

ACTIVITY/MECHANISM BUDGET SUMMARY  
 Department of Health and Human Services  
 Indian Health Services - 75-0390-0-1-551  
**CONTRACT SUPPORT COSTS**

Program Authorization:

Program authorized by P. L. 93-638, Indian Self-Determination Act, as amended and P. L. 100-472, Section 106(a)(2) A & B.

	2000 <u>Actual</u>	2001 <u>Appropriation</u>	2002 <u>Estimate</u>	2002 Est. +/- <u>2000 Actual</u>	2002 Est. +/- <u>2001 Approp.</u>
Budget Authority	\$228,781,000	\$248,234,000	\$288,234,000	+\$59,453,000	+\$40,000,000

**PURPOSE AND METHOD OF OPERATION**

Section 106(a)(2) of P.L. 93-638, the Indian Self-Determination Act, as amended, authorizes the Secretary to fund those costs that a tribal contractor incurs in addition to what the Secretary would have otherwise provided for the direct operation of the program. These costs are referred to as contract support costs.

The IHS uses contract support cost funds made available under the ISD fund to support the initial transfer of programs from Federal operations to tribal operation. The ISD funds tribal requests that include Start-Up, Direct, and Indirect types of Contract Support Costs.

Amounts needed for Indirect CSC are determined in independent negotiations with the cognizant Agency's Inspector General (which is the Department of the Interior for virtually all contracts). The types of costs included in these indirect cost pools include the reasonable costs of tribal governing bodies, management and planning, financial management, property management, procurement management, data processing, office support, building rent, utilities, program specific insurance, legal services, and single-agency audits.

**ACCOMPLISHMENTS**

Contract support costs (CSC) is a supplement to the direct program funding provided in order to maintain an equitable opportunity for tribes who choose to operate programs under this legislative authority.

In 1997, the Congress directed the IHS to "work with Tribes, the Bureau of Indian Affairs and the Inspector General at the Department of the Interior to contain the escalation in contract support costs." In response to this directive, the IHS developed a "Report to Congress on Contract Support Cost Funding in Indian Self-Determination Contracts and Compacts". The findings of the report, based on analysis of tribal indirect cost rates, indicated that rates have remained relatively stable and have not unreasonably escalated. The report further indicated that the continued increase in contract support cost need is due primarily to the increased assumption by tribes of new programs, services, functions and activities from the IHS.

The Office of the Inspector General within the Department of Interior reached a similar conclusion as a result of an analysis it conducted of a sample of tribes over an eight-year period.

In FY 1999, the IHS received a \$35 million increase for CSC. Recommendations from the tribal consultation process resulted in the adoption of an allocation methodology that distributed CSC to those tribes with the greatest overall CSC need. The distribution of the \$35 million increase in this manner resulted in the IHS being able to fund contracting/compacting tribes at an average level of 86 percent for CSC. No tribe in the IHS system was funded at less than 80 percent of its CSC costs at the time the \$35 million was allocated.

Consultation with tribes also resulted in the adoption of a new policy in FY 2000 to govern the administration of CSC in the IHS. The policy implements a new process and methodology for distributing CSC within available resources to tribes for new assumptions of programs, functions, services and activities. The policy also implements a process and methodology for reducing the inequity in CSC funding for existing contract and compact tribes.

In FY 2000, the IHS received a \$25 million increase for CSC. The same allocation methodology used in FY 1999 was used in FY 2000 to allocate this increase. The continuation of distribution of the \$25 million increase in this manner resulted in the IHS being able to fund contracting/compacting tribes at an average level of 94 percent for CSC. No tribe in the IHS System was funded at less than 90 percent of its CSC costs at the time the \$25 million was allocated. This is an increase of 8 percent in the average level funded and a 10 percent increase over the minimum funding level from the previous year. This increase in the level funded and the increase in the minimum funding level is a direct result of the IHS working with Tribes to contain ongoing program contract support costs and the promotion of consistency throughout the IHS system in the types of CSC awarded by the Agency for new and expanded programs.

Following are the funding levels for the last 5 fiscal years:

<u>Year</u>	<u>Funding</u>	<u>FTE</u>	
1997	\$160,702,000	--	
1998	\$168,702,000	--	
1999	\$203,781,000	--	
2000	\$228,781,000	--	
2001	\$248,234,000	--	Enacted

**RATIONALE FOR BUDGET REQUEST**

**TOTAL REQUEST** -- The request of \$288,234,000 is the increase of \$40,000,000 over the FY 2001 enacted level of \$248,234,000. The increases are as follows:

Contract Support Cost for New and Expanded Contracts - +\$40,000,000

To date, the Navajo Nation has submitted a proposal to contract for the operation of all of the health services. The IHS currently provides for the Navajo Nation's 250,000 citizens. These services include 6 hospitals and 19 outpatient facilities with an FY 2001 budget of \$349 million. Funds are

requested to provide Contract Support Costs primarily for the Navajo Nation, and for other tribes' new or expanded contracts in FY 2002.

The additional \$40 million will be used for new and expanded contract based upon IHS distribution policy. This policy gives priority to Tribes with the greatest relative need for contract support funding (i.e., contract support cost funding from existing contracts compared to the amount of contract support cost from the new or expanded contract). Because the anticipated amount of contract support costs from the new Navajo contract are so much larger than the contract support costs it receives from existing contracts, IHS anticipates that most of the \$40 million will be used for the new Navajo contract.

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