Costing In Higher Education

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Cost Methodologies in Higher Education

- Why cost studies?
- What is a cost study?
- What are the elements?
- Some things to watch
- Cost study techniques
- Reactions to cost studies

Why Cost Studies?

- Public Concern
- Why do costs (tuition) always increase so much?
- Board Members
  - Believe there's a "spend it or lose it" mentality
- Fiscal Pressures
  - Administrators need to allocate resources needed for federal recovery purposes (indirect costs)
- Fear of Competition
  - From for-profit providers
  - Degrees by the Internet
U.S. Financial Assistance Overview

- $550 billion in awards
  - 88,000 awardees and 26 Federal grant making agencies
  - Project and research, block, and formula grants
  - Outcomes are designed to promote public good

- Challenges
  - Limited visibility of how Federal funds are spent by awardees
  - Support for funding requests much less than for contracts

  - $840 billion of assistance to stimulate the economy
  - Greater accountability and transparency over spending than ever

- Opportunities to enhance oversight with less
  - Automated oversight

Grants Differ From Contracts

<table>
<thead>
<tr>
<th>GRANTS</th>
<th>CONTRACTS</th>
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</thead>
<tbody>
<tr>
<td>Promote services for the Public Good</td>
<td>Specified deliverables (Goods and Services)</td>
</tr>
<tr>
<td>• Merit review (competitive)</td>
<td>• Competitive process</td>
</tr>
<tr>
<td>• Multiple awardees</td>
<td>• One awardee</td>
</tr>
<tr>
<td>• Award budget</td>
<td>• Contract Price</td>
</tr>
<tr>
<td>• No government ownership</td>
<td>• Government ownership</td>
</tr>
<tr>
<td>• Grant payments</td>
<td>• Contract payments</td>
</tr>
<tr>
<td></td>
<td>• Summary draw-downs</td>
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<td></td>
<td>• No invoices for claims</td>
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<tr>
<td></td>
<td>• Salary percentages</td>
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Framework for Grant Oversight

- Data analytics-driven, risk-based methodology to improve oversight and cost analysis
  - Identify institutions that may not use Federal funds properly
  - Techniques to surface questionable expenditures
- Life cycle approach to analysis
  - Mapping of end-to-end process to identify controls
  - 100% review of key financial and program information
  - Focus attention to award and expenditure anomalies
- Complements traditional oversight approaches
  - Techniques to review process and transactions are similar
  - Transactions of questionable activities are targeted
Anomalous Drawdown Patterns

Normal drawdown pattern

Extinguishing Remaining Grant funds (before expiration)

Extinguishing Remaining Grant funds (after expiration)

End to End Process for Grant Oversight

PRE-AWARD RISKS

- Funding Over Time
- Conflict of Interest
- False Certifications
- Duplicate Funding
- Inflated Budgets
- Conditions Suspended/Debarred

ACTIVE AWARD RISKS

- Unallowable, Unallocable, Unreasonable Costs
- Inadequate Documentation
- General Ledger Differences from Draw Amount
- Data Entry/Inadequate Reports
- Sub-awards, Consultants, Contracts
- Duplicate Payments
- Excess Cash on Hand/Cost Transfers
- Inadequate Program Income

AWARD END RISKS

- Expenditure Reports
- Cost Transfers/receipts
- Expenditure
- Inadequate Program Income
- Unallowable, Unallowable

Risk Assessment and Identification of Questionable Transactions

Phase I
Identify High Risk Institutions

- Agency Award Data
- Award proposals
- Quarterly expense reports
- Cash draw downs

Phase II
Identify Questionable Expenditures

- Agency Award Data
- Award proposals
- Quarterly expense reports
- Cash draw downs

Data Analytics
Continuous monitoring of grant awards and recipients

Review Questionable Transactions

- External Data
  - A-133 audits (FAC)
  - D&B, Recovery Board
  - SAM (CCR, EPLS)

- Data Analytics
  - Continuous monitoring of grant awards and recipients

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What’s Driving College Costs?
• There have been large variances in every comparative cost study
• Academic programs are dissimilar
• Independence of academic organizations allows them to allocate funds how they wish – even to maintaining uneconomic functions
• There are no standards – no approved methods to conduct management cost studies
• Federal regulations do provide some guidance for reimbursement cost studies

Part of the problem is in the nature of costs themselves
• Belief that bringing in funding (e.g., grants) always justifies costs
• Faculty and staff, hired based upon funding – more difficult to reduce if funding evaporates
• Reward systems often do not recognize cost issues
• Often no real penalty for missing budget

What is the GOAL of cost savings?

<table>
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<tr>
<th>Cost</th>
<th>Quality</th>
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<tbody>
<tr>
<td>Goal A: provide same quality for lower cost</td>
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<tr>
<td>Goal B: provide higher quality for same cost</td>
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What else is driving college costs?

- **Recent Explanations:**
  - Wealth: "If they have it, they'll spend it."
  - Academic Excellence: "It doesn't come free"
  - Costs and Commitments: Rise faster than they fall
  - Little recognition of efficiency

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### Federal Cost Studies (Cost Allocation Studies):

- Have been basis for reimbursing costs of certain functions (e.g., library, utilities)
- More common at large, private institutions
- Subject to frequent challenges & negotiation
What is a cost study?
• Management Cost Studies:
  • Have no standard costing methodology
  • Have no right way to perform:
    • Cost studies in general
    • Any particular study

Types of studies will be:
• Service Centers
  • Include copying centers, stores, animal care facilities, etc.
  • Integral to reimbursement of service center costs
  • Must treat federal/non-federal users the same
  • Must break-even (over long-term for specialized service facilities)

Studies will...
• Require assumptions
• And, since financial systems don’t produce, they must be done via analysis
• And, since they may lead to resource decisions, they are often controversial and subject to challenges
Begin with the end in mind...

- A hasty job will:
  - Invalidate the results, and
  - Lose respect for the preparer

- But, a well-designed job will:
  - Support management decisions
  - Produce by-products to
    - Better ways to control costs
    - Do things better
  - Support reimbursement rate

Example: Resource Allocation

- Include both graduate and undergraduate programs
- Consider both programs and departments
- Include:
  - A cost study
  - A developed methodology
  - Installation of a system
- Consider revenue, contribution margin, and full costs
  - Costs would follow the instructor

Example: Resource Allocation

- Provide a basis for decisions regarding resource allocation in both administrative and academic departments
- Include all costs, no matter what the funding source
  - State
  - Gifts and grants
  - Student tuition and fees
Other Uses of Cost Studies

- Supplement the budget allocation process
- Provide information for strategic planning
- Provide full information for indirect-cost service-center and other rate development
- Evaluate privatization or service delivery decisions
- Assist in downsizing and re-engineering process
- Establish benchmarks for success

Elements of a Cost Study

- Planning
- Determine Use of Study
- Choose Cost Objective
- Select Types of Costs to Measure
- Perform Cost Calculations
- Analyze Data
- Present Study

Elements of a Cost Study: Planning

- Name a Team
- Who will USE THE DATA
- Who will BE AFFECTED
- Both FINANCIAL & ACADEMIC
Elements of a Cost Study: Planning

SUMMARY OF STEPS:
- Develop a Timeline
- Decide on Methodologies
- Develop a Project Outline

- Decide of sources of information
- The study will be less time-consuming if one uses data that is already available
- Review costs and benefits of accessing various sources
- Determine who is to be contacted and devise an approach

Determine the Use of the Study

- Determine Costs
- How much does something cost?
- Explain the Costs
- Why does it cost that much?
- Regression analyses is helpful
- Evaluate the Costs
- Costs per output unit
- What they SHOULD BE
- What they are at OTHER INSTITUTIONS
- How do they COMPARE WITH INDUSTRY STANDARDS
Determine the Use of the Study

- Sometimes...
  - The study has a WELL-DEFINED PURPOSE
  - The study has BEEN DONE IN THE PAST

- Other times...
  - The source is NOT SO FORMAL
  - “We seem to be spending a lot for this service... I need an appraisal by the next board meeting.”
  - Try to avoid this...
  - “This study is of NO HELP!! You looked at “X” and we needed to know “Y”!!

Choose Cost Objective

- The “cost objective” is the subject matter of the cost analysis
- Some basic choices are:
  - Functions
  - Organizational units
  - Objects of expenditure
  - Processing activities

Foundation of the Study

- Define the costs to be considered
- Decide how to measure the costs
- Determine the cost objectives
- Decide how to assign costs to the objectives
- Decide what analyses are to be performed on the data
- Determine the display formats
Example: Faculty Instructional Load

- Methodology would begin with the faculty instructional load. The team would obtain:
- Faculty workload data sorted by core, elective and graduate-level courses
- A listing of faculty associated with the courses
- Average salaries
- Actual stipends paid to part-time faculty and teaching fellows

Performing Cost Calculations

- Documenting what costs are being measured
- Documenting the assumptions that are being made
- Ensuring that the calculations are going to be measured consistently – now and in the future

At This Point, Ask:

- In example of analyzing the cost of offering different courses, which courses seem to consume the bulk of the instructional effort?
- Could they be offered in larger sections?
- Could they be offered less often?
- Which courses seem to be under-enrolled?
At This Point, Ask:
- Can multiple sections be combined?
- Can they be offered on alternate semesters? Alternate years?
- What resources could be reallocated through such scheduling tactics?

Cost Study: Two Experiences
- Common facilities used
- Dispute between public/private universities
- Cost study team brought in as “referee”
- Each side quick to identify other’s use of their facilities
- Resolved via contract with rate increases tied to Cost of Living Allowance (COLA)

Reactions to Cost Studies
- “The costs for our program merely reflect what “is” – not what “is appropriate. In fact, we need MORE support.”
- “Our costs are high because we are a quality department with nationally recognized scholars.”
Reactions to Cost Studies

"Costs are always high for our discipline. A look at other cost studies will bear this out."

"Our department has no graduate program, so we can’t use cheap graduate assistants for labor..."

Reactions to Cost Studies

"Departments in agriculture and medicine have funds within which hide costs. We don’t."

"Our costs are high because enrollments are down, but this is only temporary."

Reactions to Cost Studies

"Our most expensive courses are service courses to other programs."

"I can change the cost of any course by a factor of three by assigning it to a higher or lower paid faculty member."
Summary

• Ensure goal is clear
• Establish "team" approach
• Ensure senior management’s buy-in and support (regardless of outcome)
• Begin with the end in mind
• Plan, document, ensure results can be supported
• Present results to management in a manner that will encourage action