

Letter of Understanding (LOU)

For use between Universities of the State System of Higher Education

State Law prohibits contracts between Universities of the State System of Higher Education. Since all universities are PASSHE universities, any exchange between them should be treated as an internal transaction. These transactions are memorialized in the format of a “letter of understanding.” Such writings differ from standard contracts in the following ways:

- Bidding is not required.
- As long as the agreement is solely between parts of the State System (agreements of two or more universities with each other or with the Office of the Chancellor) **under** the entities shall not use a formal contract document or anything that even appears remotely to be a binding contract. The word “contract” should not be used within the writing to describe it, because it is NOT a contract.
- The universities should formalize their expectations in a letter between authorized employees at the appropriate levels of authority. A LOU requires the signatures of each university comptroller and VP of Administration and Finance to be effective. The procurement office of the controlling university assigns a unique tracking number and facilitates the signature process with their counterpart at the other university.
- A LOU shall not make reference to any rights, or remedies for breach, or manner of enforcement. The letter should state that the arrangement is not a legally binding contract and is not enforceable in a court or in the Board of Claims. The agreement may state that in the event of a dispute between two parties, advice and direction should be requested from the Office of the Chancellor or Office of Chief Counsel.

All letters should be reviewed and executed by university legal counsel.