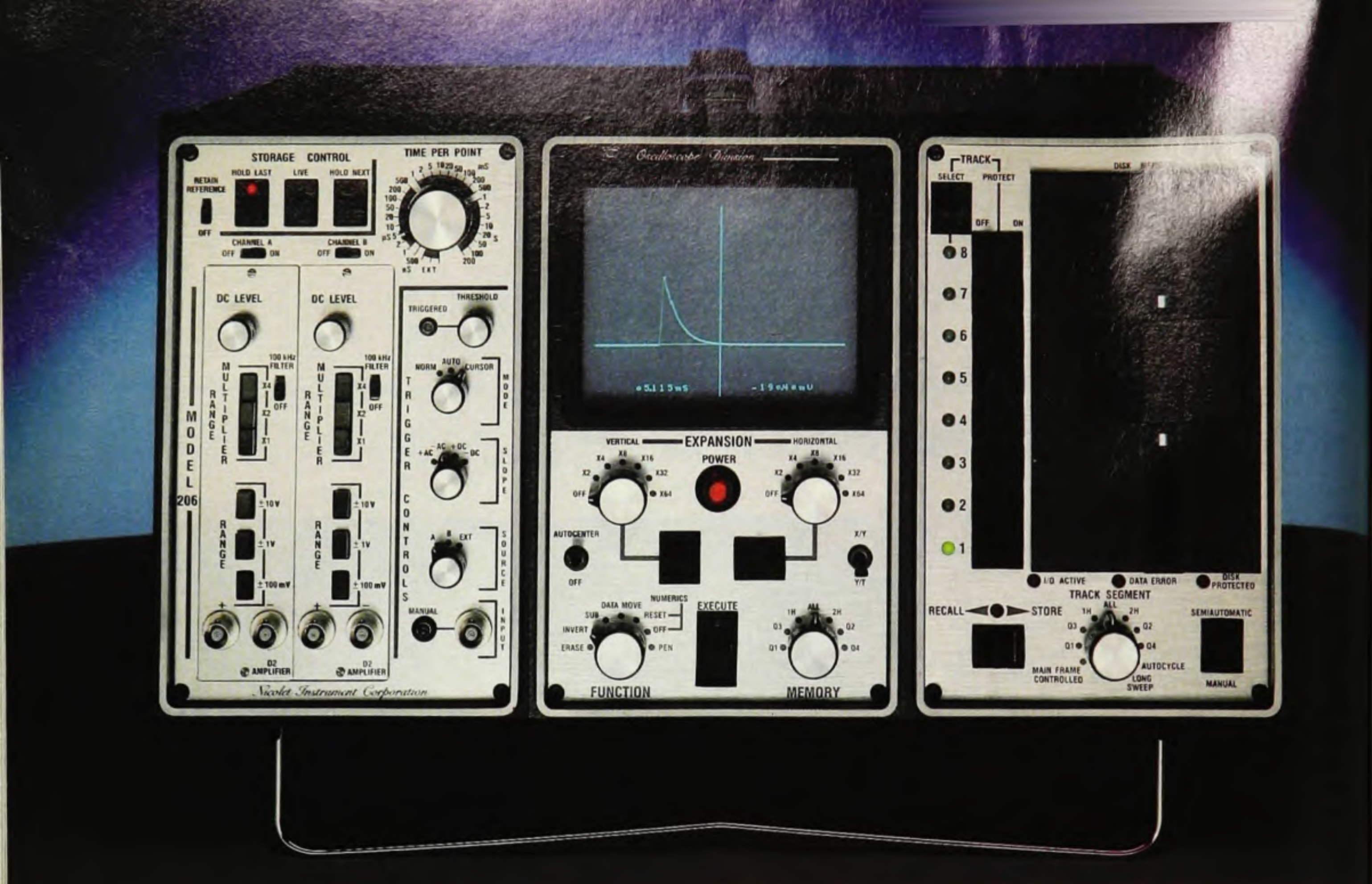

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services rendered. For instance, purchasing-agent cost would be added to the billing for each purchase order depending on how much time was actually required. Janitor and maintenance charges would be billed for services performed. This would have the dual effect of creating a direct awareness of the cost-vs.-values of the service performed in the "customer" and a more direct awareness in the person performing the service of who paying the person's salary. I am not swayed by Douglass' statement that "complete metering of everything would be prohibitively expensive" since good accounting practices should already require much of the needed "metering" and in any case "completeness" is not the goal but only steps toward more accountability and more equitable and less obscure procedures. Some of us feel that the present system is also "prohibitively expensive" in many ways.

▶ Move away from required "institutionalized" service and toward optimal use of private enterprise, where that is possible. Eliminate the university payroll department, contract accounting department, personnel department, and so on, and let contracts with banks to handle payrolls, with accounting firms to handle contract accounting, with employment agencies to handle personnel matters, with cleaning firms to handle building maintenance, and so on. Eliminate the purchasing department and permit individual research contracts or groups with similar purchasing patterns to handle their own purchasing through contractors or internal employees. Regularly evaluate the quality of these services and seek new contractors for services which are judged to be substandard or unduly expensive. Take advantage of the private sector and the free-market economy.

▶ Divide university services into three categories: Optional, substitutable, and essential. Optional services could be eliminated along with the associated IDC charges at the option of the research contract. Substitutable services would be required (perhaps to comply with state law) but could either be supplied by the university (for IDC charges) or obtained from the private sector through a firm which met established university standards. Essential services (that is, those provided by the Vice President for Research) would be absolutely required for all contracts and all would share in paying the IDC charges. Of course the university would have to justify the assignment of a particular category to a particular service, and it might be a subject for negotiation with the Research Contract Auditor. The purpose of this division, of course, would be to place university "services" which are perceived to be of negative value on the defensive, for their dissatisfied customers would have the option of going elsewhere for better treatment.

How would reforms in the present IDC system be implemented? Very easily, if there were a consensus within the scientific community that they were desirable and would further the goals of university-based scientific research. A representative organization like the APS or AAAS could, after an appropriate study and report, recommend to the principal funding agencies and the OMB that the reforms be required of universities receiving research grants. If the funding agencies imposed these requirements, the universities would have little recourse but to comply.

I should point out that the examples used in the above discussion do *not* necessarily reflect my direct experience in administering a research contract at the University of Washington. In fact, our IDC rates are quite low on the national scale and our upper level administration is already quite concerned with the IDC system and its problems. Finally, let me predict that even were such changes as those above made, they would not solve all the problems or eliminate all the tensions between the three parties involved in the enterprise of university-based research. Nevertheless, I feel that reforms in the IDC system along these lines are overdue, and, while they might work some temporary hardships on university administrators like D. H. Douglass, they would be very positive steps toward alleviating the growing IDC burden to which university-based research is presently being subjected.

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