



Contractor vs. Subrecipient Determinations

This quick guide provides a comprehensive overview of how to distinguish between contractors and subrecipients in the context of federal grant management. It outlines key definitions, regulatory guidance, and practical implications for compliance and financial oversight.

Clarifying Roles in Federal Grant Management

Publish Date

DATE

Background

Federal grant recipients often engage with other entities to carry out portions of their funded programs. Determining whether these entities are contractors or subrecipients is critical for ensuring compliance with the [Uniform Guidance \(2 CFR Part 200\)](#). Misclassification can lead to audit findings, repayment of funds, or other penalties.

- Subrecipients are entities that receive a subaward from a pass-through entity to carry out a portion of the federal award and contribute to the programmatic objectives ([2 CFR 200.1](#))
- Contractors are entities that receive contracts that provide goods or services for the benefit of the recipient's own use ([2 CFR 200.1](#)).

The distinction affects monitoring responsibilities, reporting requirements, and the application of indirect cost rates.

Key Components

Definitions (per 2 CFR §200.331)

Subrecipient: A non-federal entity that receives a subaward to carry out part of a federal program. A subaward creates a federal financial assistance relationship with the subrecipient and follows all compliance requirements for the award.

- Performance measured in relation to whether the objects of a federal program were met.
- Responsible for adherence to applicable federal program requirements specified in the federal award.
- Implements the program for public purposes specified in authorizing statute.
- Has responsibility for programmatic decision-making.

Contractor: An entity that provides goods or services within normal business operations and is not subject to programmatic compliance requirements.

- Provides similar goods or services to many different purchasers.
- Normally operates in a competitive environment.
- Provides goods or services that are ancillary to the implementation of a federal program.
- Not subject to compliance requirements of a federal program as a result of the agreement, however other requirements may apply for other reasons.*

Factor	Subrecipient	Contractor
Purpose	Carries out a portion of the federal award	Provides goods/services for the recipient's use
Programmatic Decision-Making	Yes	No
Performance Measured Against Objectives	Yes	No
Responsibility for Adherence to Federal Program Requirements	Yes	Sometimes* (See above)
Typically Operates in Competitive Market	No	Yes
Subject to Monitoring	Yes	Yes

Regulatory Framework

- [2 CFR §200.331](#) outlines characteristics to consider in making determinations.
- The pass-through entity is responsible for making and documenting the determination, including documenting the rationale for determination.

Challenges

- Gray areas in roles can complicate classification. This often happens when an entity's role includes characteristics of both.
 - **Example:** A nonprofit hires an organization to provide training and technical assistance to community partners as part of a federal grant.
 - **Why It's Gray:** If the provider helps shape program content and outcomes, it may be a subrecipient. If it delivers standardized training services to multiple clients, it may be a contractor.
- Inconsistent documentation or rationale can lead to audit issues.

Misclassification may result in improper oversight or cost allocation.

Correct classification ensures:

- Appropriate monitoring and oversight
- Compliance with federal regulations
- Accurate financial reporting and audit readiness

Incorrect determinations can lead to:

- Disallowed costs
- Increased audit risk / audit findings

Next Steps & Recommendations

- Loss of trust with funders
- Develop and document a formal process for determinations
- Use a checklist based on [2 CFR §200.331](#) characteristics.
- Involve your legal team to review procurement contracts and subawards/grant agreements to ensure alignment with federal regulations.
- Train program managers and project leads on making and documenting determinations.
- Review determinations periodically, especially for complex arrangements.

Additional Resources

- [2 CFR §200.331 - Subrecipient and Contractor Determinations](#)
- [2 CFR 200.1 - Definitions](#)
- [Subrecipient vs. Contractor Guidance - Harvard University](#)

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