

INDIRECT COSTS

A Consensus on Reform Begins to Take Shape

After 2 years of headlines about universities charging items such as yachts and Rose Bowl tickets to overheads on federal research grants, you might conclude that the indirect costs scandal has been an unmitigated disaster for academia. But there could be some welcome fallout. The long-running scandal has finally focused political attention on fixing the indirect cost system—a system long disliked by both administrators and scientists. And there are signs that the pressure for reform is pushing the academic community to settle its internal disputes over indirect costs before the government steps in with remedies of its own.

The latest sign that a consensus of sorts is finally emerging comes with the recent release of reports by two independent groups that suggest almost-identical reforms. One group—a collection of bench scientists representing academic societies and university administrators calling itself the New Delegation for Biomedical Research—has produced eight specific “principles of reimbursement” aimed at simplifying the system. The New Delegation proposals are echoed—in some cases, word-for-word—by suggestions in a report* released last week by the Department of Health and Human Services (HHS) that summarizes a year-long HHS study of indirect costs. “I think [these reports] really are the building of consensus toward ideas that have real wisdom,” says NIH grants policy officer Geoffrey Grant, the study director of the HHS report.

These moves toward consensus are coming none too soon: A joint working group of the Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) is expected to announce proposed changes in the government’s indirect cost policy within the next few weeks—changes that will likely affect academia for some time. To influence the OMB-OSTP group, both reports have adopted what might be called the Henry David Thoreau principle—simplify, simplify. “We felt it’s important that the public realize that scientists and administrators are not happy either, that we’re not struggling over every penny,” says New Delegation cochair

and Nobel laureate Harold Varmus, a microbiologist at the University of California, San Francisco. “We want to make the system fairer and less arbitrary than the one that’s existed in the past.” (The other cochair is Johns Hopkins University president William Richardson.)

To that end, both reports stress the importance of creating incentives for universities to cut research overhead. And one of the best such incentives, according to both reports, is “negotiated, multiyear, predetermined rates with no carry-forward provisions”—a mouthful of accountese that boils down to a simple recipe for cost control. Under such a system, the government would ask individual universities to fix their indirect cost rates over a 3- to 5-year period. If the universities could keep their actual costs lower than projected, they would hold on to the windfall. On the other hand, if the universities fell short they would have to make up the difference themselves. “We think that trying to come up with ways [to encourage savings] that are not punitive would reward relative efficiency,” says Columbia molecular biologist and New Delegation member Kenneth Berns. But even Berns admits that Congress might have some trouble with a system under which universities would be encouraged to make money off the government: “There is some question as to whether the government could accept that kind of approach.”

To help simplify the system and to make it more uniform across a broad range of universities, both the New Delegation and HHS argue for a short “menu” of formulae and methods for calculating indirect costs, rather

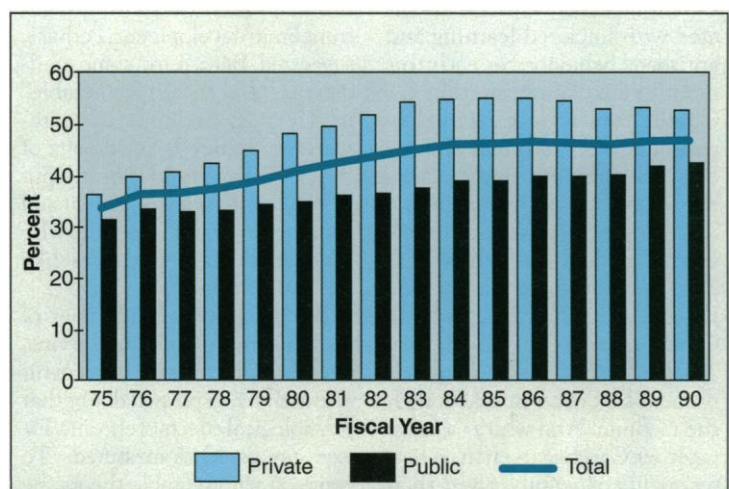
than allowing institutions to derive their own calculations in negotiations with the government. Similarly, the reports suggest that universities be allowed to make use of “threshold” rates for certain components of indirect costs. In a manner analogous to the standard deduction on personal income tax forms, this proposal would allow universities to claim a modest indirect cost rate without providing detailed accounting. Only if a university was prepared to justify its requests with detailed analyses could it claim a higher rate. At the same time, both groups also ask the government to clarify whether certain types of research expenses, such as animal facilities, should be treated as direct or indirect costs. Different institutions now classify such costs in different ways.

The two reports differ on one key aspect: how to tackle the burgeoning costs of new research facilities, whose increases over the past decade have largely driven the rise in overall indirect costs (see chart). The HHS study includes a projection based on the past 10 years of indirect cost data that suggests that without reforms, average indirect cost rates will rise from 55.7% in 1992 to 63.1% in 2000—and that almost all of that increase would come in facility costs. But the report merely suggests that the government establish a “reasonable method” for reimbursing facility costs. The New Delegation is much more specific, calling once again for a federally funded competitive grants program for new facilities. Such a program currently exists in the National Science Foundation, although the Administration has never supported it and Congress has never appropriated more than a fraction of the funds that most analysts say are needed to make it an attractive alternative to pork-barrel funding.

Members of both groups are generally confident that their reports will have a positive impact on the OMB-OSTP proposals and the political culture of indirect costs in general. But one member of the New Delegation

who requested anonymity isn’t sure that these consensus proposals will satisfy “the Dingells of the world,” a reference to Representative John Dingell (D-MI), whose investigation of Stanford kicked off the entire indirect costs scandal. “It seems to me that if we agreed to take a larger hit that’s credible to everyone, we’d probably be shielded from further hitting,” this individual says. “On the other hand, now any time a school pulls some skullduggery—and there’ll be one, somewhere, sometime—everyone’s going to jump up and down and invoke the Stanford business. What we need most is some peace to get our work done.”

—David P. Hamilton



Long-term growth. Indirect cost rates for private universities have increased faster largely because of building costs.

**Management of Research Costs: Indirect Costs*, HHS Working Group on the Cost of Research, May 1992.