



# Memorandum

Subject: INFORMATION: Reimbursement Methods for  
Fiscal Management Information System (FMIS)  
Modernization Activities

Date: November 25, 2013

From:   
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Chief Financial Officer

In Reply Refer To:  
HCFM  
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To: Division Administrators

This memo provides guidance for State Departments of Transportation (DOT) to claim reimbursement for the costs of upgrading their financial management system(s) required by the Federal Highway Administration's (FHWA) Fiscal Management Information System (FMIS) modernization initiative.

State DOTs may choose one of two options to claim reimbursement for the FMIS modernization costs: (1) indirect cost allocation plan or (2) direct cost reimbursement.

## Indirect Cost Allocation Plan

States with an FHWA-approved indirect cost allocation plan (ICAP) should use their existing processes and procedures of claiming the costs incurred for upgrading their accounting systems in accordance with the principles in 2 CFR 225. Any enhancement or upgrade to a State's financial management system may be considered an indirect cost which benefits multiple cost objectives (Federal-aid programs). Indirect costs should be allocated to Federal awards based on the benefits received. A special rate could be added to the ICAP that would allocate these costs only to Federal awards, ensuring an equitable allocation to the benefiting cost objectives.

## Direct Cost Reimbursement

States with or without an approved ICAP may elect to seek a direct reimbursement for allowable costs required by the FMIS modernization initiative. FHWA is authorizing direct cost reimbursement for this FMIS modernization based on the following:

- 23 U.S.C. 302 provides that a State must be "suitably equipped" and adequately staffed to carry out the Federal-aid highway program. The "suitably equipped" requirement applies to computer systems and computer system upgrades. Because the FMIS modernization is being mandated by FHWA to improve the administration of and benefit to the Federal-aid highway program, we have

determined the FMIS modernization exceeds the “suitably equipped” requirement for States.

- FHWA is providing advanced approval for FMIS modernization costs to be direct costs. While Federal-aid statutes do not specify that computer system or computer upgrades are an eligible apportioned program expense, government-wide cost regulations permit up-front participation in equipment costs as an exception to use rate recovery if approved by the Agency in advance of the purchase. Pre-approval for FMIS modernization enhancements to a State’s financial management system as direct costs is authorized in accordance with 2 CFR 225 App. B Selected Item of Cost #15 b(1).
- No additional funding is being provided for this purpose.
- The Federal share may be up to 80 percent or applicable State sliding scale rate.
- FMIS modernization enhancement costs should be funded through one FMIS project agreement with appropriate distribution among apportioned programs. Since the expense benefits more than one Federal-aid program and could potentially benefit State activities, the cost must be appropriately allocated to the benefiting programs including those external to the Federal-aid program in accordance with the principles in 2 CFR 225.

#### Eligible Activities for Direct Cost Reimbursement

The proposed scope of the FMIS modernization work will be limited to software improvements supporting any of the following capabilities<sup>1</sup>:

- Electronic Data Sharing (EDS) - Funding for development of new or modification of existing EDS software is available to all States, regardless of whether or not they currently use EDS.
- Current Bill - Funding for development of new or modification of existing Current Bill software is available to all States.
- State Project Repositories – Such applications supply project data to FMIS, either by re-keying repository data into FMIS, or via EDS. Federal-aid funding is only available for modifications to existing repositories. Development or purchase of new State repository software cannot be funded using Federal-aid funds.

Eligible Federal-aid funded activities would be limited to software lifecycle costs as follows:

- Functional requirements definition
- Design
- Develop or modify software
- Testing
- Implementation as a live system (includes training costs)

Post-implementation activities are not eligible for direct cost reimbursement.

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<sup>1</sup> Detailed technical requirements provided to States under separate cover (see memo “Guidance: Preparation for Fiscal Management Information System (FMIS) Modernization.”)

Actions Required

Division Administrators should provide this guidance to the State DOTs. State DOTs may elect to use one (but not both) of the options described above to claim reimbursement for allowable FMIS modernization costs. State DOTs will have until October 1, 2014 to modify their financial management system(s) necessary to address the programming requirements and claim reimbursement. Direct reimbursements will not be allowed after that date without prior approval from the Office of the Chief Financial Officer.

If you have any questions about this guidance, please contact Dan Parker at (720) 963-3216 or Joan Rost at (515) 233-7303 of the Office of Financial and Management Programs.

cc: Associate Administrators  
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