Types of Contracts (Invoicing and Payments)

Cost Reimbursable /Cost Reimbursement

A contract/grant for which the sponsor pays for the full costs incurred in the conduct of the work up to an agreed-upon amount. In a cost-reimbursement contract, the sponsor agrees to pay for all allowable costs incurred by the University in the process of doing the work or research up to an agreed upon maximum. If the project costs less to complete than the original amount budgeted, the sponsor is obligated to reimburse the University only up to the allowable costs of the project.

Fixed-Price Contracts

Unlike a cost-reimbursement contract, a fixed-price contract pays the University a fixed sum of money to provide a deliverable, service, or specified level of effort. A fixed-price contract disregards the actual costs incurred by the University to perform the contract. The University assumes the risk of over spending. If the project is completed with less spending than the contracted amount, the University can keep the unexpended funds for unrestricted use. For this reason, sponsors may be interested in auditing the proposal of a fixed-price contract to look for unnecessary and overestimated costs. However, they may not audit the accounting records unless the contract is terminated early.

The billing term for a fixed-price contract usually includes pre-payment of a fixed amount, fixed quarterly payments, or payments in fixed amounts based on schedules such as milestones, tasks, or deliverables.

Occasionally, the terms of a contract may be inconsistent. For example, a contract is titled “fixed-price,” but the billing term is cost-reimbursement. This means that the University is not paid until the costs are incurred. Under such circumstances, the contract has to be treated as a cost-reimbursement contract. Both the proposal and the accounting records of such a contract may be subject to audit. It is always wise to consult the University of Delaware Research Office for a legal opinion when mixed terms are present in a fixed-price contract.

Time and Materials

Time and Materials contracts allow the sponsor to acquire supplies or services based on specified labor hours (including wages, benefits, overhead, etc.) and actual material cost. Under “The Time and Materials” contract, the contracting officer will scrutinize closely the costs attributed to the effort. This will include intensive tracking and reporting of labor hours and pay that the department will have to provide.

Note: The payment schedule is not an indication of the type of contract. The payment schedule on either of the contracts can be monthly, quarterly, semi-annually or other.