



# Executive Summary

**Sustaining high performance and evidence-based policymaking in state, local, tribal, and territorial governments requires access to timely and reliable data. But financing development, operation, and maintenance of integrated data systems (IDS) and evaluations that support these efforts requires resources that seem out of reach for many program managers and data and finance leaders. Without these tools, data-driven insights on program outcomes and how to improve them cannot be readily provided to elected leaders and the public.**

This field guide explains how policy, program, data, and finance leaders at all levels of government can leverage and combine funding from multiple sources to support robust, efficient integrated data systems and evaluation capacity. It includes case studies from leading state and local governments and their non-governmental partners that demonstrate the value and feasibility of building these systems and evaluation capacity to answer a broad range of questions across a broad range of programs. It showcases the critical role that integrated data systems play in advancing cross-program policy priorities such as social determinants of health, education and workforce training, and fraud reduction. It explains what auditors look for and how to prepare for an audit of integrated data system costs that will withstand audit scrutiny.

The content of this guide emerged from collaboration with dozens of stakeholders inside and outside government in policy, budget, finance, data, research and evaluation, program administration, and auditing roles. The lessons learned, assembled in one place, can help all levels of government navigate existing, complex rules and processes for financing integrated data systems and evaluation capacity. These lessons also can inform future actions by the federal

government that would enable and encourage many more jurisdictions to develop their capacity to use data and evaluation to get better results for taxpayers.

## Whom Is This Guide For?

For those who work in a state, local, tribal or territorial government and want to make better use of data their programs already generate, this guide will be useful, as it:

- Walks through allowable ways to spend your federal grant dollars on data and evaluation capacity.
- Helps match funding strategies with goals for building, operating, and/or enhancing an integrated data system (IDS).
- Provides rich examples and case studies of how leading states and localities are already doing this work to advance important policy priorities.
- Points the way to non-federal sources that can help fill gaps in IDS funding.
- Provides tips on ways to withstand an audit of your IDS.
- Offers ideas for future collaboration with stakeholders inside and outside government that can accelerate progress in building data and evaluation capacity.

While the primary audience for this guide is state, local, tribal and territorial government officials, it is also an important resource for federal agencies seeking to support data-driven decision making and comprehensive program evaluation capacity at the state and local level. At these levels of government, the range of allowable federal funding sources, financing mechanisms and rules is blindingly complex. By assembling much of this information

in the field guide, federal agencies can gain important insights on how their own programs and grant resources can contribute to a stronger public sector data ecosystem.

## Why Is This Guide Especially Relevant Now?

This guide helps connect federal policy goals around data and evidence with the real-world work of state, local, tribal, and territorial governments striving to understand program outcomes and how to strengthen them for public good. Building on years of federal policy work and new clarifications to OMB guidance, it offers actionable strategies for states, localities, tribes, and territories to leverage federal funds to build and sustain the integrated data systems and evaluation capacity they need.

Over the past five years, the federal government has put significant effort into implementing the Foundations for Evidence-Based Policymaking Act of 2018, which was established to advance evidence-based policymaking by improving access to data and improving evaluation capacity. To date, federal implementation has focused on improving access to federally held data and federal evaluation capacity, rather than building the capacity of state, local, tribal, and territorial governments to better use the vast stores of data they generate when they administer federal programs. These governments, nearer to the front lines of service delivery, will make better policy and operational decisions on a routine basis if they can gain insights from integrated data.

The federal government now spends over \$1.2 trillion annually on grants to state, local, tribal, and territorial governments. However, the ability to leverage a small fraction of these funds for shared services, such as integrated data systems and analytics capacity, has often been unclear and incentives have been lacking. Why? Federal rules, requirements, and funding that are often program-specific and are overseen by separate agencies and congressional committees that have merely replicated those silos at the state and local level.

An April 2024 policy clarification in the federal Office of Management and Budget's updated [Uniform Grants Guidance](#) could serve as a pivotal event for enabling

and encouraging state, local, tribal and territorial governments to advance evidence-based policymaking in federal programs. The clarified policy provides that grantees may use a portion of their grants for data, evaluation, and integrated data systems. While this is not considered new federal policy, it gives grantees clear permission and encouragement to combine funds from multiple programs to build shared data infrastructure and analytics capacity, which many governments previously viewed as risky.

The OMB Uniform Guidance clarification applies to virtually all federal grant programs. The guide describes the major types of grants that can contribute to and benefit from integrated data, including: major health and human services programs for low-income populations, competitive programs by the Departments of Education and Labor for statewide longitudinal data systems, programs that build evidence about effective state and local policies and practices, and other ongoing and one-time grants offered by the federal government as well as grants to tribal governments. The guide also highlights cross-cutting policy priorities that require holistic approaches involving multiple programs. Case studies illustrate how leading state and local governments are using integrated data to tackle cross-program priorities such as early childhood care and development, homelessness, education and training to improve economic mobility, social determinants of health, and improving public safety. Other case studies highlight how state and local governments are using integrated data to enhance fraud detection, customer experience, more efficient reporting to federal agencies, and community engagement.

The sections below offer an overview of the guide's technical content and strategies for sustainably financing integrated data systems and evaluation capacity.

## Methods of Financing Integrated Data Systems Using Federal Funds

Depending on where the integrated data system is in development – such as just starting up or enhancing a long-standing system – its leaders may draw on multiple sources of funds that can come from different agencies, levels of government, and even

the private sector. Figuring out which funds to use requires answering key questions to understand how the system will benefit different programs and users, both in the near term and over time. It is important to engage stakeholders in the process to make sure that there is a solid understanding of these benefits and to make sure that the system has a strong governance structure, system design, and long-term plan for growth.

There is no single “right way” to finance all systems. Many, if not all, projects will likely use a number of different financing methods across stages of the system’s maturity. A key concept in selecting the right financing methods is cost allocation, or the process of deciding which programs should pay for which costs. Many different methodologies have been developed to allocate shared costs equitably among all of the programs that benefit. Jurisdictions use these methodologies to create and justify a Cost Allocation Plan (CAP) documenting how costs are being distributed in a fair and reasonable way. CAPs get submitted to specific agencies in the federal government, depending on the type of grantee and the grant program.

In some cases, such as for Medicaid, specific Federal programs have established special programs to help states to build these integrated data systems to more effectively and efficiently achieve their goals. Medicaid systems can be used as a backbone for an IDS if they meet certain requirements.

Below are three approaches to using federal funds for states, localities, tribes, and territories to consider:

### **1. Using the Direct Costing Approach to Support IDS**

Direct costs can be specifically tied to a project or a grant, such as when a functionality, operation or analysis performed by the IDS benefits specific Federal programs. It is often the best way to get the core components or “base” of an integrated data system funded as the system is being built. OMB’s updated Uniform Grants Guidance and the associated [reference guides](#) give examples of costs related to data and evaluation that may be classified as direct costs – and even address integrated data systems specifically. When using direct costing, getting multiple agencies

or programs to co-invest can help lead to a sustainable system with broader-based governance, funding, and stakeholder support.

### **2. Using the Indirect Costing Approach in Grants**

Indirect costs are incurred to run the Federal funding recipient’s operations. As a result, indirect costs benefit multiple programs and can’t be readily assigned to a specific program or activity. However, they may be allocated to specific federal grants to the extent that they benefit that particular grant. Examples of indirect costs can include procurement, human resources, cybersecurity, internal audit, finance, and IT networks. In addition, OMB’s revised Uniform Grants Guidance clarifies that costs associated with building integrated data systems for purposes of research, management, and evaluation are allowable as indirect costs, in addition to direct costs.

### **3. Using State and Local Central Service Costs, or Statewide Cost Allocation Plans (SWCAP)**

States and localities provide many enterprise-wide services that are funded through indirect costing. Many states choose to fund these services using a Statewide Cost Allocation Plan (SWCAP). While traditional examples include human resources, legal counsel, and budget, OMB’s updated Uniform Grants Guidance clarifies that costs associated with data and evaluation are allowable indirect costs also. SWCAP can be a particularly important financing tool for long-term maintenance and operation of integrated data systems that provide and support data and evaluation activities, such as for reporting, performance management, research, and evaluation. A government using this method of funding must be able to show that the integrated data system is (1) fully operational, and (2) benefits the government enterprise as a whole.

## **Filling Funding Gaps with Non-Federal Sources**

When funding a project from multiple sources, state and local resources often need to fill in gaps to make the system more comprehensive, add enhancements to align with their data and security architecture or

to align with project timing or cash flow. Below are five types of non-federal funds that can help to fill in different kinds of gaps:

1. General revenue funds are the best way to fund a small, quick project that is fairly low cost. General revenue funds are usually the easiest and least complex way to get a project started.
2. Capital Funds are ideal methods to generate funding for the initial design and build of a system.
3. Vendor-financed models can offer creative ways to fund planning, design, operations and maintenance of integrated data systems.
4. Chargebacks or Fee for Service arrangements are a common way to recoup costs for centralized services.
5. Philanthropic funds may be a good source of start-up funding to test what a system could do or may help researchers and non-profits pay service fees to state and local governments for integrated data and analytical services.

## Preparing for Audits of Integrated Data Systems

Any entity – including state, tribal, local, and territorial governments – that receives more than \$1,000,000 annually in federal funds is required to undergo a “single audit.” In a single audit, state-level auditors or other independent non-federal auditors “stand in” for the federal government in examining how grants and other expenditures are accounted for and in making sure that the grantee complied with federal requirements for specific grants. An auditor may examine the agency cost allocation plan to assess whether it is systematic and rational and to assure that costs are eligible for reimbursement and allocated appropriately.

## Looking Ahead

Cooperation across agencies and levels of government is key to making progress. There are notable precedents for effective ways to move forward, which can happen on two parallel tracks:

1. Federal, state, local, tribal, and territorial governments should come together to better understand and help navigate existing rules and processes for financing integrated systems and associated evaluation capacity.
2. The federal government should radically simplify the mechanisms it and its state, local, tribal, and territorial partners use to finance integrated data infrastructure and evaluation capacity in state, local, tribal and territorial governments.

In addition, for both tracks, outside organizations should play an important role. State and local government associations (especially those focused on budget, finance, and audits), universities and academic researchers, data- and evidence-focused non-profits, and philanthropies can provide expertise and resources for solutions-focused collaborations.

New ways of doing business, where multiple levels of government work as partners to transform public sector data infrastructure, will be essential for addressing the nation’s complex challenges.