



The Journey Continues



About the National Association of State Auditors, Comptrollers and Treasurers (NASACT)

NASACT is an organization for the elected or appointed state auditors, state comptrollers, and state treasurers of the 50 states, the District of Columbia, and the U.S. territories. NASACT plans and manages training and technical assistance programs and handles numerous requests for information each year from members, other government officials, and the private sector. NASACT monitors federal legislation and agency developments that have an impact on state government and acts as a liaison to federal regulatory bodies and Congressional committees on issues of interest to members. NASACT uses its expertise to provide responses to technical standards-setting bodies, helping to ensure the highest levels of government transparency, accountability, and integrity. For more information, visit www.nasact.org.



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A photograph of three business professionals in a meeting. A woman on the left is looking towards a man in the center, who is gesturing with his hand near his head. Another man is partially visible on the right, looking towards the center. They are in a room with a perforated metal wall.

Executive summary

This year's survey is perhaps our most comprehensive ever. Senior executives and practitioners in 42 states have answered a significant number of questions (65 in our Executive Survey and 38 in our Online Respondent Survey) in a range of areas identified as important to you in previous surveys and ongoing conversations.

Given the recent breathtaking pace of fiscal austerity measures, new mandates, and major shifts in our healthcare system, the survey represents a good time to stop and comprehensively assess current financial capability, risks, and the ability to adapt. The survey results indicate that there is much good work in progress in response to the challenges, but it also shows that there is room for improvement going forward in the strategic approach to solving them.

Some key observations:

- Clean financial audit opinions are considered to be an area of high confidence, with over 88% of respondents reporting a clean audit opinion and relatively high confidence that this would continue.
- Most executives believe the programmatic community sees benefit in the financial statement audit.

- About half of online respondents and somewhat fewer executives have expanded the scope of their internal controls programs to include operational and/or programmatic risk.
- Many respondents accomplish cost cutting through across-the-board methods even though they realize this is not effective. They also indicate that it is a long road from this undesirable method of cost cutting to a desirable strategic cost management approach.
- Both groups of respondents indicate that their finance offices need more analytic talent.
- Concern about a coming retirement wave is a mixed bag, with 58% of executives saying it is a significant risk and 58% of online respondents saying it is not

We address these and other issues in the following pages as we examine the status of state and local finance offices today.

About the survey



Since 1996, the Association of Government Accountants (AGA) and Grant Thornton LLP have jointly sponsored an annual survey of government chief financial officers (CFOs). In 2009, the National Association of State Auditors, Comptrollers and Treasurers (NASACT) joined with AGA and Grant Thornton LLP to expand the reach of the survey to state financial managers, and in 2011 we began to issue two reports: The first focused on the federal government, and the second on state and local government.

The purpose of these surveys is to understand the current issues facing government financial executives so that AGA and NASACT can provide relevant thought leadership and resources. The survey also provides a vehicle for practitioners to share their views and experiences with colleagues and policy makers.

This 2013 report, *The Journey Continues*, focuses on financial audits, internal controls, cost cutting, and organization.

Survey population

We collected information from two populations, with two uniquely tailored survey questionnaires. Our first survey was for NASACT members and those in similar positions, and we refer to them as “executives” throughout this document. These NASACT members self-identified as state auditors, comptrollers, treasurers, and others.

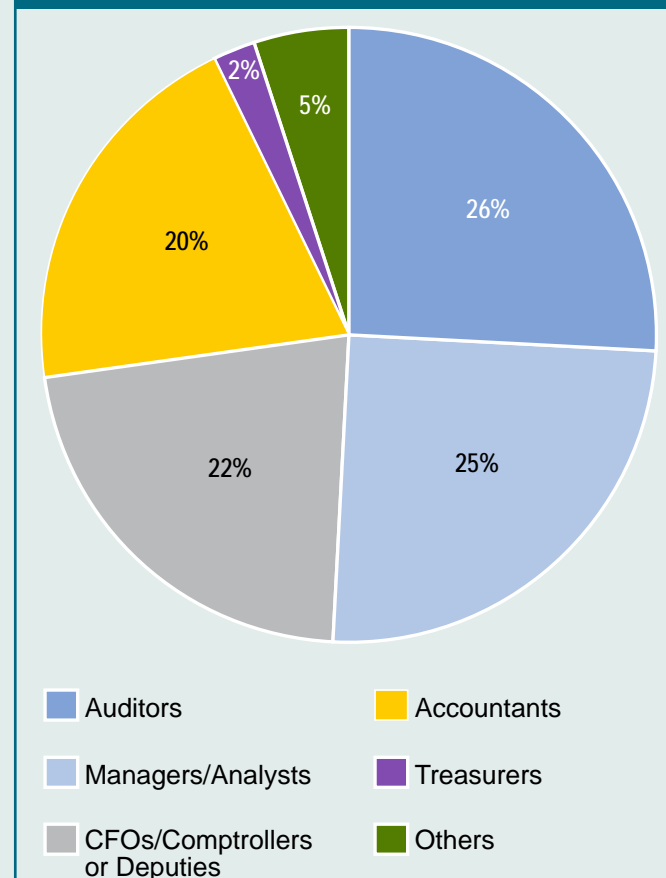
We conducted a second survey, a joint NASACT–AGA online survey, to poll a more diverse population of state and local financial professionals. We received responses from 169 state and 64 local financial respondents (233 total responses) representing 42 states. This population self-identified as shown in Figure 1, and throughout this document we refer to this group as “online respondents” or “financial managers.”

Throughout this report, you will see results summarized separately for each group, to give you a precise view of how each group feels about the different issues.

Anonymity

To preserve anonymity and encourage respondents to speak freely, these surveys do not attribute thoughts or quotations to individuals, nor do we identify specific input from any individual executive or online respondent. Copies of the questionnaires can be found at www.grantthornton.com/publicsector.

Figure 1: Online respondent job titles

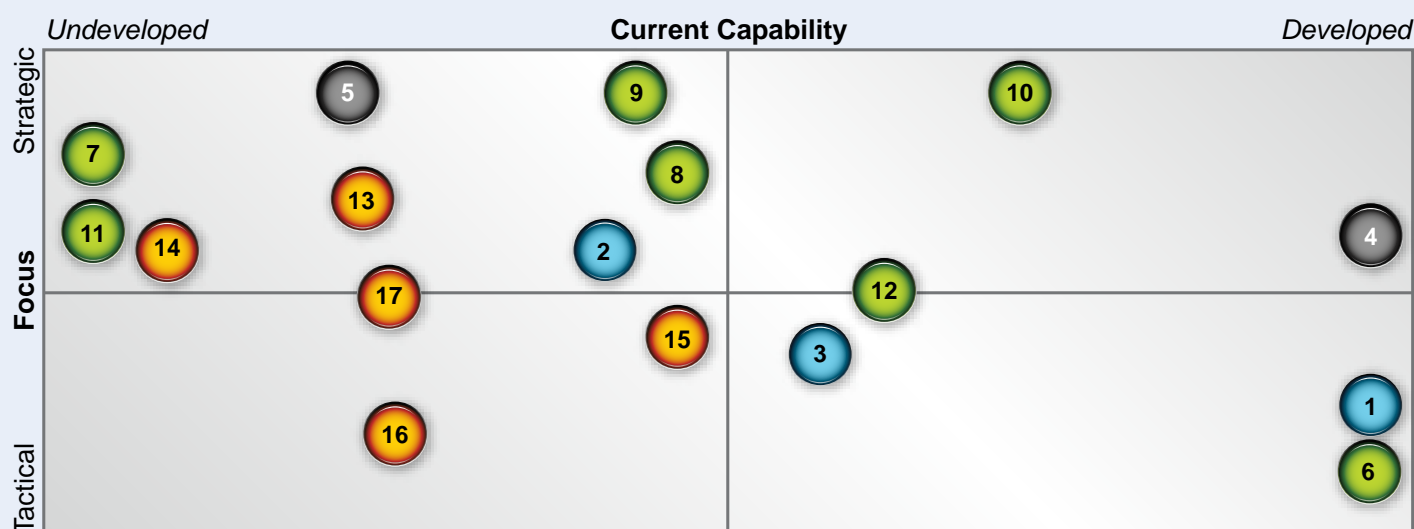






Introduction

Throughout the survey responses, we see financial executives and managers dealing with an array of daily challenges. How these financial leaders deal with these challenges often depends on the leaders' existing capabilities. As happens with most large, complex organizations, exigent issues often overwhelm priority issues.

However, there is untapped potential in further developing strategic capabilities. In Figure 2 we summarize the current maturity of the capabilities we reviewed. As expected, the capabilities with a strategic or enterprise level view are often less developed, with immediate tactical needs receiving most of the focus.

Figure 2: Current capability



Area	Capabilities	
 Financial Audit	1. Clean Financial Audit Opinion 2. Programmatic Benefit 3. Timely CAFR Production	
 Internal Controls	4. Internal Control Program 5. Enterprise Risk Management	
 Cost Cutting	6. Traditional Methods (staff cuts, line item cuts) 7. Strategic Sourcing 8. Business and Investment Cases 9. Performance-Based Cost Decisions	10. Collaborative Process 11. Cost Program/Program Office 12. Financial Systems Modernization
 Organizational	13. Analytical Competencies 14. Demographic Reviews 15. Shared Services	16. Competitive Pay Structure 17. Outsourcing Analysis



These tactical needs have increased in the past year with the introduction of new mandates, fiscal challenges, and public policy changes.

Given the challenges many respondents cite related to workforce, technology, and coming financial uncertainty, a more robust strategic capacity is something that should be thoughtfully considered.

The three top challenges to moving the dial persist – personnel, funding, and technology.

As shown in Figure 3, personnel, funding, and technology remain the biggest challenges for financial executives and online respondents. It seems logical that, as state and local governments face greater demands for services and fewer staff to implement them, the need for innovative, strategic solutions in these areas will become more and more urgent.

Personnel

Executives. Personnel challenges include finding qualified applicants, providing training, and competing with private sector salaries. There is high turnover as employees become discouraged with pay freezes, furloughs, and growing workloads. Increasing retirements are a challenge as executives see experience and institutional knowledge walking out the door and are helpless to do anything about it. As senior leaders retire, those left behind will increasingly be on their own to respond to these personnel challenges.

Figure 3: Top challenges

Challenge Category	Today		Next Few Years	
	Executives	Online Respondents	Executives	Online Respondents
Personnel	38%	35%	33%	30%
Funding	28%	37%	28%	30%
Technology	17%	9%	13%	10%
Other	17%	19%	26%	30%

Online respondents. Because online respondents represent many more people in many more organizations in many different positions, their detailed responses are more diverse. Ranked by the number of mentions, they see the personnel challenges as: competent and qualified applicants, retention, hiring practices, the number of positions available to accomplish the workload, retirements and succession planning, organizational leadership, salary levels, training, employee morale, pension contributions, and healthcare changes resulting from the Affordable Care Act. An overriding personnel challenge seems to be maintaining a sufficient number of qualified staff to meet workload commitments.



Funding

Executives. Funding challenges include less funding overall and less funding to support adequate numbers of qualified personnel with adequate salaries. Executives see smaller budgets driving service expectations down among the state workforce, and they note that states are also affected by the sequestration of federal funding.

Online respondents. Ranked by the number of mentions, online respondents see the funding challenges as: tax base and revenue changes, federal funding shortfalls (including sequestration), infrastructure and capital improvement projects, low pay, the national economy, pension costs and shortfalls, providing essential services, and funding for technology and healthcare. The most frequently mentioned funding challenge for online respondents is simply the level of funding available, in spite of numerous studies and reports that indicate that state and local resource levels are returning to pre-recession levels. Some online respondents foresee continued revenue declines, while others foresee any level of resources to be inadequate to support expected spending levels. Quite a few online respondents foresee challenges in declining federal support, including sequestration and unfunded mandates, illustrating the states' continued reliance on federal resources. Other online respondents foresee challenges in capital improvements and building and asset maintenance as exigent priorities push these out of contention for limited resources.

Technology

Executives. Most current technology challenges relate to bringing up new financial systems or limping along with patched-up legacy systems. Some executives are also concerned with the growth of shared services and what that means for their new or legacy systems. They see a growing need for data but a lack of funding and tools to obtain and support it. One executive notes, "Technology is moving faster than government." Executive technology challenges over the next few years will likely be related to bringing up new and improved systems, with a number of these systems currently scheduled to be implemented over the next few years.

Online respondents. The online respondent challenges in technology center around modernization and bringing up new financial systems and trying to keep up with the rapid pace of change. One respondent notes, "There is still a lot of resistance to change." As with the executives, online respondents see future challenges relating mostly to new technology. They use terms such as transitioning, adapting, changing, and upgrading, but the challenges are all similar. Some online respondents foresee challenges in data overload and data security, while others have concerns with governance and technology staff competence.



All other challenges

Executives. All other challenges include changing standards and regulatory requirements, which can be difficult to adapt to while simultaneously keeping operations moving and delivering high-quality finance products on time. Standards and requirements cited include those from both the federal government and the Governmental Accounting Standards Board (GASB). Some executives see politicizing standards and requirements as the challenge. Another executive adds that the challenge is simply, “change.”

Online respondents. The most commonly mentioned challenge in this category is healthcare, primarily implementing state responsibilities under the Affordable Care Act. Online respondents have a similarly large number of challenges related to support from within government, be it from the legislature, the governor, or their own management chain. In this same vein, many online respondents foresee challenges with citizen support, especially when media stories impugn public employees’ integrity and competence. Other online respondents foresee challenges in increasing citizen demands for services and continued federal “intrusion” through regulatory requirements. Many online respondents mention the challenge of pensions, both providing adequate pensions for the current workforce and financing the trust funds that support retiree pensions. Other challenges they foresee over the next few years include the national economy, maintaining assets, and simply dealing with change.



Financial audit

Maintaining a clean audit

Financial audits are clearly a significant issue affecting the CFOs and the governments they serve. Having a clean audit opinion, eliminating material weaknesses, and implementing strong internal controls are more important than ever because of the cry for increased accountability and transparency. The focus has become not only the audit but also the internal controls required to enhance the credibility of government financial reporting. The 2013 survey focused on issues of clean audit opinions, threats and factors affecting future audits, areas impacted, and how executives use internal controls to assure clean audit opinions. The financial audit area shows the greatest amount of self-identified developed capability and strategic focus among survey respondents.

Most finance offices have obtained a clean audit opinion. According to the survey responses, 97% of executives and 88% of online respondents report that they already have clean audit opinions. But, based on the multitude of issues created during uncertain economic times, we want to understand the likelihood that a government entity could lose its clean audit opinion. As shown in Figure 4, the overwhelming majority (81% of executives and 80% of online respondents) report a low likelihood.

A follow-up question asked executives about major threats and risks they anticipate as impediments to a clean audit opinion. They note loss of institutional

knowledge resulting from retirements, lack of understanding/misapplication of new accounting standards, and resulting noncompliance as the key risks. Mitigating these challenges for future generations requires an understanding of the value and use of financial reporting and how an audit (and clean opinion) adds value to the various groups that depend on quality financial reports for decision making.

Programmatic and decision-making value of the financial statement audit

The executives are a group generally composed of senior individuals with responsibility for financial statement audits and related compliance activities. They understand the value of audits to the programmatic community, and they believe that community sees benefit in performing a financial statement audit. One executive notes, “Financial statements are audited each year. Maintaining the state’s AAA rating to keep interest rates low is a benefit as well as assurance of the state’s investment and debt management functions.”

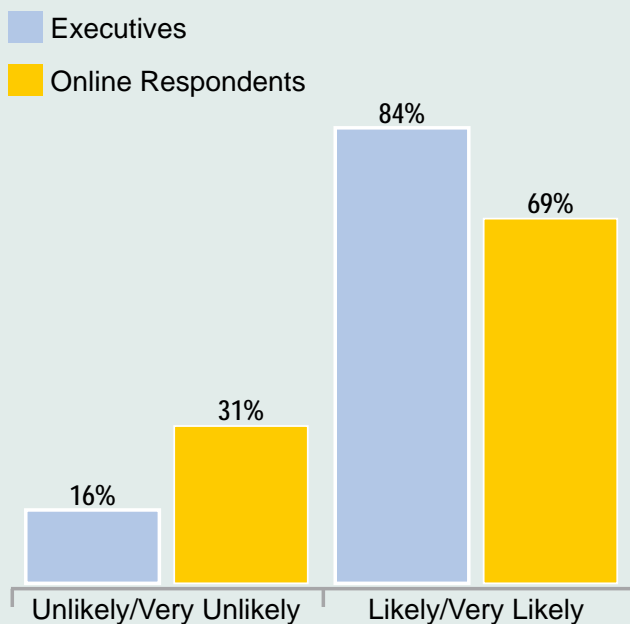
Figure 4: Likelihood that your entity will lose its clean audit opinion

	Not sure	High	Probable	Possible	Low
Executives	3%	3%	0%	13%	81%
Online Respondents	12%	1%	1%	6%	80%



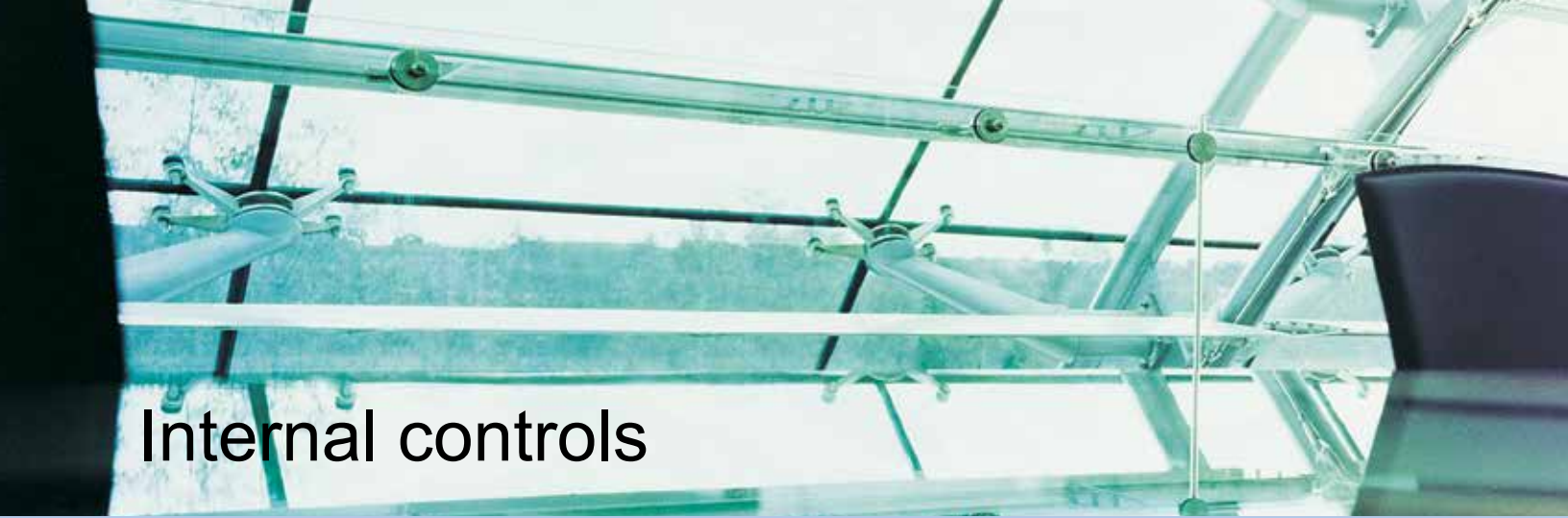
Figure 5 shows that the majority of executives and online respondents believe the programmatic community understands the value of performing the audit. However, there is some variance between the executives and the online respondents. While only 16% of executives believe the program community is unlikely or very unlikely to see benefits, 31% of online respondents believe that. One online respondent says, “The community does not pay much attention to financials as long as we keep the property tax levy relatively stable.” The difference of opinion is likely the result of the demographics and conflicting roles of the respondent groups. The online respondents include accounting, financial management, and budget professionals who are typically one tier below the executive management level.

Figure 5: Likelihood that programmatic community sees benefit in performing the financial statement audit



We asked executives about the benefits recognized by the programmatic community in the financial statement audit, and 40% of them believe the programmatic community sees a focus on better reporting. One executive says, “They see the audit as a means to satisfy the federal government ...while demonstrating to the citizens and legislature that they are meeting the financial reporting requirements.” Other responses express the belief that financial statement audits help with the issuance of bonds.

When asked what would make the financial statements more relevant to the programmatic community, 38% of the executives believe that timeliness would make the financial statements more relevant. One executive says, “More timely and perhaps less detail. A Comprehensive Annual Financial Report (CAFR) contains much more information than is needed.” This is a recurring theme from previous years’ reports and continues to be debated. Some executives express frustration, while others create initiatives to narrow the reporting timeframe.



Internal controls

Moving from internal control compliance to enterprise risk management

Severe economic circumstances have increased the importance of relying on solid internal controls to mitigate the negative impact caused by a reductions in experienced staff and a financial resources. We asked respondents about the degree to which they have expanded the scope of their internal control programs to include operational and/or programmatic risk. Figure 6 indicates that 47% of online respondents have implemented these changes to their internal controls in either everything they do or in most areas. Only 12% of online respondents indicate that nothing has changed, with staff limitations being the driving factor. Several online respondents indicate that they are incorporating Enterprise Risk Management (ERM) in their programs. Executives appear to be less proactive in expanding the scope of their internal control program, with 30% indicating that nothing has changed.

Figure 6: Percentage of respondents who have expanded the scope of their internal control program to include operational and/or programmatic risk

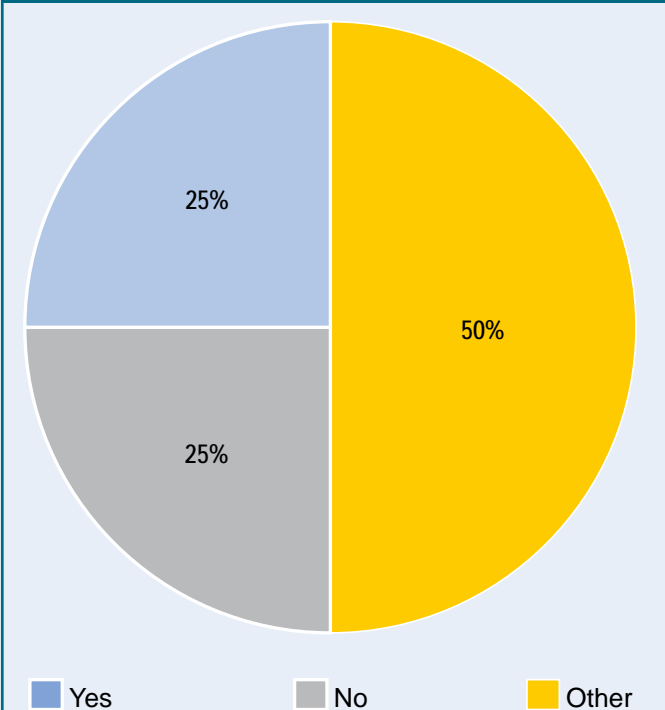
	Executives	Online Respondents
Not at All	30%	12%
In Some Areas	30%	41%
In Most Areas	26%	26%
Integral to Executive Review and Decision Making	14%	21%


We asked executives if they anticipate the risk of material weakness increasing and, interestingly, they are evenly split between yes and no. However, as Figure 7 shows, half of the executives do not believe this is a simple yes or no question. For example, one executive who marked “Other” says, “Our financial reporting process is continuing to improve, so I actually believe our risk of material misstatement is decreasing. We may have deficiencies and even some that are significant, but I do not believe our risk of material weakness will increase.” While another executive notes, “The auditing standards have reduced the threshold of a material weakness to a low level. Because of that, risk has increased. Risk is also increasing as we try to get the CAFR out faster, because we are reducing the review time between when information is prepared and when it is provided to the auditor.”



Financial audits and decisions to incorporate risk-based internal controls indicate that financial executives at multiple levels of government understand the value that audits bring to the users of financial reports. Although there is a difference of opinion regarding how to implement controls and disagreement regarding the timeliness of audited CAFRs, it is evident from the responses that efforts to improve the usefulness of financial reports depends on maintaining proper internal controls and getting clean audit opinions.

Figure 7: Risk of material weaknesses increasing (Executives)





Cost cutting

Cost-cutting reality

State and local governments have been cutting costs since the beginning of the Great Recession in FY 2008. While revenue levels have begun to return to pre-recession levels, operating costs continue to increase, and the federal sequester is just beginning to affect their revenues. The survey asked respondents about their past and current cost-cutting efforts as well as the outlook for the near future.

Cost-cutting tactics

Both executives and online respondents use a variety of approaches to cost cutting. Many mention the ever-popular “across-the-board” cut, often carried out through a top-down mandate. As one might expect in labor-intensive government operations, some simply begin to address workforce levels by freezing hiring and cutting positions. Some also resort to furloughs to generate required savings now, because labor costs are often the only cost area where government can generate significant cost savings quickly. Both groups also cut travel and training costs, and both groups mention reducing workload by doing less, e.g., performing fewer audits.

Executives indicate that these various approaches are often accompanied by a consultation process that involves discussions with leadership and gathers input from the agencies. However, there was a mixed response from executives to our question about whether they develop sound business cases to support their cost-cutting decisions, with many simply seeking consensus.

Some respondents in both groups note that, instead of an across-the-board approach, they carefully monitor budgets and program performance to enable senior leadership to identify less effective or underperforming programs. These programs can then be cut, preserving limited resources for those programs that are achieving success. Several executives note that they are beginning to shift toward a performance-based approach to cutting costs. Similarly, others in both groups mention a top-to-bottom review process to identify and eliminate unnecessary processes and reduce costs. These methods are preferred to across-the-board methods, *but they require time and data, which government managers do not always have when they need to cut costs.*

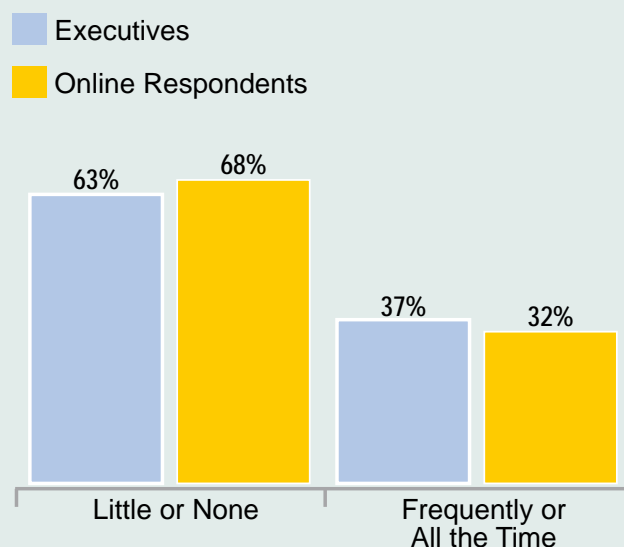
Online respondents frequently note the streamlining of business processes and use of more automation as methods for cutting costs. Additionally, their comments show that they consider simple actions such as consuming supplies more efficiently, increasing email communications, and printing double-sided documents to be fundamental to lowering costs. To create an environment that facilitates continuous improvement, some introduce programs to reward employees who develop programs and processes that reduce costs and/or increase efficiency. One online respondent shares, “We are reinventing our culture to seek more input and to draw on the expertise of our employees in identifying better and more efficient ways to provide services.”



Collaboration tactics

The survey asked a series of questions about how respondents collaborate with other government offices as they go about the cost-cutting process. After labor costs, procurement costs are usually the next largest cost area, so we asked how closely respondents work with their procurement offices on cost-cutting efforts. Figure 8 shows that responses from both groups are fairly identical, with only one-third regularly working with the procurement office. Those not working closely with procurement indicate that the procurement offices often lack the desire or experience to pursue technology improvements and other initiatives that achieve cost savings. Others note that their procurement personnel are insufficiently trained to negotiate professional services contracts or perform cost analyses. Finally, others express dissatisfaction with the design of the procurement function, the adequacy of policies and procedures to ensure the integrity and quality of procurement's role and responsibility, and the lack of enhanced technology to make the procurement process more cost-effective.

Figure 8: Percentage of respondents working closely with procurement

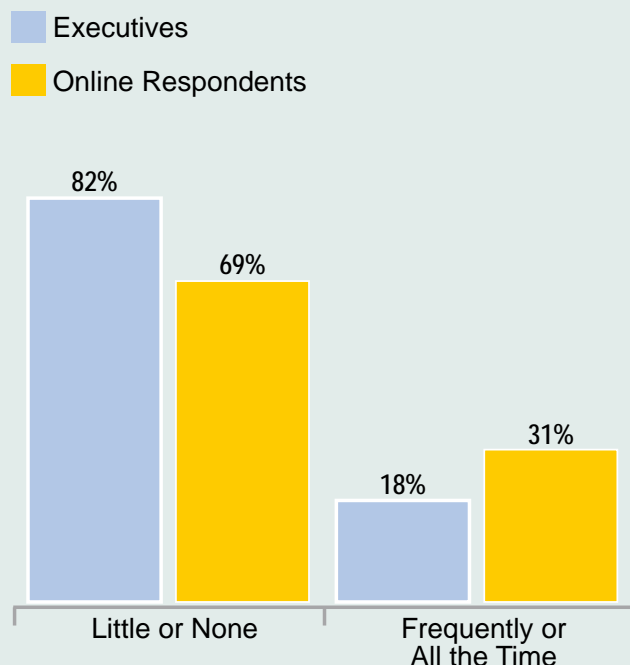


Those working closely with procurement suggest that their efforts facilitate cutting costs through the use of competitive bidding, contract negotiations, and strategic sourcing to enhance statewide purchases of goods and services. Other benefits include containing costs by examining pricing in detail, reviewing pricing structures and making some items optional, obtaining price and volume discounts, and influencing decisions to lease instead of purchase expensive equipment. Another benefit of working with procurement in cost cutting is access to established national contracts to obtain competitive pricing on goods and services not routinely supplied by state negotiated contracts.



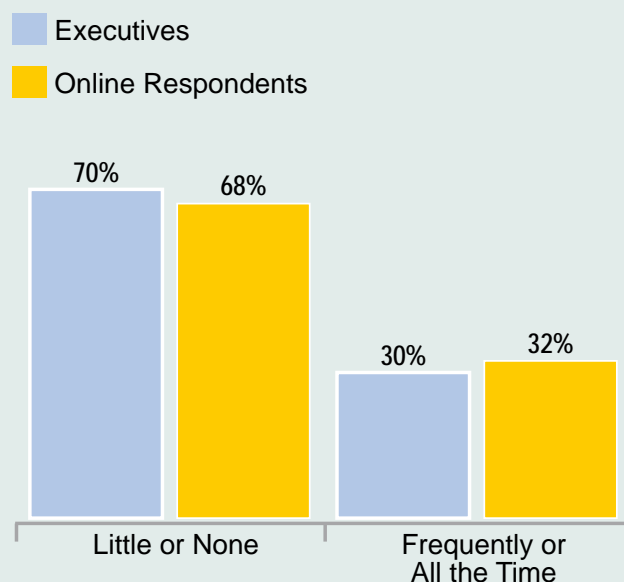
Next, the survey asked about collaborating with peers in cost-cutting efforts. Figure 9 shows that executives are even less engaged with their peers than with procurement, while online respondents have the same level of collaboration with their peers as with procurement. There were few comments about why respondents did not collaborate with their peers, but those few comments that supported working closely with peers note benefits such as consolidated services and sharing staff resources.

Figure 9: Percentage of respondents working with peers



Finally, the survey asked about working with the agencies, where the majority of state and local government program costs are incurred, to help them reduce their operating costs. Figure 10 shows that, as with procurement and peers, neither group of respondents is particularly engaged with the agencies. Executives in particular note that they do not know the costs of program operations and so are unable to contribute to reducing those costs. Engaged respondents from both groups note that they do internal audits of program operations, and those audits often make recommendations and identify opportunities for improvements. One online respondent notes, “Each audit includes feedback on cost savings and efficiencies observed.” Other respondents review financial statements with program managers to identify areas of concern or

Figure 10: Percentage of respondents helping agencies reduce program costs





work with the program budget offices to identify available funding and potential overspending and to conduct budget-to-actual analyses that detect programs that continue to lose money in consecutive years.

Progress toward strategic cost management

In the long run, state and local governments need the ability to be proactive rather than reactive when it comes to cost cutting. Only by knowing the cost of their operations and the input that each operation contributes to program results can government managers be prepared to craft and execute budgets at whatever revenue levels they are given. Cost management processes and systems are usually the responsibility of financial offices, so it falls to the survey respondents to implement these.

Getting to that implementation point may be a function of whether respondents view current tactics as adequate or successful. On the one hand, respondents indicate that the lack of timely, accurate, and relevant data is

an impediment to making good cost-cutting decisions. One executive notes, “Cost-cutting groups can only be as effective as the quality of the data they use to make decisions.” On the other hand, 86% of executives already believe they have an effective cost-cutting program, and 73% of them believe the cuts they have already made are sustainable. However, although 61% of online respondents believe the cuts they have already made are sustainable, only 51% of them believe they have an effective cost-cutting program.

Perhaps both groups, but especially executives, believe (hope) that tomorrow will be a better day for revenues. There appears to be a need for some impetus to move state and local governments toward strategic cost management.

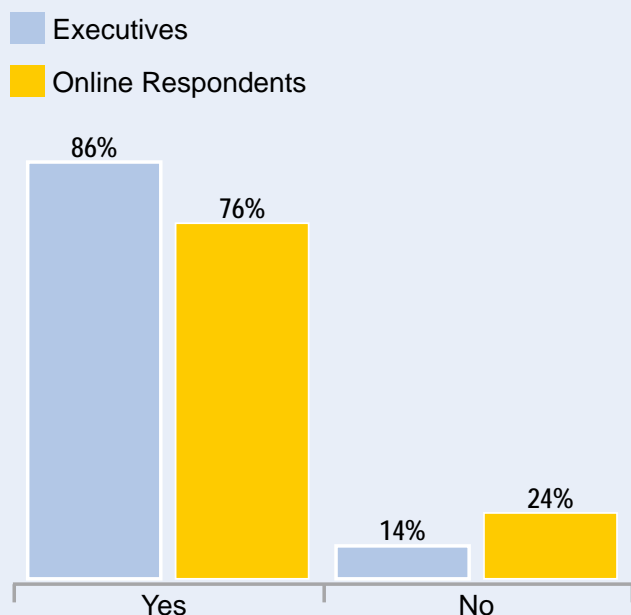
Organization

In this section, we look at the organizational capabilities and risks facing today's state and local financial executives. As noted earlier in this report, personnel remains one of the top three challenges to both groups of respondents.

Analytical competencies

We asked whether the proliferation of data is calling for a more analytical finance organization in the future. Figure 11 shows that both groups of respondents agree that the increased availability of data requires a more analytical approach.

Figure 11: Does proliferation of data call for a more analytic finance organization?



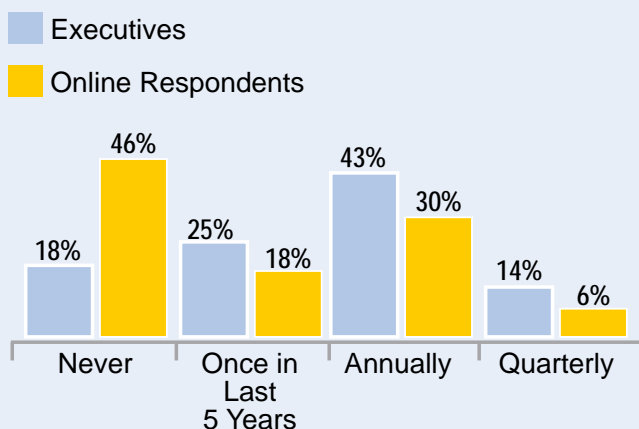
Executives comment on the importance of understanding the data to add value to the organizational decision-making process. One executive notes, "Analytical abilities are needed to manage the data and ensure that it becomes useful information rather than just data." Both groups of respondents comment that analytical capabilities are being developed, and many indicate they are in the implementation phase that includes making the data available to staff. Many online respondents indicate that the data may be available, but the training and development of the analysis skillset is still an area for improvement. One online respondent says, "We struggle with quantity over quality. We implemented a new Enterprise Resource Plan (ERP) and are currently working on a project to help us determine how to report and mine data to provide information that will best drive decisions." Another online respondent notes, "We are trying to create and transform positions that require more analytical skill sets."



Demographic reviews

We asked respondents about the frequency with which their organization reviews the demographic characteristics (hires, transfers in/out, resignations, retirements, etc.) of their organization. Figure 12 shows that executives are more apt to be aware of this review. They state that it is part of their workforce plan, and they monitor it on a regular basis. On the other hand, many online respondents are generally unaware of the study, and they comment that they are not involved with or have no knowledge of the study. This division between the two groups may be an indicator of a difference in organizational tenure between the groups or increased awareness from regular organizational assessments.

Figure 12: Extent to which you have taken a demographic review of your organization



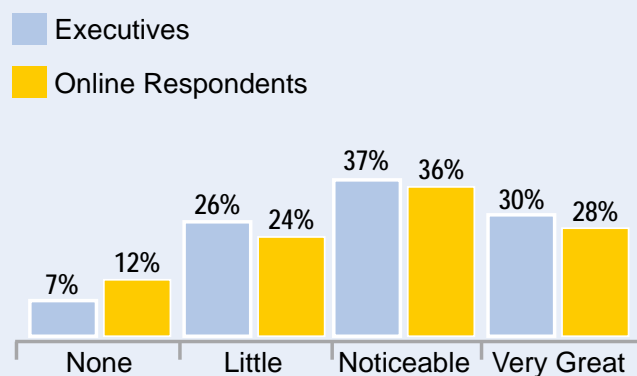
Shared services

Some online respondents report outsourcing and shared service environments for support operations such as IT and accounting. Executives are split on this question, with some commenting that they have engaged in shared services, while others comment that outsourcing is cost prohibitive or not feasible. One executive states, “You cannot outsource what we do because failure by an outside provider could impact our constitutional and statutory requirements.”

Competitive pay structure

We asked about the impact that pay pressures have on inhibiting employee recruitment, retention, or engagement. The results are in Figure 13.

Figure 13: Impact of pay pressures on employee recruitment, retention, and engagement





About 67% of executives believe the pressure on pay has a noticeable or very great impact on employee recruitment, retention, or engagement. Executives note that the impact is primarily on retention and recruitment. Some report staff leaving for higher-paying jobs, and some indicate recruitment is directly affected by pay pressures. One executive says, “State employees have not received a pay raise in five years. The lag between private and state compensation has been the highest it has been in 20 or so years.” A similar percentage of online respondents believe the pressure on pay has a noticeable or very great impact on employee recruitment, retention, or engagement. Many comments note that pay pressures make finding qualified candidates at all levels difficult. A few comments suggest an emphasis on benefits to mitigate the risk posed by low wages. One online respondent notes, “We are trying to find other incentives to encourage our workforce to make this a career through more generous 401(k) matching and well-funded health, dental, and life benefits.”

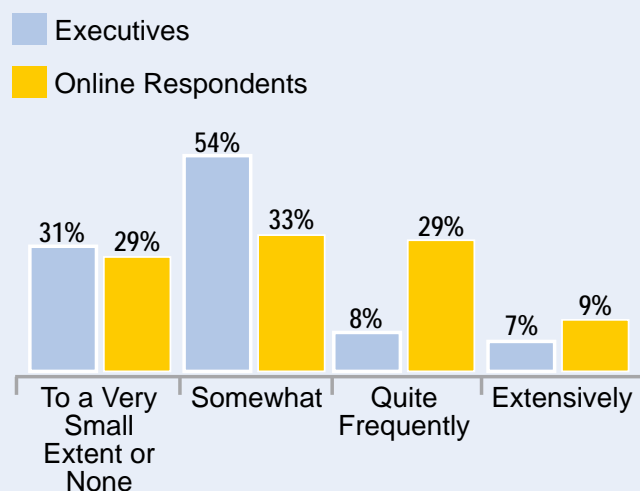
Use of contractors

We asked respondents the extent to which they use contractors in their organizations. Figure 14 shows the results.

Both groups of respondents use contractors on larger projects and for information technology. Comments from online respondents indicate that the use of contractors tends to be for specific short-term projects requiring specialized skillsets. One online respondent links the pay pressure to the use

of contractors, “There are times when it makes sense to use contractors, such as short-term or very specific projects. However, in most cases, for long-term, continuing work, it is more efficient to hire staff. With that said, if we cannot compete better on a pay and benefit level, we will be unable to hire the quality that we need for the work and will be forced to go with a contractor at a much higher total cost.”

Figure 14: Extent to which you use contractors in your organization



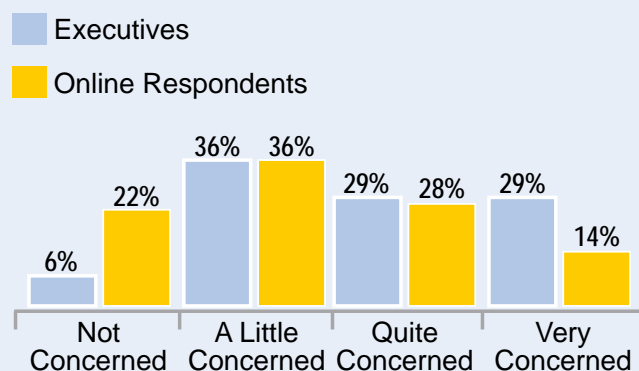


Retirement risk

Many state and local governments are experiencing budget restrictions that influence personnel decisions and may have lasting impacts as these entities deal with an aging workforce. One aspect of the aging workforce is a “retirement wave” that has been anticipated to occur as thousands of Baby Boomers with years of experience become eligible to retire from public service. The survey asked both groups how concerned they were that a “retirement wave” posed a significant risk to their organizations. Figure 15 shows the results.

It appears that executives are somewhat more concerned about the risk of a retirement wave affecting their organization, since only 7% of executives are not concerned and 29% are very concerned. On the other hand, 22% of the online respondents are not concerned and 14% are very concerned. Many executive comments highlight that the real risk to their organization is a lack of qualified middle-tier staff to fill leadership positions once these people retire. One executive sums up many of the reasons why a retirement wave is considered a significant risk, “Aging out of high-impact employees, the market pulling mid-level employees away from public sector, and no incentives for high potentials to stay.” In addition, online respondents identify the other losses as critical risks, “The institutional knowledge and understanding of business processes is being diminished as long-term staff retire, and we continue to have difficulty in recruiting from a viable applicant pool.”

Figure 15: Concern that a “retirement wave” is a significant risk



Although online respondents do not appear to be quite as concerned about the retirement wave, some note that they have a role in succession planning or identify a desire for changes to the hiring process to acquire talent more effectively. Many executives say that an increase in compensation is the change in the hiring process they would like to see to allow them to acquire talent more effectively.

We asked executives what they were doing to mitigate the identified risks from retirements. Even though many of the executives identify pay as an inhibitor to succession planning, they also identify cross-training of staff and non-pay-related incentives, such as flexible schedules, as techniques to mitigate this risk.



Conclusion

Even as financial managers and executives continue responding to the latest challenge or crisis, there remains an inescapable need for a more strategic approach to cost management and improvements. The development and implementation of this more strategic approach require time, funding, and effort/attention, which is often in short supply because of the exigencies of ongoing projects and workload.

There are also other pressing needs to ensure that finance offices provide value to state and local government entities. In response to ever-present personnel, funding, and technology challenges, financial managers and executives require innovative approaches to practical and proficient workforce management, especially to deal with stubborn

recruiting and retention problems. They have an increasing need for more analytic staff talent to mine large amounts of financial data and present effective, actionable options to decision makers. If additional funding is not a realistic option, they need the capability to squeeze the pennies out of every dollar they have. And they need timely and responsive tools and solutions that optimize leading-edge technology.

State and local government financial managers and executives are at the forefront of effective and responsive government. Every day there is a new challenge, and every day **the journey continues.**

Additional information



If you would like additional copies of this survey, or an opportunity to hear more about its content and the challenges facing the state and local finance community, please contact NASACT or AGA at the addresses below:

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