

House Study Bill 642 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED DEPARTMENT OF
ADMINISTRATIVE SERVICES BILL)

A BILL FOR

- 1 An Act relating to indirect costs charged to state-funded grants,
- 2 and including applicability provisions.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

unofficial

1 Section 1. NEW SECTION. **8.13 Uniform limit on indirect**
2 **costs charged to state-funded grants.**

3 1. *Purpose.* The purpose of this section is to establish a
4 uniform statewide limit on indirect costs charged to state-funded
5 grants to ensure that public moneys are directed primarily
6 to program services and deliverables, to promote transparency,
7 and to provide consistent administration across departments and
8 establishments.

9 2. *Definitions.* As used in this section, unless the context
10 otherwise requires:

11 a. "*Direct cost*" means a cost that can be identified with or
12 directly assigned to a particular final cost objective, program,
13 project, or activity with a high degree of accuracy. "*Direct*
14 *cost*" includes but is not limited to salaries and wages of
15 personnel working on the program, associated fringe benefits,
16 program supplies and materials, program-specific equipment,
17 program-required participant insurance, travel necessary for
18 program objectives, program-required participant support costs,
19 and programmatic subawards.

20 b. "*Grant*" means a state-funded monetary award provided
21 by a department or establishment for the purpose of carrying
22 out a public program, project, or service, whether provided
23 through contract, grant agreement, cooperative agreement, or
24 other funding instrument. "*Grant*" does not include a loan,
25 tax expenditure, or procurement contract for goods or routine
26 services purchased for the state's direct use.

27 c. "*Grantee*" means a recipient of a grant, including but not
28 limited to a nonprofit organization, local government, tribal
29 government, public or private institution of higher education, or
30 for-profit entity.

31 d. "*Indirect cost*" means a cost that is incurred for a
32 common or joint objective and cannot be identified with a
33 particular final cost objective, program, project, or activity
34 without disproportionate effort. "*Indirect cost*" includes
35 but is not limited to the allocable portion of general

1 administration and general expenses such as executive management,
2 accounting, auditing, budgeting, human resources, procurement,
3 payroll, insurance, utilities for general administrative space,
4 depreciation or use allowances on buildings and equipment used
5 for general administration, facility operation and maintenance
6 for general administrative space, and information technology
7 services supporting general administrative functions.

8 e. "Total grant amount" means the total dollar amount of
9 state moneys obligated to the grantee under a grant, as stated
10 in the fully executed grant or funding agreement, inclusive of
11 all budget categories and any amendments.

12 3. *Indirect cost cap.*

13 a. The aggregate amount of all indirect costs charged to a
14 grant shall not exceed five percent of the total grant amount.

15 b. A department or establishment shall not approve a budget
16 or reimbursement request that would cause a grantee's cumulative
17 indirect costs to exceed five percent of the total grant amount.

18 c. A grantee shall not do any of the following:

19 (1) Reclassify an indirect cost as a direct cost for the
20 purpose of circumventing the cap imposed under this subsection.

21 (2) Charge an indirect cost on top of a direct cost that
22 includes an allocable share of indirect costs.

23 d. A department or establishment shall not waive the cap
24 imposed under this subsection unless expressly authorized by law
25 that references and exempts the grant from this subsection.

26 4. *Budgeting and documentation.*

27 a. Each grant budget must separately identify indirect costs
28 and direct costs. The budget narrative must describe the
29 basis for the grantee's indirect cost calculation and certify
30 compliance with the cap imposed under this section.

31 b. A grantee shall maintain records sufficient to
32 substantiate all indirect costs charged to a grant, including
33 the methodology used to allocate indirect costs across funding
34 sources, and shall retain the records for at least ten years
35 after final payment or closeout, or longer if required by the

1 grant agreement.

2 c. If a grantee allocates indirect costs across multiple
3 funding sources, the allocation methodology must be reasonable,
4 consistently applied, and compliant with generally accepted
5 cost allocation principles. The grantee shall document the
6 methodology and make it available to the department or
7 establishment awarding the grant upon request.

8 5. *Administration and oversight.*

9 a. A department or establishment shall incorporate the
10 requirements of this section into each grant solicitation and
11 agreement.

12 b. A department or establishment shall review a proposed
13 grant budget for compliance with this section prior to awarding
14 the grant and shall monitor indirect costs charged during the
15 grant period.

16 c. A department or establishment shall implement controls to
17 prevent payment of indirect costs in excess of the cap imposed
18 under this section, including rejection or adjustment of an
19 invoice or reimbursement request that would exceed the allowable
20 maximum.

21 d. The department of management shall adopt rules pursuant
22 to chapter 17A to implement and administer this section.
23 The office of grants enterprise management of the department
24 of management shall issue implementation guidance, including
25 standardized definitions, examples, and sample budget templates,
26 to promote uniform application of this section.

27 6. *Remedies.*

28 a. Indirect costs charged in excess of the cap imposed under
29 this section are disallowed.

30 b. A department or establishment shall recover any amounts
31 paid for disallowed indirect costs through offsets against future
32 payments under the grant, repayment by the grantee, or other
33 means provided in the grant agreement and applicable law.

34 c. As a condition of continued funding, a department or
35 establishment may require a grantee that exceeds the cap imposed

1 under this section to implement a corrective action plan and
2 revised allocation methodology to ensure future compliance.

3 7. *Lower cap authorized.* A department or establishment may
4 adopt a stricter limit on indirect costs than established in
5 this section for particular grants if authorized by law or if
6 necessary or desirable based on funding conditions, provided such
7 limit is stated in the grant solicitation and agreement.

8 8. *Federal moneys.* To the extent a grant includes federal
9 moneys that contain explicit requirements concerning indirect
10 costs, the federal requirement applies to the portion of the
11 grant funded with federal moneys.

12 Sec. 2. APPLICABILITY. This Act applies to grants awarded or
13 amended on or after July 1, 2026. A department or establishment,
14 as defined in section 8.2, shall, to the extent practicable,
15 modify an existing grant upon amendment to conform to this Act.

16 EXPLANATION

17 The inclusion of this explanation does not constitute agreement with
18 the explanation's substance by the members of the general assembly.

19 This bill provides that indirect costs, as defined in the
20 bill, charged to a state-funded grant awarded or amended on or
21 after July 1, 2026, must not exceed 5 percent of the total
22 grant amount and prohibits a department or establishment from
23 approving a budget or reimbursement request that would exceed
24 that limit unless expressly authorized by law. A grantee is
25 prohibited from reclassifying an indirect cost as a direct cost
26 and from charging an indirect cost on top of a direct cost that
27 includes an allocable share of indirect costs. For purposes of
28 Code chapter 8, a department or establishment is an executive
29 department, commission, board, institution, bureau, office, or
30 other agency of state government, that uses, expends, or receives
31 any government funds, excluding the courts and the general
32 assembly.

33 A grant budget must list indirect costs and direct costs
34 separately and a budget narrative must explain the basis
35 for the indirect cost calculation. A grantee must maintain

1 records related to indirect costs for a minimum of 10 years.
2 An allocation method that allocates indirect costs across
3 multiple funding sources must be reasonable, consistent, and
4 compliant with generally accepted cost allocation principles.
5 The methodology must be documented and provided to the department
6 or establishment upon request.

7 The bill requires a department or establishment to incorporate
8 the provisions of the bill into each grant solicitation and
9 agreement, ensure grant budgets are compliant, and implement
10 controls to prevent payment of indirect costs in excess of
11 the cap. The department of management (DOM) must adopt rules
12 to implement the bill and DOM's office of grants enterprise
13 management must issue implementation guidance to promote uniform
14 application of the bill.

15 The bill requires a department or establishment to recover
16 amounts paid for disallowed indirect costs through offsets
17 against future payments under the grant, repayment by the
18 grantee, or other means provided in the grant agreement and
19 applicable law. A department or establishment may require a
20 grantee that exceeds the cap to implement a corrective action
21 plan and revised allocation methodology.

22 The bill authorizes a department or establishment to adopt
23 a lower cap on indirect costs under certain circumstances if
24 the cap is stated in the grant solicitation and agreement.
25 The bill's provisions do not supplant federal requirements for
26 federal moneys included in a grant.