

**NUMBER 8.8.03****DATE: 02/03/2016****REVISION: 12/05/2016; 07/18/2018; 08/12/2020****PAGE: 1 of 5****SECTION: FINANCE AND ADMINISTRATION****AREA: BUDGET****SUBJECT: REVENUE CONTRACTS****PURPOSE**

To establish criteria for determining the basis upon which the University of Arkansas for Medical Sciences (“UAMS”) will enter into Revenue Contracts, to describe how Revenue Contracts will be considered in the annual operating budget, to identify roles and responsibilities for the Operational and Financial Management of Revenue Contracts, and to describe the relationship of Revenue Contracts to consideration of compensation and divisional incentives.

**SCOPE**

This policy shall apply to all divisions, departments, and units of UAMS that have, or are interested in establishing, Revenue Contracts as defined, zero dollar contracts, clinical agreements, and memorandums of understanding.

**DEFINITIONS**

**Revenue Contracts** shall mean legal agreements with non-UAMS entities or individuals (clients) for which payments are received by UAMS for services provided. The agreements may identify specific deliverables, or be based upon hours of service provided or other measures of performance established between the client and UAMS. Revenue Contracts may be clinical or non-clinical in nature. Revenue Contracts do not include:

- Grants or contracts which are restricted by federal, state, public or private granting agencies and donors for which UAMS must account for the application of revenue to cost (e.g., research grants)
- Grants or contracts for which UAMS is a subcontractor or sub-recipient and are governed by regulations or conditions established by the granting agency or donor.
- Direct patient billing for services rendered at UAMS hospitals and clinics
- Contracts with industry for clinical trials
- Royalty payments on intellectual property licenses, which are normally paid to BioVentures and are subject to policy established by the University of Arkansas Board of Trustees.
- Honoraria received by UAMS employees for services provided. These shall be governed by UAMS’ human resource policies and other relevant policies.

- Third party payments to students for educational purposes.

**Indirect Cost** shall mean the additional cost above direct expenses associated with a contract. Indirect Cost, also known as administrative cost/fee or overhead, may or may not be detailed in the contract language.

**Operational Management** shall mean review of contract proposals, negotiation of agreements, and monitoring of contracts to ensure that deliverables are provided or services are rendered efficiently and effectively in accordance with provisions of the contract.

**Financial Management** shall mean the creation, modification and retention of contract documents, the invoicing of clients the collection of revenues, and the reporting of financial performance.

**Business Plan** shall mean a document which establishes a business case for a proposed contract by providing information on multi-year revenues, expenditures and expected margins, market analysis, risk assessment, and implementation strategy as well as performance monitoring. The complexity of the Business Plan will vary based on the nature of the contract under consideration.

## **POLICY**

### **A. Criteria for Approval of Revenue Contracts**

All proposed Revenue Contracts shall require the development of a Business Plan, the complexity of which may vary depending on the nature of the contract under consideration. It is the intent of UAMS to ensure that, in instances where UAMS is required to invest new resources for the fulfillment of a contract, colleges pursue payment based on full direct costs and overhead or Indirect Costs associated with the service. Three rules shall guide decisions on whether or not UAMS shall commit to new Revenue Contracts, as follows:

1. The proposed agreement is strategically important for UAMS. In some instances, for example, agreements with state entities, it may not be possible to recover full direct and Indirect Costs for the services provided requiring cross-subsidization of the service.
2. The proposed agreement is not strategically important for UAMS. In these instances, the contract would be expected to cover full direct, and overhead or Indirect Costs.
3. The proposed agreement provides funding for underutilized resources. In rare instances where departments employ resources that are not fully utilized for research, educational or clinical services, Revenue Contracts may be permitted to recover all or a portion of existing expense.

All existing Revenue Contracts in place prior to the adoption of this policy shall be reviewed to assess their compliance with criteria.

Revenue Contracts with outside entities shall include coverage for Indirect Cost to recoup costs incurred by the department, college and the university in managing these agreements. The recommended Indirect Cost shall be established by the Contract Administration Office, subject to approval by the Vice Chancellor for Finance and CFO. The Indirect Cost shall serve as a starting point in negotiations with potential clients.

The minimum requirement for Indirect Cost for negotiating non-Federal contracts has been set at 25% of direct cost. The minimum requirement for Indirect Cost for negotiating Federal contracts is the Federal Indirect Cost rate that has been negotiated and approved under OMB Uniform Guidelines 2 CFR 200.

Exceptions to this policy may be required for certain contracts. Contracts requiring exceptions to Indirect Cost requirement must obtain the following approval:

- Contracts with Indirect Cost between 15% and 24% must be submitted to the Contracts Administration Director for review and approval prior to processing for signatures.
- Contracts with Indirect Cost below 15% must be submitted to the Vice Chancellor for Finance & CFO for review and approval prior to processing for signatures.

An annual report of Indirect Cost and financial impact on reoccurring contracts shall be submitted for review and approval of the Vice Chancellor for Finance & CFO.

## **B. Roles and Responsibilities**

The Executive Committee representative for a given division or his/her delegate shall be responsible, in accordance with their respective organizational responsibilities at UAMS and the criteria established by this policy, to make the determination as to whether or not a proposed Revenue Contract should go forward and resources committed. All Revenue Contracts are subject to final approval by the Vice Chancellor for Finance & CFO.

## **C. Operational Management**

Each division shall be responsible for providing operational oversight and management of Revenue Contracts in their division, which includes monitoring of contract performance to ensure that deliverables are provided or services are rendered efficiently and effectively in accordance with provisions of the contract. This responsibility shall include negotiation with potential clients with the support and guidance from the Contracts Administration Office. Each division shall have the responsibility to evaluate proposals in the context of criteria established by this policy and creating financial plans for the review and approval by the division's Executive Committee representative or his/her delegate, where appropriate. Contract documents shall be processed, reviewed and retained in the contract management system maintained by the UAMS Contracts Administration Office.

## **D. Financial Management**

The UAMS Contracts Administration Office shall obtain the approval of General Counsel for

all Revenue Contracts once appropriate division level approval is obtained. The office also shall be responsible for modifying these documents and retaining contracts and all financial information related to the agreements. With the exception of contracts that require management by the UAMS Clinical Services Reimbursement Office (Patient Billing), the Contracts Administration Office shall be responsible for invoicing clients, recognizing and collecting revenues based on the terms of the contracts, and reporting on the financial performance of the contracts.

#### **E. Review**

The Office of General Counsel shall review all contracts for form and compliance with state law and University of Arkansas Board of Trustees Policies, and compliance with policies of UAMS and federal regulations, including, but not limited to CMS, Stark and Anti-kickback regulations.

All Revenue Contracts must be approved by the Vice Chancellor for Finance and CFO, and/or the Vice President for Administration in the University of Arkansas System Office, as required by UAMS and system policy.

#### **F. Relationship of Revenue Contracts and Operating Budget**

Prior to the beginning of each budget planning cycle, the Vice Chancellor for Finance and CFO, in consultation with the Associate Vice Chancellor for Finance and Treasurer, and the Contracts Administration Office Director, with the support of other finance staff as needed, shall develop revenue estimates for all existing Revenue Contracts for the budget planning year.

Any new Revenue Contracts that are proposed and approved during the course of budget development, or proposed and approved subsequent to the final budget adoption, shall result in a modification of UAMS' expenses and revenues in accordance with agreed-upon financial projections. Revenue Contracts which are approved under Criteria A.3. above shall not result in a change in expense estimates.

All revenues associated with Revenue Contracts as defined shall be credited to the corresponding division as appropriate in accordance with established budget practice at UAMS. Payments are made through invoicing to clients for deliverables or services rendered.

#### **G. Revenue Contracts, Departmental/individual Incentives and Compensation**

The net income resulting from an excess of revenues generated above and beyond full direct costs and overhead or Indirect Costs for any individual Revenue Contract shall not be the basis for determining departmental and individual incentives. However, each division shall establish an incentive model that recognizes additional effort for obtaining revenue agreements which provide a net financial gain to UAMS or the colleges and incorporate that into incentive plans for faculty. Funding for departmental or individual incentives shall be accomplished by a set aside of funds as part of the budget development process. In order for any incentive to be paid

whether individual or departmental, the expense budget target for UAMS must be met or exceeded.

**REFERENCES**

Administrative Guide Policy 5.1.22, Professional/Consultant Services Contracts (PCS)

Administrative Guide Policy 5.1.06, Honorariums

Administrative Guide Policy 16.1.05 Distribution of Royalties from Inventions

Administrative Guide Policy 16.1.20 Gifts and Sponsored Awards: Classification and Administration

[Board of Trustees Policy - 300.1 Contracting Authority](#)

Signature:  \_\_\_\_\_

Date: August 12, 2020