



APR 19 2007

Dear Tribal Leader:

On April 6, 2007, I signed the enclosed Contract Support Costs (CSC) Policy for the Indian Health Service (IHS), establishing this directive as a permanent Chapter within the IHS Manual (Chapter 3, TN-2007-05), effective for the fiscal year (FY) 2007 through FY 2010 funding periods.

This policy revision modifies the CSC allocation methodology associated with new or expanded awards under the Indian Self-Determination and Education Assistance Act (ISDEAA), Public Law (P.L.) 93-638, as amended. Allocations will now be made at the average level of CSC funding paid to all existing P.L. 93-638 awards.

The updated CSC allocation methodology will allow more Tribes to benefit from additional CSC appropriations and minimize CSC shortfalls for all ongoing programs. This approach provides a tangible strategy to achieve greater equity among all Tribes.

This CSC policy revision will be carefully monitored during FYs 2007 through 2010 to ensure responsiveness to the needs of Tribes in administering their health programs, and support to the Federal Government's policy of Indian Self-Determination.

At the end of the FY 2010 funding period the revised CSC allocation methodology will be thoroughly evaluated to determine if the changes should be made permanent. No other revisions have been made to the CSC allocation policy with the exception of minor conforming changes to reflect IHS Manual formatting.

Our primary objective is to develop a framework that promotes greater equity and parity in CSC funding as requested by Congress and Tribal Leadership.

This CSC policy supersedes any previously issued policies or instructions regarding the allocation of CSC funds. Copies of the CSC policy update will be mailed to IHS Area Offices and Tribal Health Directors. The revised policy will also be posted on the IHS Web site at http://www.ihs.gov/PublicInfo/Publications/IHSManual/Parts_index.cfm.

I appreciate all for the hard work you do in support of quality health care for your communities. I can assure you that the IHS remains strongly committed to obtaining full CSC funding.

Sincerely yours,

Charles W. Grim, DDS
Charles W. Grim, D.D.S., M.H.S.A.
Assistant Surgeon General
Director

Enclosure

BACKGROUND

The purpose of this Transmittal Notice (TN) is to forward a copy of the Part 6, Chapter 3, "Contract Support Costs," Indian Health Manual (IHM). This chapter provides guidance to both Tribal and Agency personnel in the preparation and negotiation of requests for contract funding in support of new and continuing Indian Self-Determination and Education Assistance Act, Public Law 93-638, as amended, contracts and compacts. These instructions are not regulations establishing program requirements and are issued in accordance with 25 Code of Federal Regulations Section 900.5.

Charles W. Grim, DDS
Charles W. Grim, D.D.S., M.H.S.A.
Assistant Surgeon General
Director, Indian Health Service

MATERIAL TRANSMITTED

Part 6, Chapter 3, "Contract Support Costs," IHM, including the chapter Table of Contents, and Manual Exhibits 6-3-A through 6-3-H.

MATERIAL SUPERSEDED

Indian Health Service Circular No. 2004-03, "Contract Support Costs," dated September 01, 2004, is cancelled in its entirety and any policies or instructions previously issued regarding the allocation of contract support costs funds are hereby superseded.

MANUAL MAINTENANCE

Remove and discard the current copies of the IHS Circular No. 2004-03, "Contract Support Costs," dated September 01, 2004, from your manual system binders.

Insert the attached copy of the IHM 6-3, including the chapter Table of Contents and Manual Exhibits 6-3-A through 6-3-H, in Part 6, after chapter 1.

Log and file this TN in its sequential order.

Distribution: IHS-wide

Date: April 6, 2007

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Manual Exhibits

- Manual Exhibit 6-3-A, Title 25, Chapter 14, Miscellaneous, Subchapter II, Indian Self-Determination and Education Assistance, Part A, "Indian Self-Determination," Section 450j-1 and Section 450j-2
- Manual Exhibit 6-3-B, Contract Support Cost Calculation Based on a Detailed Analysis
- Manual Exhibit 6-3-C, Contract Support Cost Calculation Using the 80/20 Method
- Manual Exhibit 6-3-D, Allocation of Indian Self-Determination Funds Against Contract Support Costs Requirements for New and Expanded Awards
- Manual Exhibit 6-3-E, Allocation of Pool No. 3 Funds Against Overall Contract Support Costs Shortfall for Ongoing Contracts (Bottom-up Plus Proportionate Distribution)
- Manual Exhibit 6-3-F, Fiscal Year 2007 Contract Support Costs Shortfall Report
- Manual Exhibit 6-3-G, Fiscal Year 2007 Indian Self-Determination Funding Request
- Manual Exhibit 6-3-H, Standards for Review and Approval of Contract Support Costs in the Indian Health Service

(6-3.2C(2) - continued)

“Costs incurred before the initial year that a self-determination contract is in effect may not be included in the amount required to be paid under paragraph (2) if the Secretary does not receive a written notification of the nature and extent of the costs prior to the date on which the costs are incurred.”

NOTE: Examples of startup and pre-award costs are described in the standards for the review and approval of CSC in Manual Exhibit 3-6-H.

Startup costs for PFSA will only be provided to an awardee one time in the initial year of transfer, and no additional startup costs will be justified if the PFSA is subsequently transferred to a sub-awardee.

Pursuant to Section 106(a)(6) of the ISDEAA, as amended, notification from awardees for pre-award costs must clearly indicate the nature and extent of the costs to be incurred and such notification must be provided in writing before any of the costs are actually incurred. Tribes should provide a pre-award notice to the appropriate IHS Area Director as soon as they anticipate contracting or compacting a PFSA, and before they incur any of the costs. If such a notice is received by any other IHS Area Office, it should be immediately forwarded to the appropriate IHS Area Director. The review of pre-award and startup costs by Area Office staff should ensure that there is no duplication with any costs funded under a Tribal management grant, when appropriate.



- D. Direct CSC. Direct contract support costs (DCSC) pay for activities that are not contained in either the IDC pool (or indirect-type cost budget) or the amount computed pursuant to Section 106(a)(1). Direct contract support costs may be incurred directly by the awardee or by an eligible sub-awardee. Direct contract support costs amounts are awarded on a recurring basis.
- (1) Examples of DCSC are described in the standards for the review and approval of CSC in Manual Exhibit 3-6-H. These may include, but are not limited to:
- a. unemployment taxes on direct program salaries,

(6-3.2D(1) - continued)

- b. workers compensation insurance on direct program salaries,
 - c. cost of retirement for converted civil service and United States Public Health Service Commissioned Corps Officer salaries,
 - d. insurance,
 - e. facilities support costs to the extent not already made available,
 - f. training required to maintain certification of direct program personnel, and
 - g. any other item of cost that meets the definition of CSC at Section 106(a)(2), but is not included in the awardee's IDC pool or the Section 106(a)(1) amount.
- (2) Funds for DCSC need not be rejustified each year and will be provided to the awardee on a recurring basis. Notwithstanding this provision, if a cost that has previously been funded as a DCSC is moved to the Indirect Cost Pool (See Section 6-3.2 E), the DCSC requirement shall be reduced. The amount of each awardee's DCSC need shall be adjusted annually by the OMB non-medical inflation rate in order to account for the normal increased DCSC need. In accordance with Section 106(a)(3)(B) of the ISDEAA, as amended; however, the amount of funds needed for DCSC may be renegotiated on an annual basis at the option of the awardee. To the extent that a greater amount of DCSC need is agreed to, that additional requirement will be recognized as CSC shortfall and will be considered for funding under Pool No. 3 (See Section 6-3.3C). To the extent that the DCSC requirement is reduced, excess DCSC funds may first be used to fully fund the awardee's IDC requirements before the IHS reduces any excess funds.

(6-3.2E- continued)

If an awardee's IDC rate is applicable to an FY that is more than three-years old, the IHS will not provide IDC associated with the application of that IDC rate. In these cases, the Area will negotiate "indirect-type costs" with the awardee (see paragraph 6-3.2E(3) that follows). The rate applicable to the current FY is considered current, and the rate applicable to the previous FY shall be considered one-year old.



- (2) Awardees Without Negotiated IDC Rates (Guidelines for Agency Negotiators). A lump sum amount for "indirect type costs" may be computed for awardees that do not have formally negotiated agreements with their cognizant Federal agency for reimbursement under an IDC rate. This annual lump sum amount may be calculated by negotiating a fixed amount for "indirect-type costs." Categories of costs often considered "overhead" or "indirect-type" are generally in the categories of:

Management and Administration; Facilities and Facilities Equipment; and General Services and Expenses. Indirect-type costs must be renegotiated not less than once every four years, but they can be renegotiated more frequently at the Tribe's option. Examples of indirect and indirect type costs are:

Management and Administration	Facilities and Facilities Equipment	General Services and Expenses
Governing Body	Building Rent/Lease/Cost Recovery	Insurance and Bonding
Management and Planning	Utilities	Legal Services
Financial Management	Housekeeping/Janitorial	Audit
Personnel Management	Building and Grounds	General Support Services
Property Management	Repairs and Maintenance	Interest
Records Management	Equipment	Depreciation/Use Fees
Data Processing		
Office Services		

(6-3.3A(2)b - continued)

and eligible for funding under Pool No. 3. The full IDC requirement of the new awardee should be considered for funding under its ISD Request.



(3) Initial Funding Period - New and Expanded Contracts. Contract support cost funds for new and expanded programs will be allocated by IHS Headquarters as expeditiously as possible. Funding is provided to the extent available to each CSC request on the ISD list. The ISD list ("ISD Requests") contains a listing of all requests for CSC funding. The funding is based on the total amount associated with the PFSA awarded from the date of assumption through the end of the FA performance period, not to exceed 12 months. Contract support costs funding will be determined as follows:

- a. First, subject to paragraph 6-3.3A(3)g, the initial distribution of the ISD Fund will be made subsequent to July 3 of each FY; based on contract proposals received by July 3 of that FY. If the IHS and the Tribe fail to reach an agreement on the amount of the ISD Request by the time of the initial distribution of the ISD Fund, an appropriate amount will be identified and reserved for a subsequent distribution. All ISD Requests received prior to July 3 of the FY, (or by August 17 for a Final Offer from a Title V compactor), must be finalized for distribution in that FY.
- b. For proposals submitted between April 1 and July 3 of each FY, or the PFSA awarded between July 3 and September 30 of each FY, an ISD Request must have been submitted on or before July 3, (or by August 17 for a Final Offer from a Title V compactor), to receive a portion of the ISD Fund distribution for that FY.

If no ISD Request is submitted in the current FY, the awardee may submit an ISD Request against the subsequent year's ISD Fund if submitted before July 3 of that year, (or before August 17 for a Final Offer from a Title V compactor).

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(6-3.3A(3)b - continued)

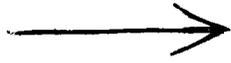
If the awardee fails to submit an ISD Request before July 3 of the subsequent FY, (or before August 17 for a Final Offer from a Title V compactor), the program amount will be included in the awardee's ongoing shortfall calculation and CSC will only be funded through the next FY's Pool No. 3 shortfall distribution.

- c. For proposals submitted before April 1 and starting in the current FY, failure to submit an ISD Request before July 3 of that FY (or by August 17 for a Final Offer from a Title V compactor) will preclude the contractor from submitting an ISD Request in the subsequent year. Instead, the program amount will be included in the contractor's ongoing shortfall calculation, and CSC will be funded only through the next FY's Pool No. 3 shortfall distribution.

NOTE: If an awardee does not submit an ISD Request in time for the initial distribution of the ISD Fund, the potential exists that an award will not be made within the current FY, or that ISD funds will have been fully allocated and no ISD funds will be available for a subsequent distribution.

- d. All ISD Requests submitted independently of a contract proposal must be reviewed within 90-days of receipt (or within 45 days of receipt of a final offer from a Title V compactor). (See also 6-3.4A below).
- e. All ISD Requests will be funded by paying first the full startup and pre-award cost requirement negotiated under each ISD Request. If the ISD Fund is not sufficient to fully fund the total startup/pre-award costs of all ISD Requests negotiated, the amount available will be divided against the total negotiated startup and pre-award costs of all negotiated requests.

(6-3.3A(3) - continued)



- f. New or expanded awards are funded at the average Level of Need Funded (LNF) paid to all existing, ongoing P.L. 93-638 awards (CSC associated with ongoing programs are not taken into consideration in this type of allocation). (See Manual Exhibit 6-3-D for a description and an example of this funding methodology.)
- g. An allocation will be made by IHS Headquarters as expeditiously as possible based on all ISD Requests received and negotiated. An interim payment in advance of the initial distribution described in paragraph 6-3.3A(3)a may be made to awardees earlier in the FY if the IHS determines that sufficient funds will be available to fund all expected new and expanded contracts or compacts to at least that same level during the balance of the FY.
- h. If there are no ISD funds in the current FY to pay ISD Requests, all unfunded requests will be considered a part of the overall CSC shortfall for funding under Pool No. 3 in the current year and will not be considered for ISD funds in the subsequent FY.
- i. If an awardee proposes to start a new or expanded activity for less than a full year, an annual amount for the ISD requirement will be computed consistent with the methodologies included in this chapter. Startup and pre-award costs should be identified at their full amount, and all other costs should be prorated to reflect the reduced award period in the first year of the award. Funding of the pro-rated amount in the first award period will be based on the CSC need attributable to that FY only.
- j. When computing the amount to be paid for the subsequent year, the IHS shall ensure, to the greatest extent possible, that funds are available to cover the same proportionate share of the annual ISD Request paid on the partial year amount.

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(6-3.3A(3) - continued)



- k. If ISD funding is insufficient to fund all new or expanded awards at the average CSC LNF paid to all ongoing P.L.93-638, as amended, awards, then the IHS will allocate a percentage to each awardee with an approved ISD Request until the funding is exhausted (CSC associated with ongoing programs is not taken into consideration in this allocation). The remaining unpaid DCSC and IDC will be recorded as part of the overall CSC shortfall used in the allocation of Pool No. 3.
- l. If excess ISD funds remain after paying all ISD Requests, as described in paragraphs 6-3.3A(3)e and 6-3.3A(3)f above, the remaining ISD funds will be added to Pool No. 3 (to the extent not prohibited by law) and be distributed according to the methodology described in paragraph 6-3.3C.

B. Pool No. 2 - Prior Year CSC Funding that Remains Justified in the Subsequent FY (Ongoing Awards).

- (1) The amount of CSC funds (excluding pre-award and startup costs) paid to an Area in any year will be paid to that Area as a recurring amount. Adjustments will be made in subsequent years only as new funds are available, or as Areas return CSC funds that they do not require.
- (2) As stated in paragraph 6-3.2D, DCSC funding is provided on a recurring basis. Pool No. 2 shall be increased from appropriated CSC increases by the amount needed to increase prior year DCSC funding by the national OMB non-medical inflation rate before adding funds to Pool No. 3.
- (3) All indirect CSC funds will be paid to the awardee as non-recurring funds. Each awardee's requirement for indirect CSC shall be determined by calculating any changes in IDC rates, bases, and pools. Prior year funding for an awardee's indirect CSC will not be reduced in subsequent years as long as the CSC funding for indirect CSC does not exceed 100 percent of the awardee's total CSC requirement in the subsequent year (see 6-3.4E).

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(6-3.4F - continued)

- (5) Pilot Projects Contract Support Costs and Base Budgets. There are currently several ongoing CSC pilot projects (including CSC base budgets) that are intended to incorporate innovative approaches to CSC funding issues. Upon the completion and evaluation of these projects, this chapter may be amended to incorporate new provisions.
-  (6) Contract Support Costs Budget Projections. Each Area Director or his or her designee shall survey Tribes and Tribal organizations within that Area to develop accurate projections of CSC need on an annual basis. This will include identification of the amounts required for the ISD Fund and projections for the total ongoing CSC requirement for the following FY as well as estimates for the next two FYs. The information will be consolidated by the IHS Headquarters OFA and provided to Tribes and Tribal organizations as expeditiously as possible. The information will also be generated in the "Contract Support Costs Budget Projections (for the appropriate FY)," and submitted to the Director, Headquarters OFA, on or before September 30 of each FY and will be used by the IHS in conjunction with the Agency's budget formulation process.
- (7) Common Language. The IHS may from time to time propose common language for FA regarding CSC. This common language may be considered as an option for negotiations by the Tribes and IHS negotiators. Tribes and IHS negotiators should be made aware that specific CSC language in contracts, compacts, and FA is negotiable.
- (8) Contract Support Costs Meetings. From time to time, the IHS will hold meetings that will be open to the public, in order to provide an opportunity for the free exchange of information related to the CSC and the IHS CSC policy. These meetings are not a substitute for Tribal consultation.