



December 3, 2007

**Memorandum**

To: Vice Presidents, Deans, Directors, and Department Heads

From: Laura Hubbard  
Associate Vice President for Budget & Finance

Subject: Overhead Assessments – New Process and Rates

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Effective July 1, 2008, the university will implement changes to the overhead assessment process and assessment rates for revenue-generating activities. These changes are intended to meet both UO and OUS guiding principles for developing indirect cost allocation methods that are reasonable, properly allocable, auditable, and applied consistently across campus. In addition, these changes enhance transparency in the financial relationships between university operating units and therefore enhance meaningful financial reporting. Though overhead assessments are never popular with units, they are an essential part of managing the university in a manner that recognizes the financial relationships among and between its major operating units.

**Background**

In January 2006, a UO task force began meeting to both meet new OUS policy requirements regarding auxiliary overhead assessments and meet UO goals of a more broadly applied overhead assessment process than ensures transparency and consistency for all revenue-generating activities. The task force was comprised of representatives from central finance areas and auxiliaries. As part of its information-gathering efforts, the task force conducted a survey of campus units to ensure that it fully understood existing overhead assessments and cross-subsidies whether they were currently transparent or hidden. The task force followed up on this work this fall after the university completed a more comprehensive cost study as part of its indirect cost rate negotiations with the federal government. To support this cost study analysis, the UO purchased cost accounting software designed for the purpose of analyzing direct and indirect costs.

The task force made the following findings in conducting its work:

- The university's existing overhead assessments are levied at various levels and are issued out of different university offices.
- Communication to assessed units is conducted primarily via memo, and most assessments are applied quarterly.
- There is disparity among revenue-generating units with regard to the assessment rate charged as a percentage of total revenues.

- Some indirect cost items are being charged directly to units, while others are charged via the existing overhead assessment process. This makes it difficult for managers to clearly identify direct and indirect costs in the financial records.
- The overhead rates calculated as part of the cost study are 7.26% for general administration and 6.96% for operations and maintenance. This means that the total overhead for units not maintaining or paying for their facilities should be the total of 14.22%. For some units the appropriate rate will fall between 7.26% and 14.22%.
- Few of the existing revenue-generating units are paying the actual calculated overhead rates.

**New Assessment Process and Rates**

Based on the findings of the task force and cost study, the following changes will be implemented effective July 1, 2008:

- The process for determining appropriate overhead assessments will utilize cost accounting analysis, which will be updated on no less than a biennial basis.
- Budgeting and accounting processes will be monitored to ensure compliance with the classification of revenue activities and to ensure appropriate segregation of direct and indirect costs.
- A new overhead rate structure will be adopted as outlined below. The schedule will phase in rate increases over time to allow appropriate timeframes for unit planning and to reconcile assessments with the calculated rates. For units currently paying rates higher than indicated by the schedule, the existing rate will continue to be in effect until the rate schedule “catches up” with existing rates.
- Overhead rates will be assessed as a percentage of current year expenditures and will be applied automatically in Banner as expenses are incurred. Managers will be able to utilize the relevant account code to determine indirect costs versus direct costs.
- Depreciation expense, UO assessments, and transfers (including debt service) are excluded from assessment and are not included in the rate calculation.

**New Rate Schedule**

	<b>FY2009</b>	<b>FY2010</b>	<b>FY2011</b>	<b>FY2012</b>	<b>FY2013</b>
Designated Operations	8%	8%	8%	8%	8%
Service Centers	4%	5%	6%	7%	8%
Auxiliaries	3%	4%	5%	6%	7%

**Implementation Process**

Business Affairs and Budget and Resource Planning staff will be meeting with campus budget managers and affected units to work out implementation details with the units.

**Process for Evaluating Exceptions**

Units may request an exception to the overhead assessment by submitting a written justification to Laura Hubbard, Associate Vice President for Budget and Finance. After initial analysis and discussion with the appropriate Responsibility Unit, the proposal will be forwarded with a recommendation to the Vice President for Finance and Administration.