

High College Costs Driven By Deceptive Accounting Practices

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Widespread use of an accounting trick at public universities may be artificially driving up the reported cost of an undergraduate education, The Daily Caller News Foundation has learned.

Policymakers at the federal and state level rely on financial data collected by the Department of Education from about 7,500 colleges and universities for use in drafting sound policy.

It has become increasingly more expensive for universities to deliver an undergraduate education, according to the data. Reported per-student educational expenditures at public four-year universities rose 16 percent from 2005 to 2015 in inflation-adjusted dollars.

Some experts believe the data reported by universities is a gross overstatement of the true cost of undergraduate education because of an accounting convention that allows universities to “disguise” research expenditures within their reported instructional costs.

Richard Vedder, the director of the Center for College Affordability and Productivity, told TheDCNF that the financial information reported by universities is a “purposeful misrepresentation” of the true cost of educating students.

“Universities are fundamentally overstating instructional expenditures and fundamentally understating research expenditures,” Vedder told TheDCNF.

“One of the reasons American universities are great is that we do research and instruction,” Vedder said. “But it’s not all positive and we are not being honest about the costs. With rising tuition, students are getting fed up.”

Shifting research expenditures into instruction could have a pronounced effect on tuition rates, especially at research universities where teaching comes secondary to research.

Research is favored over instruction

Teaching loads for full-time faculty at public universities have dropped substantially in recent decades to allow for more time researching.

Only 27.2 percent of full-time faculty at public universities spent nine or more hours a week instructing students in the classroom in the 2014 academic year, down from 39.4 percent in the 1989 academic year, according to a 2014 survey by the Higher Education Research Institute.

“Research is systematically favored over teaching, so it is not surprising that teaching loads have been falling, or that the time freed up is used for research,” the Center for College Affordability and Productivity wrote in a [2010 report](#).

The systemic shift in focus from instruction to research in higher education isn’t accurately reflected in university ledgers thanks to a very broad definition of instruction provided by the Department of Education’s Integrated Postsecondary Education Data System ([IPEDS](#)) survey.

Departmental research

There are two types of university research from an accounting standpoint: organized research and departmental research.

Organized research means any “specifically organized” research activities. This includes any research funded by a federal, state or private grant, and any “separately budgeted” university funded research endeavors. It is this type of research that IPEDS considers research expenditure.

Departmental research is any research activity “not separately budgeted.” Departmental research is an instructional expense, according to IPEDS.

[Lloyd Armstrong](#), a former Senior Vice President for Academic Affairs of the University of Southern California, says most elements of departmental research are the “seed corn” of organized research.

In other words, departmental research is effectively a fundraising mechanism for universities to obtain external research grants. Considering that universities spent roughly [\\$54 billion](#) on externally funded research in 2016 alone, the “hidden cost” of obtaining a piece of that pie could be significant.

“In general, a reasonable estimate is that tenure-line faculty at research universities are expected to spend during the academic year roughly 50 percent time for teaching, 50 percent time for research. Thus roughly one-half of the tenure-line faculty salary costs actually are attributable to research,” Armstrong wrote in 2016.

These hidden research costs are “well-known, but seldom openly discussed,” among university administrators, according to Armstrong.

The financial impact

Oklahoma State University professor Vance Fried believes up to [40 percent](#) of reported instructional costs at research-intensive universities may be hidden research expenditures because such institutions use the broad definition of departmental research to allocate “most faculty salaries to instruction, even though faculty may spend a great deal of time doing research, not teaching.”

“The accounting convention of classifying departmental research as instruction is wrong. It misleads people as to what the true cost of instruction is. It’s not giving us an accurate picture of what the cost of instruction is and what we are spending on research,” Fried told TheDCNF.

Fried detailed in a [2011 Cato Institute study](#) that honest cost accounting at public universities would reveal the true cost of education is between \$5,000 to \$9,000 a year per undergraduate student, far less than reported per-student cost of \$16,520 in 2010.

“Today, tuition not only covers the full cost of providing an undergraduate education, it generates profits,” Fried wrote. “Even at state-subsidized colleges, most undergraduate students now pay the full cost of their education.”

The “profits” generated by undergraduate tuition and state subsidies are diverted to graduate education and research, Fried claims.

Charles Schwartz, a professor emeritus at the University of California at Berkeley, also believes departmental research has a significant impact on the cost of undergraduate education.

His calculations indicate that the actual cost to educate an undergraduate student in the University of California system is \$7,500 per year, far less than the \$13,222 in tuition and fees charged to in-state students in 2013-14.

“What we face here is not just a (University of California) habit of bad accounting but a longstanding disease infecting all of the nation’s great research universities,” Schwartz told the Budget Committee of the California State Assembly in 2015. “This greatly distorts any rational discussion about undergraduate tuition.”

A 2012 study on the expenditures of research-intensive universities concluded the current IPEDS definition of instruction did not accurately reflect the true cost of research at such institutions.

“Perhaps the time has come to reformulate IPEDS categories for research extensive universities in ways that reflect a multi-product system where faculty are heavily involved in both research and teaching,” the study concluded.

The National Research Council (NRC) also recommended changes in a 2012 report.

“Arguing on principle for inclusion of research costs in instructional cost is tantamount to arguing that the sponsored research itself be included—which, in addition to being intrinsically illogical, would hugely distort the productivity measures,” the NRC wrote.

As alarming as the calculations are by the academic community of the hidden costs of research in higher education, it’s unclear what the true financial impact departmental research has on undergraduate tuition due to its unbudgeted nature.

“Unfortunately, IPEDS does not collect the portion of instructional expenses that are departmental non-budgeted research. I can’t cite any sources that would contain this data,” Bao Le, an associate education research scientist at the Department of Education, told TheDCNF.

Nor has any consideration been made on the potential impact departmental research may have on undergraduate tuition rates, that continue to rise faster than the rate of inflation, Le added.

Changes can be made to the IPEDS survey, but any changes would need to be approved by the White House Office of Management and Budget (OMB).

OMB Circular A-21, originally issued in 1958 under former President Dwight D. Eisenhower, also considers departmental research as a part of the instruction function of a university.

OMB did not respond to TheDCNF when asked about its stance that departmental research should be considered an instructional cost.