

CSC/LNF Meeting Report

January 24, 2001

On Monday, January 22nd participants from the IHS Contract Support Cost Workgroup (CSCWG) met with the Tribal Co-Chair of the IHS LNF Workgroup in order to present their views on how CSC should be addressed under the proposed LNF Methodology. Currently, 89% of all available CSC is recognized as a resource under the LNF Methodology. Eleven percent of the CSC resources are excluded as they relate to “wrap-around” services which are not a part of the personal health care services category that is the focus of the LNF Workgroup. Participants from the CSCWG contended that by incorporating CSC into the LNF Methodology 638 contracting and compacting tribes are disadvantaged. Their primary premise was that by counting CSC funding into the formula, the workgroup was capturing costs being borne by 638 programs whereas those same costs for the direct service programs were being supported by resources outside of the IHS. Additionally, the CSCWG participants noted areas wherein Congress has placed special requirement on 638 contractors and compactors to do certain things that increase the cost of personal health care services beyond those borne by the federal employee benefit plan which is the model used by the LNF Workgroup. Everyone was well aware of the need to maintain consistency with the model yet if resources are to be allocated with this methodology, further refinement of the CSC account has to be addressed in order to maintain equity within the system.

A couple examples used during the meeting might help to explain the point. First, assume that a program employing four Commissioned Corp officers exists within the IHS system. Within the IHS budget are resources for the salary and some of the benefits of the positions. Not included in the IHS appropriation, however, are costs for these employees’ health insurance and retirement benefits. These costs are provided under a direct appropriation to the Division of Commissioned Personnel or the Armed Services Retirement Board and therefore are not a resource available to direct service programs under the methodology. Under a 638 scenario, the tribe contracting this program would receive what the secretary would have spent from her appropriation to support the positions but would not have access to the benefit costs borne by the Division of Commissioned Personnel or the Armed Services Retirement Board. Under 638 those tribes who “direct hire” for these positions cannot continue to access these other offices to provide the benefit costs they once did. Instead, they receive contract support costs to cover their costs to provide the same benefits. Consequently, including the CSC for this type of cost for a 638 program and not including the resources for a direct service program results in an inequity when both programs are equal.

Similar examples of this type of situation include certain other benefit costs (unemployment insurance, etc.); some property and facility support provided by the GSA; some human resource support provided by the OPM; some legal costs provided by the Office of General Counsel and the Department of Justice; some financial support functions provided by Treasury and the General Accounting Office; and even general management and oversight support provided by the Department and the White House. This is not an all inclusive list but is intended to demonstrate that resources for these costs that continue to support direct service programs exist within the Government but they are not being captured by the formula.

Having made this point, we also discussed the fact that because of the 638 statute, tribes operating programs are sometimes forced to carry out activities that the Government does not do when it operates the direct service program or are forced to carry out certain activities in a manner that is neither efficient nor contributes to personal health care services. These activities include such things

as preparing contract proposals; auditing contracts; providing appropriate property and liability insurance; completing Federal property inventories; and maintaining financial, procurement, and property management systems pursuant to Federal standards. Recognizing this, the Congress has authorized the use of CSC to support these functions that do not exist on the direct service side or must be carried out by a contractor or compactor to ensure compliance with the terms of the contract and prudent management.

Finally, in general, tribes are at a loss to try to maintain efficiencies due to the loss of economies of scale enjoyed by the direct service programs operated by the Federal Government. In the area of CSC, however, Congress has authorized the use of CSC to provide for the costs of the tribe itself, rather than “what the Secretary would have otherwise spent.” In this regard only, it may be a mixed blessing that the Congress might be willing to provide some additional resources to carry out the same activity but now these additional resources are being counted against these 638 programs as though they were available to provide additional services. This is not the case. In fact, often times due to the failure of the Government to provide the necessary CSC to tribes they are forced to divert direct service resources to cover administrative costs thereby even further diminishing resources available for direct personal health care services.

Given all of the above, there seemed to be a great need to either adjust the resources available to direct service programs to account for the support they receive from other agencies of the Federal Government or to further adjust the inclusion of CSC within the formula to achieve equity among all IHS users. This was discussed at great length, and while it would be preferable to identify the resources available to tribes throughout the rest of the Government, the practicality of doing that was beyond both the time and expertise available in our meeting. Therefore, it was decided that there needed to be some further adjustment of CSC resources under the formula in order to address this matter. It is important to note that we are not saying that these costs don’t support personal health care services but rather this adjustment needs to be made at this time to maintain internal equity between direct service programs and 638 operated programs.

The CSC study, “Determining the True Cost Of Contracting Programs for Indian Tribes”, conducted by the Northwest Portland Area Indian Health Board and the Affiliated Tribes of Northwest Indians was identified as a respected source of CSC information and data and was therefore consulted for information that would quantify how tribes use CSC funding. Additionally, the IHS’s own CSC Circular No. 2000-01 was also useful in describing the costs that CSC generally supports. The rest of the meeting was devoted to quantifying a reasonable discount of CSC necessary to achieve better equity for both direct service and 638 operated programs. A spreadsheet and narrative describing our recommendations is attached for the consideration of the full LNF Workgroup.

The participants from the CSCWG wished to thank the LNF Workgroup for the opportunity to discuss this important issue and in particular to thank Mr. James Crouch for his patience in developing the recommendations that follow.

Ronald B. Demaray
Chairman, IHS CSC Workgroup

LNF / CSC Analysis

CSC Line Item	Footnotes	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		% of IDC	% of CSC	% CSC allocable to the Benefit	% of CSC excluded (see footnotes)	% excluded from total CSC	CSC \$\$ to be Excluded	CSC \$\$ to be Included
Direct Contract Support Costs (DCSC)	/1	-	22.0%	19.6%	100.0%	19.6%	47,170,000	5,830,000
Indirect Costs (IDC)	/2							
--- Facilities & Equipment	/3	24.1%	18.8%	16.7%	20.0%	3.3%	8,054,785	37,196,815
--- Governing Board	/4	6.3%	4.9%	4.4%	100.0%	4.4%	10,574,624	1,306,976
--- Management & Admin.	/5	53.9%	42.1%	37.4%	50.0%	18.7%	45,126,204	56,280,996
--- Insurance & Bonding	/4	3.5%	2.7%	2.4%	100.0%	2.4%	5,839,468	721,732
--- Legal Services	/4	3.8%	3.0%	2.7%	100.0%	2.7%	6,391,624	789,976
--- Audit	/4	1.9%	1.5%	1.3%	100.0%	1.3%	3,128,884	386,716
--- General Services / Other	/6	<u>6.5%</u>	<u>5.1%</u>	<u>4.5%</u>	0.0%	<u>0.0%</u>	-	12,201,200
totals		100.0%	100.0%	89.0%		52.4%	126,285,589	114,714,411
CSC allocated to "wrap around" services						11.0%	26,510,000	(26,510,000)
Total CSC to be excluded						63.4%	152,795,589	
CSC to include as "available for each OU"				89.0%		36.6%		88,204,411
Total Contract Support Costs			241,000,000					

Column (A) relates to the allocation of CSC by line item within tribal indirect cost proposals. This information was captured in the report, "Determining the True Cost of Contracting Federal Programs for Indian Tribes". This information is based on a detailed analysis of the actual indirect costs of the 42 tribes in the Portland Area. This sample is a fair representation of tribes nationally.

Column (B) represents the allocation of CSC by cost category (DCSC vs. IDC) under IHS contracts and compacts. The IDC portion is then allocated to the line items identified under Column (A). These figures are based on FY 2000 IHS data.

Column (C) represents the portion of total CSC that is allocable to the benefit package under the existing formula. Currently, 11% of the available CSC funding is allocable to "wrap around" services and are therefore excluded from the benefit package.

Column (D) represents the percentages of the line items that are excludable based on the explanations provided in the footnotes.

Column (E) represents the total percentage of each line item that is excludable based on columns (C) and (D).

Column (F) represents the amount of CSC funding from the FY 2001 appropriation that would be excluded based on the recommendations of the participants at the LNF / CSC meeting.

Column (G) represents the amount of CSC funding from the FY 2001 appropriation that would be included in the benefit package based on the recommendations of the participants at the LNF / CSC meeting.

FOOTNOTES TO LNF / CSC ANALYSIS

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The IHS CSC Circular describes direct contract support costs (DCSC) as those costs “that are not contained in either the IDC pool (or indirect type cost budget) or the amount computed pursuant to section 106(a)(1). It goes on to describe a number of specific costs that are commonly recognized as DCSC. All of these costs by their very definition are costs that the IHS does not include in the direct service budget when it operates the program. Consequently, the participants at the LNF/CSC meeting recommended excluding all DCSC from the formula used to identify resources available for personal health care services. This amounts to \$47 million of the \$214 currently identified under the LNF methodology.

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The Northwest Portland Area Indian Health Board report, “Determining the True Cost Of Contracting Programs for Indian Tribes”, broke tribal indirect costs down into 3 major categories: Facilities & Equipment, Management & Administration, and General Services & Expenses. Within these categories are cost centers related to activities that tribes generally carry out with indirect (IDC) funding. .

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Facilities and equipment costs are discounted by only 20% because this is the amount that could be attributed to supporting the expanded IDC operating infrastructure itself. Eighty percent of the facility and equipment costs are left in since they support the direct operation of the program.

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Costs for Governing Body (Tribal Council), Insurance & Bonding, Legal Services, and Audit were excluded at 100%. The participants at the LNF/CSC meeting make the recommendation that all these costs be excluded from the formula due to the fact that these are either costs that tribes incur that the IHS does not in its direct operation of the programs or they are costs that the Federal Government supports from resources that are not made available under the 638 award.

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Management and administrative costs are discounted by 50%. It was felt that this was a reasonable approximation of the portion of these costs that are attributable to those costs that that tribes incur that the IHS does not in its direct operation of the programs or the costs that the Federal Government supports from resources that are not made available under the 638 award.

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General Support Services and Other Miscellaneous costs were not discounted at all. These costs are to remain under the formula as these similar costs are difficult to distinguish from Federal costs in the formula.

All of the percentages in the attached spreadsheet can be easily modified if the LNF Workgroup believes the recommendations of the participants at the LNF/CSC meeting need adjustment. It is probably important to note again that we are not saying that most of these costs don't support personal health care services but rather these adjustments need to be made at this time to maintain internal equity between direct service programs and 638 operated programs.