



State of Arizona Accounting Manual

Topic 70 Grants

Issued 10/11/16

Section 10 Subrecipient and Contractor Determinations

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INTRODUCTION

A significant portion of State programs are funded by way of grants; these grants predominantly, but not exclusively, originate with the Federal Government. The receipt of grant monies carries with it certain administrative obligations set forth in grant documents and Federal publications, as well as in State laws, rules, accounting policies, such as SAAM, and other authoritative grant-related publications, such as the *Grants Management Manual*.

The State is a single entity composed of many agencies. The State, as a whole, is the “prime recipient” of any grant or similar award. Agencies within the State generally receive proceeds directly from the “awarding entity.” The agency that receives proceeds directly from the awarding entity is the “administrative agency.” The administrative agency may, itself, spend the proceeds on expenses it incurs, in which case it is the “expending agency.” The administrative agency may also act as a “pass through agency” when, rather than itself spending the proceeds by paying expenses, redirects or passes through the proceeds to another agency, which spends the proceeds and becomes the expending agency.

When an agency expends grant proceeds, its obligations as well as the obligations of the recipient differ depending upon whether the recipient is a subrecipient or a contractor. Because of this, it is important to be able to properly identify the correct nature of a subrecipient under any circumstances.

This section of SAAM, which relies heavily on the Uniform Guidance (2 CFR 200), communicates criteria agencies should use in determining their relationship with those entities to which they pass-through, award, pay or otherwise disburse grant monies. While the Uniform Guidance applies specifically to Federal grants, the criteria set forth below should be used in determining the character of any entity provided grant funds, no matter the awarding entity.

POLICIES

1. The Government of the State of Arizona is the prime recipient of any grant or similar award. State agencies, though often having responsibilities similar to subrecipients or contractors, are neither. A State agency, rather, is an administrative agency, an expending agency or a pass through agency as discussed in SAAM 7035 and defined in SAAM 9505.

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2. An expending agency shall perform a case-by-case determination, depending upon the substance of its agreements with the awarding entity and the entities to which it disburses funds, as to whether a recipient is a contractor or a subrecipient.
3. Generally, a subaward, which is made to a subrecipient, creates a relationship between the awarding entity and the subrecipient that requires the latter to perform in a manner that assists the awarding entity in accomplishing its goals.
4. Generally, a contract, which is awarded to a contractor, is made for the purpose of obtaining goods and services and creates a procurement relationship with the expending agency.
5. For purposes of the determinations discussed herein, a subrecipient:
 - 5.1. Determines who or what is eligible to receive which assistance or benefits.
 - 5.2. Has its performance measured in relation to whether the objectives of the awarding entity's program were met.
 - 5.3. Has responsibility for programmatic decision making.
 - 5.4. Is responsible for adherence to applicable program requirements specified by the awarding entity.
 - 5.5. In accordance with its agreement, uses the awarding entity's funds to carry out a program for the public purpose specified in award, as opposed to providing goods or services for the benefit of the expending agency or pass-through agency.
6. For purposes of the determinations discussed herein, a contractor:
 - 6.1. Provides goods and service within normal business operations.
 - 6.2. Provides similar goods and/or services to many different purchasers.
 - 6.3. Normally operates in a competitive environment.
 - 6.4. Provides goods or services that are ancillary to the operation of the awarding entity's program.
 - 6.5. May not be subject to all the compliance requirements of the awarding entity's program (though similar requirements may apply for other reasons).
7. The substance of the arrangement is more important than its written form.
8. The Association of Government Accountants (AGA) has produced a tool that can be used to help in distinguishing between a subrecipient and a contractor. This tool is called "Recipient Checklist for Determining If the Entity Receiving Funds Has a Contractor or Subrecipient Relationship" and can be found on the AGA website at

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https://www.agacqfm.org/getattachment/Intergovernmental/Free-Online-Products-for-Financial-Managers/subcontractor_checklist100315.pdf.aspx.

9. An expending agency shall comply with the directives contained in:
 - 9.1. The *State of Arizona Grants Management Manual* (GMM) and other guidance issued by the Arizona Office of Grants and Federal Resources (GFR).
 - 9.2. The *State of Arizona Accounting Manual* (SAAM) and other guidance issued by the General Accounting Office (GAO).
10. The fact that the expending agency may disburse grant proceeds to a subrecipient or a contractor on a competitive basis does not constitute a procurement.
11. Questions involving this section of SAAM may be directed to the GAO or the GFR.