SECTION 7: ACQUISITION PROCEDURES

SUBJECT: DETERMINING APPROPRIATE TYPE OF CONTRACT

Procedure #7.3.1

POLICY

It is the responsibility of the Buyer to determine the contractual method the University will use to pay for the vendor's performance.

PROCEDURE

I. Firm Fixed

The majority of contractual agreements entered into by the University will be the result of adequate competition from amongst responsible vendors. A fair and reasonable price for goods or services will be determined through this process and a Firm-Fixed Price Contract will result.

Firm-Fixed Price Contracts allow the University to specify in as much detail as is required, the specifications, terms and conditions which must be met by a vendor prior to their receiving payment. Once the vendor fulfills the specific requirements of the contract and provides the specified goods or services, they will be paid the agreed upon price.

Firm-Fixed Price Contracts that call for the provision of goods and/or services over an extended
period of time may include a provision for price escalation/de-
escalation. This does not change the type of contract, the new
agreed upon price becomes firm-fixed once it is determined.
Any provision for price changes should be tied to a reasonable
indicator such as the Consumer Price Index (CPI), or a
published Inflation Rate. Regardless of the method of
determining the rate of increase/decrease, provision should be
made to allow the University to refuse the change and cancel
the contract.

II. Cost Reimbursement

A second type of contract much less frequently used is the
Cost-Reimbursement Contract. The vendor is reimbursed for
costs incurred in incremental payments or in total upon
completion. This type of contract is suitable in situations
where factors relating to price are too varied or nebulous to
determine a fixed price with any degree of accuracy. Some
examples of cost-reimbursement contracts include time and
materials, cost plus fee.

This type of contract presents difficulties for the University
in regard to budgeting and control of the vendor's costs. The
encumbrance amount on a given contract may be the extent of
funding available. Once this amount is reached the project may
have to be halted well short of completion, since there may be
implications for federally funded projects. No cost
reimbursement contract may be awarded without the prior
approval of the Director of Purchasing and Stores.