

JOURNAL OF THE FACULTY SENATE (Norman campus)
 The University of Oklahoma
 Regular session - March 16, 1987 - 3:30 p.m.
 Conoco Auditorium, Neustadt Wing, Bizzell Memorial Library

The Faculty Senate was called to order by Professor Penny Hopkins, Chair.

PRESENT: Aly, Bell, Bert, Brown, Caldwell, Childress, Cohen, Crowley, Curtis, Devine, Dietrich, Economou, Eisenhart, Eliason, Emanuel, Fagan, Faibisoff, Harper, Herstand, Hill, Hopkins, Horrell, Johnson, Knehans, Kudrna, Kutner, Lee, Lewis, Magid, Mennig, Palmer, Rogers, Shambaugh, Spaeth, B. Taylor, K. Taylor, Tepker, Tompkins

Provost's office representatives: Wadlow, Gilliland

PSA representatives: Laquer, Weddle

UOSA representatives: Goodspeed, Sharpe, Solomon

ABSENT: Canter, Foster, Frech, Harris, Kuriger, Livesey, Madland, Magrath, Morgan, Parker, Poland, Tobias, Wallace, Wiggins

Liaison, Women's Caucus: Norton

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APPROVAL OF MINUTES

The minutes of the regular session of February 9, 1987, were approved.

ANNOUNCEMENTS

The Spring General Faculty meeting will be held April 16, 1987 at 3:30 p.m. in Dining Room 6 of the Union. The meeting will include comments from the President, Senate Chair and Senate Chair-elect, as well as a discussion of the expanded grading scale. The faculty awards will be given out at a special Faculty Tribute luncheon held April 9 at 11:30 a.m. in the Union Ballroom.

The Fall 1986 semester reports of the University Councils and Publications Board were mailed to the Faculty Senate members and Chairs/Directors on February 19. Copies are available in the Senate office.

The Oklahoma Conference of Faculty Organizations will meet April 3, 1987 in Tahlequah. The theme is "Action + Pride = Oklahoma Higher Education." The speaker will be Mr. James Tolbert, who was the chairman of the Oklahoma Higher Education Task Force.

ACTIONS TAKEN BY THE ADMINISTRATION ON SENATE RECOMMENDATIONS

Designation of July 1 as starting date for all university appointments (see 12/85 Journal, page 4): President concluded that the present policy of an August 15 anniversary date for 9-month employees is appropriate; therefore, he does not concur with the Faculty Senate recommendation.

Professor Johnson reported that, in a recent meeting, the President had given as his reason for denying the Senate's request that the current date was consistent with practices adhered to by the majority of comprehensive universities. Professor Johnson said he believes that kind of argument fails to fit in with the President's emphasis on equity. He asked the Senate Executive Committee to raise this issue with President Horton again, pointing out that 9-month faculty who do research or teach in the summer deserve to have their raises effective July 1, just as the 12-month employees do. Professor Hopkins agreed to bring this up with President Horton at the next meeting.

Revised maternity leave statement (see 2/87 Journal, page 3): President waiting for responses from the Employee Executive Council, HSC Faculty Senate and HSC Employee Liaison Council.

Resolution commending President Horton and the OU Board of Regents for voting to divest from companies doing business in South Africa (see 2/87 Journal, page 7): Noted by the President; forwarded to the Board members 2/24/87.

SENATE EXECUTIVE COMMITTEE REPORT

During a meeting with Provost Wadlow on February 24, she revealed that the search for the new director of the Honors Program is under way and is limited to internal candidates.

At recent meetings with OU Regent Imel, the OU Board of Regents, State Regent Rothbaum, and the State Regents for Higher Education, the Executive Committee discussed the higher education task force report. The recommendations include: (1) Restructuring the Regential organization of higher education; (2) Changing or at least making public the basis for the Higher Regents allocations of monies to the institutions; (3) Increasing student and faculty development programs, including a recommendation that is very similar to the indirect costs report; (4) Eliminating duplication of programs across the system; (5) Increasing state allocations to the Higher Regents. The report, a summary of the five major points of the report, and the Faculty Senate and the University responses to the report are available in the Senate office.

Professor Hopkins talked with President Horton about his possible candidacy for the University of Kentucky Presidency. The President assured her that he would stay at OU as long as he is able to accomplish those things that he believes are important.

"FOCUS ON EXCELLENCE"

Ms. Mary Jo Ruggles, music learning facilities coordinator, focused on the Catlett Music Center. She passed out a flyer describing the new center, which currently is about one-third completed and has about 55,000 square feet. She discussed the unique acoustical features of the center and offered to take anyone interested on a tour. The remaining phases will be completed once the funding is obtained.

INDIRECT COSTS COMMITTEE REPORT

Professor Hopkins suggested that during consideration of the following reports, the Faculty Senate should go into a quasi committee of the whole to allow a more informal discussion and eliminate having to vote on each amendment, unless the authors of the document disagree with the amendment.

Professor Cohen offered an amendment to recommendations 2) and 3) of the indirect costs report, prepared in consultation with Professor Beevers, chair of the ad hoc committee. The intent was to recognize that some indirect costs would have to go to meet central administration expenses and also to make "fund" plural. Professor Johnson said he thought it was unnecessary to be that specific because indirect costs factor in a certain amount of costs for the central administration anyway. Professor Cohen responded that the purpose of the report was to limit more narrowly the functions that the indirect cost funds support and reduce the subsidy to the general university budget from research-generated monies. Professor Crowley asked whether the instructional budgets would have to take up the \$2 million slack in current indirect cost funds which would be lost under the proposal. Professor Beevers answered no, that it is administrative, not instructional costs, that draw on this fund. Professor Lewis suggested revising the amendment to add library acquisitions to the list of areas receiving indirect costs allocations.

The original sections in question (page 5) read as follows:

2) All indirect cost monies generated from Grants and Contracts should be placed in a new university account, distinct from other income. An examination of this account should be carried out at the end of each fiscal year to determine the source and distribution of indirect cost monies recovered during that year. All disbursements from this fund should be clearly identified and related to costs incurred by research, using the allocation policy described below.

3) Funds recovered from indirect cost monies that are allocated to internal support of research should be distributed to the faculty research fund, to the generating college and to the generating department to defray research-related expenses. Members of the generating department, who are close to and hence most knowledgeable about research programs in their discipline, are uniquely able to pinpoint targets for internal support that maximize the impact of these funds.

With Professor Cohen's and Professor Lewis' amendments:

Change the last sentence of item 2) to:

All disbursements from this fund should be clearly identified as directly supporting the research functions of the institution.

Substitute the following for item 3) (Professor Lewis' addition underlined):

3) The only central administrative functions to receive indirect cost funds should be those which are actually required to serve and support research activities, e.g. the Office of Research Administration and Grants and Contracts Administration. The balance of the funds recovered from indirect cost should be allocated to the internal support of research and distributed to faculty research and library acquisitions funds, to the generating colleges, and to the generating departments to defray research related expenses. Members of the generating departments, who are close to and hence most knowledgeable about research programs in their respective disciplines, are uniquely able to pinpoint targets for internal support that maximize the impact of these funds.

The final report, including the revisions to page 5, was approved by the Senate, with one dissenting vote, and is attached as Appendix I. (See also 2/87 Journal, page 5.)

AUXILIARY ACCOUNTS COMMITTEE REPORT

The ad hoc committee's report, which was discussed at the last meeting (see 2/87 Journal, page 5), was approved by the Senate and is attached as Appendix II. Professor Mennig, a member of the ad hoc committee, reported that Vice President Elbert said he would be happy to comply with the two key recommendations (the internal study and the development of written policies). Professor Hopkins explained that the indirect costs and auxiliary accounts reports were complementary reports and would be forwarded to the President together.

RESOLUTION REGARDING COLLEGE OF DENTISTRY/PROGRAM DISCONTINUANCE POLICY

As a follow-up to the presentation made by Professor Thomas Coury, the Chair of the Health Sciences Center Faculty Senate, at last month's meeting (see 2/87 Journal, page 6), Professor Bell introduced the following resolution:

WHEREAS, the Governor of the State of Oklahoma has recommended that the University of Oklahoma College of Dentistry be closed as a cost saving measure; and

WHEREAS, there are Regentially approved established procedures for both program review and program discontinuance,

THEREFORE, BE IT RESOLVED that the Faculty Senate of the University of Oklahoma, Norman Campus, opposes in principle the arbitrary termination of academic programs, and

FURTHERMORE, BE IT RESOLVED that the Faculty Senate, Norman Campus, supports the position of the Faculty Senate, Health Sciences Center Campus, that discontinuation of the College of Dentistry should not be considered or implemented until appropriate review and program discontinuance processes have been carried out according to the established procedures.

Professor Cohen said he thought the point should be made that OU's own internal reviews are not the only ways programs can be terminated, and he suggested adding "without adequate internal and external review" following "termination of academic programs." The third paragraph would then read:

THEREFORE, BE IT RESOLVED that the Faculty Senate of the University of Oklahoma, Norman Campus, opposes in principle the arbitrary termination of academic programs, without adequate internal and external review, and

As there was no opposition to the amendment, the resolution including the amendment was approved by the Senate.

TELEPHONE SYSTEM REPORT

Professor Alan Nicewander, Chair of the Senate's Faculty Compensation Committee, discussed the committee's report on faculty phones, which came about because over 200 faculty phones have been removed from service to save money. The report concludes with a resolution calling for the basic service for the office phones of the academic units to be transferred to University overhead and for each occupied faculty office to be provided with a phone. Responding to an article that appeared in the school newspaper, Professor Nicewander explained that at the last meeting (see 2/87 Journal, page 6) he had said it costs the departments about \$50 to disconnect a phone; what he had intended to say was that the charge was for reconnecting a phone. Answering Professor Crowley's question about the rationale for point (3) on the last page, Professor Nicewander explained that currently faculty and students were getting identical service but quite disparate rates (\$26.95 for faculty and \$15.90 for students); therefore, one option might be to equalize those rates and/or increase the rates to other kinds of users, such as auxiliary accounts.

Professor Devine suggested that some sort of condemnation should be added, since the administration had allowed faculty phones to be removed and no money was saved. Professor Emanuel said he believed telephones had been treated as overhead costs several years ago. Following some discussion regarding who would pay for reconnecting faculty phones, the report was amended, as suggested by Professor Bell, to add "and installation charges" after "basic service." Professor Nicewander noted that the Telecommunications office, as a profit center with a \$9000 travel budget, should be one possible source of funding. The report as amended was approved by the Senate (attached as Appendix III).

SUMMER INSTITUTE OF LINGUISTICS (SIL)

Professor Cohen said a letter written by Professor John Moore (Anthropology Chair) indicates there still are some problems with the way the SIL is being handled this year. Professor Cohen suggested that the Senate Chair and/or Executive Committee follow up on how last year's Senate recommendations (see 5/86 Journal, page 3) regarding the SIL were being implemented.

FACULTY SALARIES REPORT

Professor Nicewander presented a report from Senate's Committee on Faculty Compensation, comparing faculty salaries by rank and by department between OU and six of Oklahoma's four-year colleges. He thanked Professor Tom James, a member of the committee, for doing most of the calculations. The report is entitled "The Penalties of Scholarship," because the data indicate that the faculty of OU suffer a substantial penalty for doing scholarly work (published research, creative activity) instead of teaching more classes. According to the report, one possible explanation for the lower salaries at OU is the State Regents' funding policy, which appears to be based on "body counts" and does not take into account the costs of doctoral training and research--duties of faculty at comprehensive universities--whereas the four-year colleges, enjoying a relative advantage in the number of credit hours taught, have been able to put more of their total college funds into faculty salaries.

Table 1, which indicates the average salaries at OU minus the average salary of the highest paid state college, shows it is only at the full professor level where OU has some advantages. And if OU's distinguished professors were taken out of OU's figures (the state colleges don't list them), then at the full professor level OU's salaries would fall behind in some departments (e.g. Biology: -1800, Chemistry: -3000, English: -2000).

According to Table 2, at the assistant and associate professor levels, OU's mean salaries are last or next to last. Even OU's \$3400 advantage in fringe benefits does not balance out salary deficits of as much as \$13,000. Professor Lewis said the data confirmed her belief that the OU faculty are only being paid for the time they are teaching. For example, in departments like History, where there isn't a lot of external funding available, the faculty do research over the summer without pay. Professor Curtis pointed out that in many departments OU's faculty teach heavy loads but still aren't compensated for that. Professor Devine suggested that OU's salaries would probably even be lower than the salaries of the Norman public school teachers. The report (available in the Senate office) will be discussed again and voted on at the next Senate meeting.

MISCELLANEOUS FACULTY CONCERNS

Professor Curtis noted that the March 5 Norman Transcript account of the Faculty Senate's response to the OU Regents regarding the Higher Education Task Force report implied that the Senate supported the report's recommendations, when, in fact, the Senate had not even discussed the recommendations. He suggested that the Senate be given an opportunity to provide input to these kinds of matters ahead of time, especially since the School of Music has some real concerns about the recommendations regarding general education testing after two years and G.A. stipends. Professor Hopkins responded that there hadn't been enough time to hold discussions in the Senate before having to respond to the Regents, and furthermore, the Executive Committee is elected to represent the body. On the issue of testing, the Executive Committee merely said it supported the idea in principle. Professor Cohen added that the Senate had stressed that great care would be required in the development and implementation of the tests. Provost Wadlow mentioned that the official University response was that the whole matter of assessment needs further careful study.

Professor Hill said last year there was a reduction in dental benefits and an increase in Huston Huffman fees. He suggested that the Senate should find out if the fee hike at Huston Huffman generated additional revenue or was offset by declining participation. He also suggested looking into whether there were any plans to increase fees, such as parking fees, in the near future, and depending on the answer, consider a resolution opposing any fee increases. Professor Hopkins proposed directing that matter to the Faculty Compensation Committee.

Professor Herstand said another problem area is the salary disadvantage for faculty who teach in the summer--teaching full time in the summer for partial pay (see 2/86 Journal, page 5). Professor Hopkins said she would have a committee look into that.

ADJOURNMENT

The meeting adjourned at 4:55 p.m. The next regular session of the Senate will be held at 3:30 p.m., on Monday, April 13, 1987, in the Conoco Auditorium, Neustadt Wing, Bizzell Library.

Sonya Fallgatter
Sonya Fallgatter
Administrative Coordinator

Teree E. Foster
Teree E. Foster
Secretary

March 1987

Introduction

In July, 1986, the Faculty Senate Executive Committee appointed an Ad Hoc Committee consisting of Budget Council members, Research Council members and other appropriate representatives to study university policies related to indirect costs charged to sponsored research programs. Specifically, the committee was instructed to pursue an in depth study of the following as applied to sponsored research programs:

- 1) the basis for determining the extent of indirect costs;
- 2) the allocation of those dollars retrieved for indirect costs;
- 3) the allocation of funds generated through indirect cost over-realization.

The Ad Hoc Committee appointed was composed of Dr. Larry Canter and Dr. Jon Bredeson for the Budget Council; Dr. Art Johnson, Dr. Linda Wallace and Dr. Paul Bell for the Faculty Senate; and Dr. Michael Morrison, Dr. Roger Frech, Dr. Douglas Mock and Dr. Leonard Beevers for the Research Council.

The committee met weekly throughout the semester and was assisted in its efforts by President Frank Horton, Provost Joan Wadlow, Vice President Art Elbert, Mr. Brad Quinn, Director of Grants and Contracts, and Mr. Bill Varley, Director of Research Administration. The committee extends its thanks to these individuals. A timely editorial concerning Indirect Costs appeared in Science, October, 1986, Volume 234, p. 525, and is attached as Appendix 1.

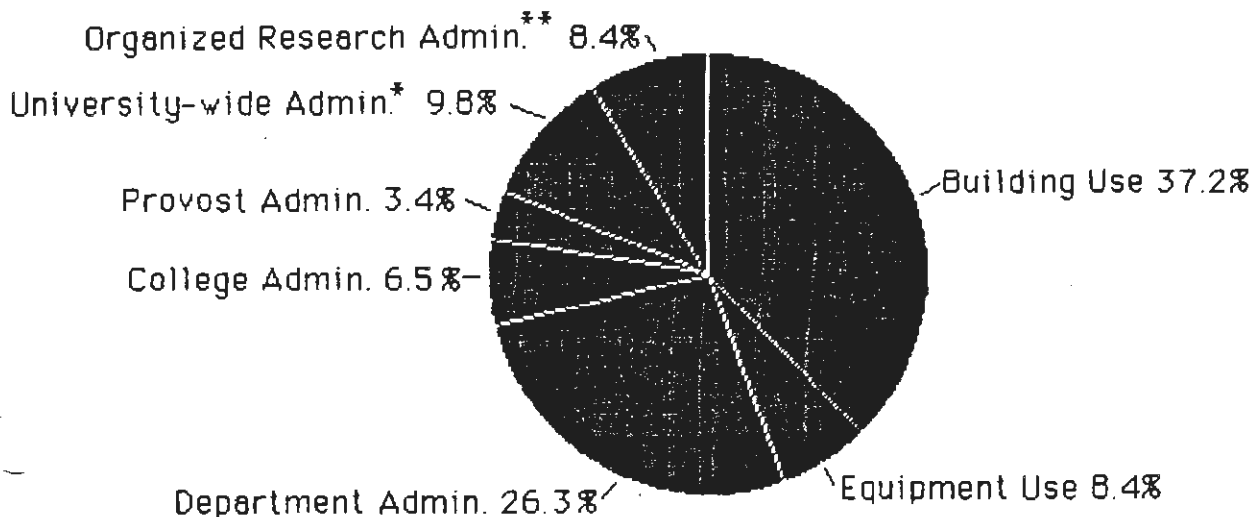
Origin of Indirect Costs (IDC) for Research

Research projects incur two types of costs. Direct costs are those costs that can be clearly charged to the project, such as equipment purchases, supplies and personnel salaries and fringe benefits. Indirect costs are those costs which have been incurred, but are difficult to itemize and/or allocate to a particular research project. Examples of such costs include facilities-related costs (e.g., utilities, security, repairs to buildings, janitorial services, and depreciation of buildings and equipment), as well as administrative costs (e.g., purchasing, accounting, affirmative action, legal and other services). IDC are, by definition, impossible or extraordinarily difficult to allocate to individual research projects. Thus, the indirect costs associated with doing research at a particular institution are calculated using one of several identification and averaging procedures that is accepted by the federal government (the primary source of funds for externally-supported research at non-profit institutions). These IDC data are then presented, together with their justification, to an office of the U.S. Department of Health and Human Services and are used as the basis for negotiating an indirect cost rate for research at the institution. The final rate agreed to by HHS is then typically used by the institution in its negotiations with any organization

(private, non-profit or governmental) that provides funds to support a research project carried out at the institution.

The current negotiated cost rate for OU is 43%. This means that for every dollar spent on the direct costs of a research project, an additional 43 cents of indirect costs are presumed (by HHS) to have been incurred by the institution. The origin of these costs at OU are shown below, with facilities-related costs comprising 45.6% and administrative costs 54.4% of the total IDC.

Origin of Indirect Costs



* Includes regents, administrative affairs, personnel, affirmative action, purchasing, internal auditing and legal offices, among others.

** Includes Office of Research Administration (and Vice Provost for Research Administration), Grants and Contracts, Electron Microscopy Laboratory, Animal Facilities and funds available for George Lynn Cross professors, among other things.

The negotiated IDC rate for research at OU, 43%, is about average for public universities in this area. The actual rate of IDC recovered by OU is currently close to 34%, in part because the maximum IDC rate allowed by some sponsoring agencies is less than 43%.

Because of the ill-defined nature of indirect costs, it is not surprising that there is considerable disagreement among the interested parties (principal investigators, institutional administration and sponsoring agencies) over both the legitimacy and magnitude of particular costs identified as IDC. For example, graduate instruction is ignored in

determining indirect costs at OU because research laboratories are considered 100% research space and 0% instructional space. However, since the justifications for the IDC rate were considered in detail by HHS personnel during negotiations with OU, the committee did not attempt an independent analysis of the current IDC rate.

In contrast to the well-documented and externally-negotiated 43% indirect cost rate for academic research programs, the indirect cost rate applied to auxiliary enterprises at OU (nominally 2%; less than 1% is recovered) is not well justified and appears arbitrary. The dramatic disparity in the IDC rates for academic programs and auxiliary enterprises (includes Housing and Food Services, Athletic Department, Book Exchange and several other units) indicates clearly that the same policies are not used in formulating the IDC rates. As will be discussed in the companion report prepared by the Auxiliary Enterprises subcommittee, some of the facilities and other indirect costs (e.g., Grants and Contracts Office) do not apply to auxiliary services. However, many administrative costs would be the same, and in some cases may be higher for auxiliary services than for academic research projects. Such a situation invites, and demands, close scrutiny.

Indirect Cost Usage

Externally-sponsored research projects at OU generate funds to support the indirect costs of that research, as discussed above. It is clear that these recovered research "IDC monies" should be used to support the research efforts from which they are derived.

At present, all IDC monies recovered by OU from agencies sponsoring research on the campus are incorporated into the "Gifts, Grants, and Reimbursement" category of the revolving fund of the university's general operating budget. Estimated totals of the various components of that revolving fund are shown below for FY 1985-1986:

Student Fees	\$14,478,682.00
Gifts, Grants & Reimbursement	4,712,532.00
Other	181,250.00
Non-credit Courses	3,879,431.00
TOTAL REVOLVING FUND	\$23,251,895.00
Estimated Total State Appropriation	\$68,085,012.00
University Reserve Fund	400,000.00
Estimated Total Budget	\$91,736,907.00

In preparing the budget for 1985-1986 fiscal year, administrators at OU estimated that \$2,097,432.00 would be received during FY 1985-1986 from research-related indirect costs reimbursements, and this figure was included as an item of anticipated "income" in the budget. In fact, research programs at OU generated close to \$2,827,900.00 in FY 1985-1986. The difference between these two figures, \$730,468.00 is termed "over-realization".

The IDC monies are initially placed in a separate "control" account, but then are transferred into the revolving fund. Once there, they are indistinguishable from monies in the account that have been derived from different sources. Therefore, the ultimate allocation of the IDC monies cannot be traced, and their use for research-related expenses cannot be directly demonstrated.

The importance of the last point can be illustrated by the consideration of specific examples. IDC monies generated by the Chemistry Department increased 34% from FY 1982-1983 to FY 1985-1986. During the same time period, its M&O budget (which includes funds to support instruction) decreased by 24%. For the Botany and Microbiology Department, these percentages are +140% for recovered indirect costs and -34% for the M&O budget. Thus, while increased research activity in these two departments generated indirect costs that had to be borne by the departments (cf. the documented and negotiated 26.3% administrative costs at the department level), there was no concomitant effort by the university to ensure that such costs were covered. In fact, in these two examples there is a negative correlation between the IDC monies brought into the university by a department and the university support of that department. At present, there is no mechanism for distributing IDC monies to generating units and other cost centers to cover research-related costs.

This year President Horton made \$390,000.00 (13.8% of the total 1985-1986 IOC monies or 53% of the FY 1985-1986 over-realization) available to the research community through the Vice Provost for Research Administration. Furthermore, President Horton has committed himself to allocating all future indirect costs recovered in excess of \$2,100,000.00 to internal support of research.

Indirect Cost Usage at Other Institutions

In order to compare how indirect cost monies are utilized at other universities, a survey of the Big Eight schools was conducted by Mr. Bill Varley, Director of Research Management. In addition, members of the Ad Hoc Committee on Indirect Costs contacted their colleagues at other institutions.

What emerges from the comparisons (see Appendix 2 for detailed information) is that while at all institutions there is a justifiable allocation of indirect costs to university operations, there are nevertheless mechanisms for directing funds to support the research-related costs of externally-funded units. With President Horton's arrival on campus the University of Oklahoma took its first step towards this goal when 13.8% (\$390,000.00 of the 2.8 million) of IDC monies was clearly directed to support research.

Recommendations:

- 1) We wholeheartedly endorse President Horton's efforts to support the

faculty research effort by releasing to the research community a proportion of the indirect cost monies in excess of the 1984-1985 base amount. To date these are the only research-generated indirect cost monies which can be clearly identified as contributing to the research effort. As a next step in increasing the allocation of indirect cost monies to the research effort President Horton has promised that all funds in excess of the \$2,100,000.00 base figure be appropriated to support research on campus. Although we applaud this commitment it should be regarded as only a stop gap measure until recommendations 2, 3, 4 can be implemented.

2) All indirect cost monies generated from Grants and Contracts should be placed in a new university account, distinct from other income. An examination of this account should be carried out at the end of each fiscal year to determine the source and distribution of indirect cost monies recovered during that year. All disbursements from this fund should be clearly identified as directly supporting the research functions of the institution.

3) The only central administrative functions to receive indirect cost funds should be those which are actually required to serve and support research activities, e.g., the Office of Research Administration and Grants and Contracts Administration. The balance of the funds recovered from indirect costs should be allocated to the internal support of research and distributed to faculty research and library acquisitions funds, to the generating colleges, and to the generating departments to defray research related expenses. Members of the generating departments, who are close to and hence most knowledgeable about research programs in their respective disciplines, are uniquely able to pinpoint targets for internal support that maximize the impact of these funds.

4) The distribution plan of the preceding item should use, as a basis, the entire indirect cost monies, rather than just a fraction of the over-realization funds that is currently used.

5) The impact on the revolving fund of adopting procedures 2, 3 and 4, can be alleviated by increasing the indirect cost rate for auxiliary enterprises to a level that more accurately reflects the actual indirect costs of those operations.

6) The distribution of indirect cost monies to departments should be completely uncoupled from higher-level decisions about departmental M&O budgets, since the indirect cost monies are specifically generated from, and should be directed to the support of, externally-funded research.

merican Association for the Advancement of Science Science serves its readers as a forum for the presentation and discussion of important issues related to the advancement of science, including the presentation of minority or conflicting points of view, rather than by publishing only material on which a consensus has been reached. Accordingly, all articles published in Science—including editorials, news and comment, and book reviews—are signed and reflect the individual views of the authors and not official points of view adopted by the AAAS or the institutions with which the authors are affiliated.

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Overhead and Symbiosis

Basic research in the United States depends on one of the most highly selective symbiotic relationships in nature. It is largely carried out by a combination of cheap labor (called "professors") and ultracheap labor (called "graduate students"). They are housed in impoverished institutions (called "universities") that are continually begging for funds from wealthy aunts (called "private donors") and a very wealthy uncle (called "the federal government"). Everyone should be delighted by this arrangement. The federal government gets fundamental research at a cheap price, the universities obtain funds to help them in their primary mission of education, the students obtain a subsidy during their apprentice period, and the private donors get the psychic satisfaction of contributing to a worthy cause.

Disaster looms when individuals in a symbiotic system reason that if one is getting enough of a good thing, it might be better to have even more. The universities decide that the rich aunt and uncle will never notice if a small amount of their money is diverted to help a group of the worthy downtrodden (called "the humanities"). The research investigators complain that "their" money is being diverted and forget that universities need to maintain an atmosphere in which ideas flourish. The federal government gets nervous and demands increasingly detailed accounts of time and effort. Over the last 20 years overhead rates have doubled, from an average of 20 percent to one of 40 percent. In addition, there are vast discrepancies: overhead varies from 30 percent in some universities to 100 percent or more in others. No one really believes that an institution with a 30 percent overhead is very efficient and one with a 100 percent overhead is a bunch of fumbler. Rather, they regard the high rate as a clever way to enrich that institution with federal money. University administrators, spurred by either envy or altruistic passion, then try to get "their fair share" by creative financing.

It is, therefore, pleasant to note that a first step in bringing this problem into line has now been taken by the Office of Management and Budget after discussions with a representative group of university administrators and scientists. A flat 3.6 percent cap on allowable indirect costs for the salaries of professors and department chairmen has been set, and federal requirements for detailed effort reporting have been eliminated. Negotiations on caps for other portions of indirect costs are under way. Some flexibility will be needed to allow for minor variations, but the wide range existing today needs to be curtailed.

A fixed national rate would have numerous advantages. First, it would provide an incentive to be more efficient. Second, with a flat fee, all institutions would of necessity pull together for an equitable system rather than compete with each other for a dwindling share of research dollars. Those who enjoyed manipulating the system in the past might argue that each university is a special case. There are extra heating needs in Minnesota and extra air conditioning needs in Texas, but they tend to compensate for one another. The overhead should be sufficiently handsome to provide an optimistic atmosphere that generates originality.

Another way to minimize future problems is to make the overhead contracts more explicit and more uniform. Both the institution and the investigator will then know what the investigator is entitled to receive and what the university is required to give. At present, there is considerable bitterness when grants are charged for items the investigator believes should be part of overhead. It is frequently difficult to obtain a copy of the overhead contract and even more difficult to decipher it. After clarity should come a willingness to adapt. If the originally set maximum percentage of overhead is too low, it may have to be adjusted to reflect reality. But at least the correction would be a concerted effort in a common cause.

To be generous is very important. Universities are always strained for funds, and education becomes more complex in our sophisticated society. The new tax bill may be particularly hard on private universities, and they cannot be allowed to fail. Yet symbiosis requires restraint from all parties. It has been said that a gentleman is one who has more privileges than he chooses to exercise. The shift from symbiosis to parasitism can be caused by a slight deviation beyond what is appropriate. The beginning step that has been taken provides a good foundation for future progress. The system needs to be preserved and improved.—DANIEL E. KOSHLAND, JR.

Appendix 2

Kansas State seems to have the most generous formula for allocating funds to research related activities. None of the Indirect Cost monies are allocated to the general fund. Sixty percent is earmarked for research related overhead and 40% goes to the colleges and departments.

Nebraska has a complicated scheme in which one third goes to the general fund. Of the remaining two thirds, 40% is allocated to the college. The remaining 60% is disbursed amongst various units in the university including a specific allocation to the library. This system is somewhat similar to the University of Illinois, where one third is allocated for administrative costs, one third to research administration primarily for scholarships and one third to the generating department.

Iowa State and Missouri allocate a major portion of the Indirect Cost monies to the general fund. In 1986, Iowa State started allocating 15% of Indirect Cost monies back to the individual. Missouri has a similar procedure to that developed by President Horton last year. That is excess money over an established baseline (\$2.4 million) is returned to the departments and colleges. At OU the money is allocated, with certain provisions attached, to Dean Hoving.

OSU and Colorado give 25% of the Indirect Cost monies to the colleges. Similarly, the University of Georgia retains 80% for the general fund, but transfers 20% back to the generating departments.

At Kansas, all of the Indirect Cost monies are placed into the general fund. Then 10% is allocated to departments in proportion to the amount they generated.

At Wayne State University 56.5% is allocated to the general fund. The rest can potentially be appropriated to research related activities; 10% of the total Indirect Cost monies goes to the university research stimulation fund. Ten percent to the College, 15% to the department and 8.5% to the principal investigator.

Purdue University has a similar institutional system to that which operated at the University of Oklahoma until recently. All of the Indirect Cost monies are placed into the general fund, and none are directly allocated to research or to the generating unit.

At the University of California all of the Indirect Cost monies are deposited with the state. 19.9% of the money is allocated to the constituent universities to cover administrative costs. Of the remaining 80.1% generated, 55% is expended by the state and 45% goes to the university to be used for opportunity funds on campus. The money is used for nonrecurring needs in departments but is administered through the Dean in much the same manner that we use Associates Funds at the University of Oklahoma. The current funding formula in California was introduced after passage of Proposition 13 and there is great pressure to return to a system in which most of the Indirect Cost monies are returned to the generating institutions for allocation for research.

AUXILIARY ACCOUNTS COMMITTEE REPORT

March 1987

During the fall semester, 1986, a committee was formed by the Faculty Senate and the Budget Council to examine University practices relative to indirect (overhead) charges on auxiliary enterprise accounts. The committee consisted of Professors Ballard, Canter, Kaid, Mennig and Whitmore and Ms. Michal Gray of the Law Center, with Professor Canter serving as Chair. The committee was assisted by Ms. Sonya Fallgatter of the Faculty Senate. This report summarizes the work of the committee and presents three recommendations for changes in current practices relative to indirect charges on auxiliary accounts.

COMMITTEE CHARGE

The committee examined auxiliary accounts at the University of Oklahoma to: (1) determine the policies by which indirect charges were levied against such accounts; (2) review the consistency of practices relative to account exemptions from indirect charges; and (3) identify the decision-making process used for allocation of the accrued indirect charges internally within the University budgetary system.

ACTIVITIES CONDUCTED TO FULFILL CHARGE

The committee met a total of nine times from September, 1986 through January, 1987. At two meetings, Ms. Jan Jackson, Budget Director, and Mr. Ron Thornton, Interim Controller, were present to

provide information and answer questions relative to policies and practices associated with indirect charges to auxiliary accounts. On one occasion, Mr. Brad Quinn, Director of the Office of Grants and Contracts, met with the committee to describe the basis for indirect charges associated with externally sponsored research grants and contracts. In addition, three specific auxiliary accounts were reviewed to determine the consistency of practice relative to indirect charges levied against these accounts.

FINDINGS RELATIVE TO HISTORICAL AND CURRENT PRACTICES RELATED TO
INDIRECT CHARGES ON AUXILIARY ACCOUNTS

As a beginning point, specific definitions for auxiliary enterprises were examined, and two will be cited:

(1) From the Handbook on Budgeting and Accounting for the Oklahoma State System of Higher Education (Coyle, 1973)--Auxiliary enterprise operations are those that are conducted by the institution primarily for the purpose of providing services of a primarily non-educational nature to students, faculty, and staff. These enterprises are housing, food service, student union, laundry, and other similar operations that generally intended to be self-supporting. They are similar to business enterprises. By their nature they may be undertaken by private business for profit. Although the auxiliary enterprises exist as services to students, faculty, and staff, they are not essential in carrying out the educational objectives of the institution. A business-customer relationship exists between the auxiliary enterprise and the purchaser of its goods and services.

In accordance with the citations above, auxiliary enterprises should be self-supporting. The educational and general funds of the institution may not be used to subsidize auxiliary enterprises. While it apparently is not prohibited by law, the auxiliary enterprises should not be called upon to provide support for the educational and general activities of the institution. To do so would in effect charge persons utilizing the auxiliary enterprises to provide an educational subsidy for persons who did not utilize them.

(2) From the Manual of The National Association of College and University Business Officers--An auxiliary enterprise furnishes a service directly or indirectly to students, faculty, or staff, and charges a fee related to but not necessarily equal to, the cost of services. Traditionally the services have encompassed food services, student housing and college stores. On many campuses, services have expanded to include faculty dining, confectionary shops, ice cream parlors, vending machines, day-care centers, bus service, skating rinks, guest houses, athletic concessions, golf courses, ski lodges, bicycle shops and others. . .

The distinguishing characteristic of most auxiliary enterprises is that they are managed essentially as self supporting activities, although sometimes a portion of student fees or other support is allocated to assist these activities. . .

Auxiliary enterprises should contribute to and relate directly to the mission, goals, and objectives of a college or university. . .

Auxiliary enterprises should be charged for a share of general administrative expenses as well as their direct operating expenses, including debt service and provisions for renewal and replacement. Self-supporting auxiliary enterprises should also provide working capital to finance accounts receivable and inventory. To generate sufficient operating revenue, auxiliary enterprises should attempt to set selling prices, rents, fees, and other charges at a level adequate to support the operations.

The remainder of this section will highlight a series of findings relative to the auxiliary enterprise accounts at the University of Oklahoma.

1. At the current time there are 523 accounts considered to be in the auxiliary category; these types of accounts can be divided into three groups: (1) accounts which provide services to students, faculty, and staff, and which closely fit the above definitions (e.g., housing, food services, and bookstores); (2) accounts which provide services and entertainment to the general public as well as students, faculty, and staff (e.g., athletic department and athletic concessions); and (3) accounts which provide services to students, faculty, and staff, and which also provide services essential in carrying out the educational objectives of the institution (e.g., university computing services, vehicle rental service, and the physical plant service unit).

2. At the current time there are 319 auxiliary accounts subject to indirect cost charges; in addition, there are 204 auxiliary accounts not subject to indirect cost charges. The primary reasons for the exemptions of accounts are that they are related to bond issues for facility construction, or they are associated with student housing or student fees. For fiscal year 1985-86, a total of \$969,623 in indirect charges was accumulated from all auxiliary accounts. The total included \$452,207 from accounts in groups (1) and (2) in number 1 above, and \$517,416 from accounts in group (3) in number 1 above. These group (3) accounts will hereafter be referred to as "service unit accounts". The total monetary income into auxiliary accounts in groups (1) and (2) for the same time period was approximately \$112 million.

3. The utilized indirect cost rate for those auxiliary accounts which are charged is 2 percent. The 2 percent level was initiated in the early 1970's as a result of a requirement for some indirect charges imposed by the late Governor Dewey Bartlett near the end of the 1960's. Historical information suggests that the first year for which indirect charges were made against auxiliary accounts was 1971, and a 1 percent level was used. This was increased to 2 percent in 1972 and has been maintained at that level to the present time. Despite several attempts to find written documentation as to the rationale for a 2 percent indirect charge, the committee was unable to locate such documentation. This is in contrast to a very highly organized and formalized procedure utilized to justify the indirect cost rate charged against externally sponsored research projects and grants. The current indirect cost rate for sponsored research is 43% of the modified total direct cost (equipment purchases are excluded from indirect cost); the current 43% level represents an increase from the 1979 level of 39% (prior to 1980 a different indirect cost basis was used). One explanation for the large difference between the indirect cost rates is that auxiliary accounts separately pay their own utilities, janitorial services, etc., whereas research projects and grants are assessed these charges within the indirect cost rate. In addition, these two rates are not directly comparable because of the bases on which they are charged. The projects and grants' indirect costs are charged on the expenses of the project or grant, while this 2% charge to auxiliaries is on gross sales. However, using what the committee felt were applicable rationale from the procedure used to justify the indirect

cost rate charged to research projects and grants, and considering that the auxiliary account indirect cost rate had remained constant since 1972, we determined that the indirect cost rate for auxiliary accounts should be reviewed in order to establish an appropriate rate based upon current information.

4. The 319 accounts subject to indirect cost charges include 11 service unit accounts (the 147 series) and 308 other auxiliary accounts (the 17X series). In fiscal year 1985-86, the service unit charges amounted to \$517,416 of the total of \$969,623. A breakdown of the sources of the \$517,416 was not developed; however, it should be noted that the sources can probably be considered as academic units and other auxiliary accounts. We would question the policy of having service unit accounts charging indirect costs to academic units since that means that there is an internal shifting of funds from the unit buying the service to the service unit itself. If this practice is maintained, it might be desirable to establish differential rates for service unit accounts to use between academic units and other auxiliary accounts.
5. Since the annual generation of indirect costs from those auxiliary accounts in groups (1) and (2) from number 1 above subject to such costs is in the order of magnitude of \$0.5 million, this would suggest that of the \$112 million annually generated via these auxiliary accounts, only about \$25 million is actually subject to the 2% indirect cost rate. An additional related item is that the committee was also unable to find any written policy which clearly delineates which types of accounts should be charged, or which should be exempted from, the 2% indirect cost rate. Apparently, this practice has been a result of decisions made by controller based upon historical criteria as each new account is established (the most-used principle is that any accounts associated with bonds, housing, and student fees should be exempted).
6. Our review of three auxiliary accounts which have indirect costs charged against them indicated that the costs charged, as well as the mechanisms routinely used, were appropriate and in order for the time periods examined. The three accounts which were reviewed were the University Computing Services (147-110), the Athletic Concessions account (171-125), and the University Theatre account (177-306).
7. Each auxiliary account apparently operates as an independent account with various mechanisms established

for reviewing prices charged for services, and the expenditures made from the account. Some accounts generate an excess of revenues over expenditures on an annual basis, others exhibit temporary operating deficits when authorized by management. Written guidelines for systematic reviews and audits need to be established and implemented.

8. With regard to the allocation of the \$969,623 generated in fiscal year 85-86, this allocation was made in fiscal year 86-87. This is obviously a sound policy in that the funds generated in one year are not utilized until the following year. The distribution of the 1985-86 collected indirect charges in 1986-87 included setting aside \$100,000 for a reserve fund, and the provision of the following monies for supplements to individual accounts:

176-101 Loan Fund Operation--\$206,266
179-145 Risk Management (insurance)--\$29,806
140-303 Auxiliary Accounting--\$179,200
140-350 OU Aircraft--\$37,632
140-317 University Publications--\$140,705
140-101 Computer Center--\$276,002

It would appear that these internal allocations are not necessarily made in a manner consistent with the increased costs associated with general operations of the University due to the presence of the auxiliary accounts. Some of the allocations are apparently made from an historical basis; they bear little relationship to whether or not the auxiliary accounts are causing that particular budgetary unit to have an increased budgetary demand.

9. With regard to the indirect cost monies generated from the auxiliary accounts, this revenue source is not listed in the summary pages in the front of the University annual budget book. It should be noted that the indirect costs associated with sponsored research projects and grants are listed as a revenue source for the University (a total of about \$2.0 million is listed in the current year budget).
10. Interest is generated on the monies in some of the auxiliary accounts in groups (1) and (2) from number 1 above. This interest money is maintained in a reserve fund and allocated solely by the President for usage on an as-needed basis. The interest could represent a sizeable amount of money.

RECOMMENDATIONS RESULTING FROM THIS STUDY

The following recommendations have been identified as a result of this study:

- (1) An internal study should be initiated immediately to develop a framework for determining appropriate indirect costs for auxiliary accounts, utilizing a similar philosophical approach and basis as is used for the 43% indirect costs charged to sponsored research grants and contracts. Consideration should be given to a possible tiered approach for the rates; that is, one rate for group 1 accounts from number 1 in the findings section, another rate for group 2 and still another for service unit accounts relative to whether academic units or auxiliary accounts are being charged. At the appropriate time following this study, and the committee does not anticipate that this study should require more than 3 months, the indirect costs associated with auxiliary accounts should be adjusted upward as appropriate. The committee did not attempt to determine an appropriate indirect cost for auxiliary accounts, although our general perception would suggest that a higher rate than is currently charged would be necessary.
- (2) Following completion of the recommended internal study for indirect costs, there should be a written policy developed that clearly delineates the rationale for the indirect cost rates, and the associated allocation of the monies within the general budgeting process. The policy should incorporate a periodic review schedule for the indirect cost rates, the allocation procedure, and pricing for goods and services.
- (3) Written policies should be immediately developed which will delineate the rationale, from both the policy and contractual perspective, for charging indirect costs to some accounts, while exempting others. If exemptions are to be granted to auxiliary accounts relative to indirect charges, these exemptions should be clearly documented and approved by the President of the University.

SUMMARY

In summary, the committee has found that the number of auxiliary accounts at the University of Oklahoma has grown within recent years, and very little written documentation exists of the policies and

procedures used for determining whether or not they should be charged an indirect cost. In addition, no written documentation exists for delineating the rational basis upon which the current 2% indirect cost charge is levied, nor for the internal allocation of generated indirect cost monies. The primary focus of this report has been to identify these general findings and to develop three recommendations which should be considered and implemented. In these years of budgetary constraint at the University, it is possible that additional indirect charges on auxiliary accounts can be an aid to offset some of the funding losses being experienced by the University of Oklahoma.

Respectfully submitted,

Larry Canter

Steve Ballard

Lynda Kaid

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Stephen Whitmore

Michal Gray

Sonya Fallgatter

UNIVERSITY OF OKLAHOMA FACULTY PHONES: BACKGROUND AND RESOLUTION

Background

In July of 1984, OU replaced its Bell-owned telephone lines, phones and central switch with its own equipment. The reasons given for the change in system included the age of the central switch (52 years) and anticipated cost increases resulting from Bell's corporate reorganization.

The present system was installed by Universal Communications Systems, the lowest of several bidders. It is of interest to note that faculty phone usage was not surveyed before installing the current private line system--a configuration that was infrequent under the old system because of cost. The heart of the system--consisting of the central switch and campus phone lines--was financed through the First Continental Bank in Denver, and the original loan has been renegotiated several times in order to take advantage of lower interest rates. The annual payment on the loan is currently \$732,000; the final payment is due in February, 1994.

Below is a list of the major central equipment/service items and their yearly costs:

1. Central switch (principal and interest)	\$732,000
2. Two hundred outside phone lines (5W Bell)	372,000
3. Spring, ATT and MCI long distance service	21,000
4. Maintenance contract (Teleplus Corp.)	54,000
5. Telecommunications Office (Salaries + M&O budget, 1986-87)	587,079
Total of above items	\$1,766,079
Total Telecommunications budget (86-87)	\$3,041,284

The discrepancy between the itemized total and the total Telecommunication's budget is primarily due to about one million dollars in long distance charges for the entire university. These charges are carried on the Telecommunications budget, but are actually billed to the budget units incurring the charges.

The total number of phones in the OU system is 5200, of which approximately 1700 are in student residences. The other 3500 phones are for auxiliary services, computer labs, staff, and faculty. The current number of OU faculty phones (Norman Campus) is about 700; hence, faculty office phones constitute less than 15% of the total. The number is actually less, since many faculty phones have been removed from service in 1986. The Telecommunication Department has furnished us with department by department data for April 1 to November 30, 1986 that show that over 200 academic departmental phones have been removed from service. Faculty in History, Modern Languages and Journalism and Mass Communication are without office phones. The problem, however, is more extensive than these three departments.

The monthly cost of a phone is

Faculty-Staff	\$26.95
Student	\$15.90

The justifications for these rates are as follows: 1) The faculty-staff rate was set equal to one-half that of the Bell rate for a commercial private line, and 2) The student rate was set so that the phone-and-line charge comes in a little less than Bell's prices. The faculty have been told, in at least one memo from Vice President Elbert, that our new phones are bargain-priced in that they cost less than half of what Bell would charge. This justification is misleading, because it is based on a private-line, commercial rate--a rate that most businesses do not pay because of prudence in choosing extension systems having a few commercial lines feeding cheap extension lines. Departments have been told in the past, by employees of the Telecommunication office, that extension systems were not possible because of the expensive modifications that would have to be made to a system configured for private lines. This position is evidently no longer held by Telecommunications because at least one department (Psychology) has switched to an extension system (with a savings of \$12 per month per faculty phone). It is clear that there exist phone systems that are less expensive than the one currently installed in faculty offices.

Many academic departments experienced over a 300 percent increase in phone costs after the new system was installed--in rough figures, many faculty phones went from \$7 (for an extension line) to \$27 per private-line phone. (We are bound to note that the increase in phone costs was accompanied by a degradation in the quality of communications with the campus main-frame computers; at the present time, establishing a phone connection with the university computers via the university phone system is very difficult. The few, new Bell lines seem to work fine.) In order to prevent the new phone system from decimating departmental operating budgets, permanent monetary supplements were added to the operating budgets of nearly all budget units. In 1985-86, the total amount of the supplements was \$151,879, and in 1986-87 an additional supplement of \$34,000 was distributed in order to cover certain price increases. The 1985-86 supplement was figured by subtracting a unit's March 1983 phone equipment bill from the unit's January, 1985 equipment bill and multiplying this figure by 12. There was great variance in the 1985-86 supplements even for like-sized departments.

The most recent University budget cuts have placed many departments in the position of not being able to afford to provide faculty and staff with phones. Some departments have already removed faculty phones, others are contemplating a similar move. This desperate action does reduce the unit's budget; unfortunately, it does not save the University any money. The loan, maintenance budget, the cost of the 200 Bell lines and the 33 long distance lines, etc., are totally unaffected by this reduction in the number of phones. Indeed, remember that fewer than 15% of the phones are in faculty offices!

In line with efforts to define a Strategy for Excellence, it seems prudent to reconsider the manner in which faculty phones are budgeted. Difficulties in recruiting new faculty and retaining current faculty will increase if offices are, or might be, without phone service. Professionals expect phone service. It comes with the office in the same way as a desk. For the faculty, the fixed cost of an office phone should be treated as an overhead item, just as lighting, air conditioning, and bathroom facilities. Indeed, at one time the phone service was budgeted in this manner.

The annual cost of 700 faculty phones, based on the rates listed above, is $12(\text{months}) \times 27(\text{dollars}) \times 700(\text{faculty phones}) = \$227,000$. This is the fixed cost; it does not include the cost of long distance calls, and is part of the communication budget of the academic units. The balance of this budget covers long distance phone calls and mail. By considering the fixed cost of telephones in the academic units as part of university overhead, we would restore service to those who have lost it. As indicated above, this change would involve less than 10% of the three million dollar telecommunication budget. We wish to suggest four possible sources for part or all of the money involved. These are listed in no special order:

- (1) Applying the phone supplement money given to departments to defray the costs of the new phones.
- (2) Renegotiating the equipment loan for a termination date that reflects its useful life, thereby reducing the annual payment of \$732,000.
- (3) Equalizing the monthly rates of student and faculty phones, and increasing the phone rates of other users.
- (4) Offering faculty the option of extension systems rather than private lines.

Resolution

WHEREAS, Telephone service for faculty is a necessity, and

WHEREAS, many faculty have lost their office phones, and others are in danger of losing theirs,

BE IT RESOLVED THAT the basic service and installation charges for the office phones of the academic units be transferred to University overhead, and that each occupied faculty office be provided with a phone.

(Submitted by the Faculty Compensation Committee: Joe Bastian, George Emanuel, Tom James, Alan Nicewander and Steve Whitmore)