



SUBRECIPIENTS VS. VENDORS

Have you ever been asked “Does your organization have any subrecipients?” It is a standard question used by auditors when auditing federal program expenditures, but it can cause considerable confusion. You might find yourself wondering “Does my payment qualify as a subrecipient award? Does it qualify as a vendor payment? How do I know?” The Federal government has provided some helpful guidance in making the correct determination whether payments constitute a subrecipient award or a vendor payment. This decision is important, as it is a factor in determining compliance with federal requirements.

Subrecipient characteristics

Payments are considered to be subrecipient awards, or federal awards, when they meet some or all of the following criteria (OMB Circular A-133, §___.210(b)):

- The recipient organization has responsibility for determining who is eligible to receive Federal assistance;
- The recipient organization’s performance is measured against the federal program’s objectives;
- The recipient organization is responsible for making decisions regarding the operation of the program;
- The recipient organization is subject to federal compliance requirements; and
- The recipient organization uses the funds to carry out program operations as opposed to providing goods or services to your organization.

Vendor characteristics

Conversely, payments are considered to be vendor payments, or payments for goods and services, when they have some or all of the following characteristics (OMB Circular A-133, §___.210(c)):

- The goods and services provided by the recipient organization are within its normal business operations;
- Those goods and services are provided to many different purchasers;
- The recipient organization operates in a competitive environment;
- The goods and services are secondary to the operation of the federal program; and
- The recipient organization is not subject to federal compliance requirements.

The caveat –judgment

Using the information above, you still may not be able to determine whether your payment is a subrecipient award or vendor payment. This is where judgment comes into play. The federal government advises that “the subject of the relationship is more important than the form of the agreement”. In other words, was your payment meant to help the recipient organization meet a goal or influence their mission, or was it simply a payment for the purchase of a good or service? If you are able to answer this question, you should be able to make your determination.

Federal requirements

As noted above, your determination of whether your payments are subrecipient awards or vendor payments significantly impacts how you respond to federal requirements. Vendor payments are treated as any basic accounts payable/disbursement transaction. They should comply with laws, regulations, and the provisions of contracts or grant agreements. They should also have proper processes and controls supporting them.

Subrecipient awards, on the other hand, have more complex requirements that must be met in order for your entity to be in compliance with federal requirements. Not only must your organization comply with laws, regulations, and the provisions of contracts or grant agreements, your organization is also responsible for monitoring the use of the passed through funds by the recipient organization. Monitoring may be performed through a variety of methods, including observing subrecipients' operations during site visits, reviewing financial and performance reports prepared by the subrecipients, and keeping regular contact with subrecipients concerning program activities. For those subrecipients who are subject to a Single Audit (A-133 audit), your organization is also required to verify that the audit was performed and to follow up on any findings reported.

Still have questions?

The subrecipient vs. vendor determination can be difficult to make. Not every determination is black and white, and some require some considerable thought and judgment. Sometimes, it helps to discuss your concerns with someone on the outside that can provide an independent, thoughtful opinion. TKW can help. We have a knowledgeable team that will work to help you make a sound, informed decision. Call us at 503.274.2849, or email government@tkw.com.