



# Finance Forward

ACCELERATING FEDERAL  
FINANCE TRANSFORMATION

# Introduction

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The Federal government manages over \$6 trillion in annual spending, the equivalent of roughly a quarter of the nation's gross domestic product (GDP)<sup>1</sup>. However, many organizations continue to rely on outdated and inefficient financial systems that fail to meet the demands of today's digital era. Successful transformation goes beyond technology upgrades. It calls for a holistic reimagining of functional processes and data strategies that enhance data-driven decision-making, cost optimization, and risk management capabilities.

MeriTalk, in partnership with KPMG LLP (KPMG), surveyed 150 Federal financial systems managers and decision-makers across finance and IT departments to explore:

- The state of finance transformation
- Challenges with current financial operations models
- Top finance transformation priorities
- Impacts from initial transformation efforts
- Recommendations for optimizing efficiency, transparency, and accountability



For this research, **finance transformation** refers to the process of leveraging technology to upgrade organizations' systems and processes to enable actionable, organization-specific financial insights in real time. By automating high-volume, manual, and repetitive tasks (including data analysis and insight generation through machine learning (ML) or artificial intelligence (AI)), organizations can achieve greater efficiency and data-informed decision-making.

<sup>1</sup> <https://fiscaldata.treasury.gov/americas-finance-guide/federal-spending/#:~:text=The%20federal%20government%20spent%20%246.13,the%20United%20States%20that%20year>

# Executive Summary

## While organizations are making progress, finance transformation efforts are just getting off the ground:

- Although the majority of Federal organizations have begun modernization, less than half say their management systems are very effective in critical areas like financial planning, compliance, and data integrity
- One in five (**21%**) still rely on manual processes or systems with limited automation and **87%** say their organization needs to extract more value from financial data
- Biggest frustrations? Navigating complex compliance systems, lack of skilled personnel, regulatory issues, and inefficient processes

## Despite initial steps, critical strategy gaps remain:

- Just one in three (**32%**) have a clear, actionable, and well-communicated strategy in place; another **35%** are working to identify specific initiatives and timelines
- When it comes to transformation priorities, organizations are focused on technology upgrades, followed by data management, and governance, risk, and compliance (GRC) solutions
- Organizations say the lack of alignment between finance and IT teams is a top barrier to implementing modern solutions, followed by cybersecurity and data quality issues

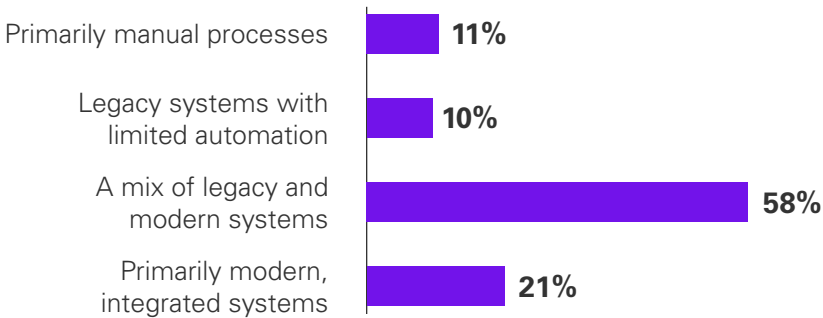
## Early benefits are emerging, but a holistic approach around automation, analytics, and workforce development is key going forward:

- Organizations' top finance transformation benefits to date include improved decision-making capabilities and improved value to citizens
- Still, three out of four (**76%**) say the overall pace of finance transformation is too slow
- To achieve their ideal vision, IT and finance leaders want to see their organizations invest in a balance of technology modernization and data governance, followed by workforce training and internal processes improvements

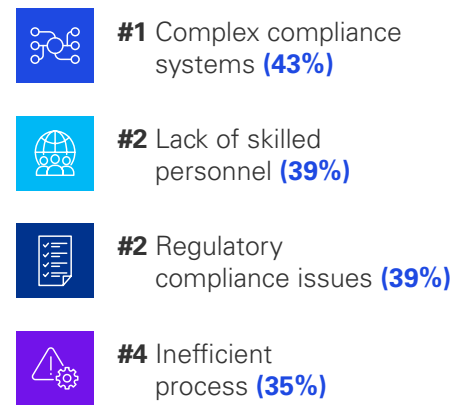
# The State of Federal Finance

While the majority of Federal organizations have begun incorporating at least some modern financial systems, **less than half** say their systems are very effective. **One in five** (21%) rely primarily on manual processes or systems with limited automation, significantly hampering financial planning and compliance capabilities. The **vast majority** (87%) say their organization needs to extract more value from financial data.

## Which of the following best describes your organization's current financial management systems?




## What are your biggest frustrations with your organization's current financial operations?



## When it comes to your organization's current financial systems, how effective are each of the following?



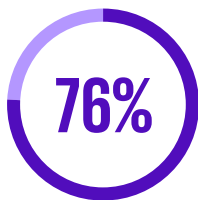
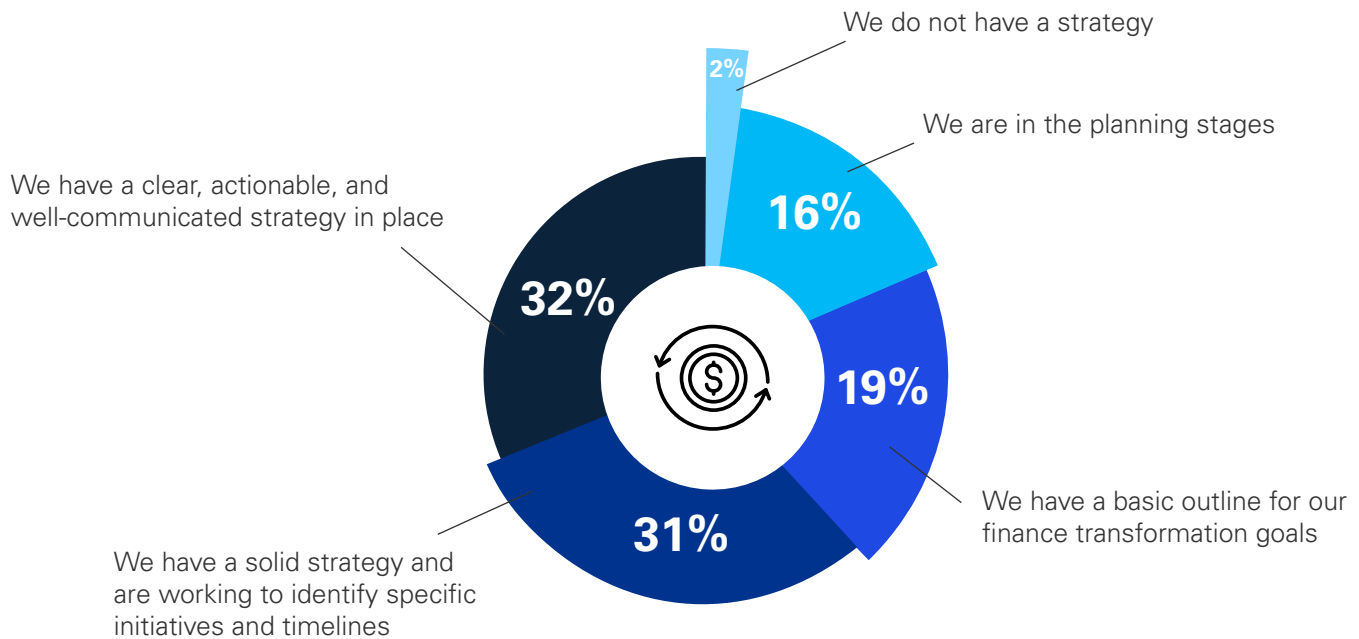
**87%**  
say their organization needs to extract more value from their financial data

 **Take away:** Organizations need more from their financial systems

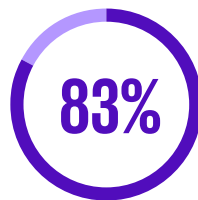
# Transformation Strategies and Speed

As organizations recognize the need for finance transformation, many are taking steps to develop formal strategies. While **one in three** (32%) have a clear, actionable, and well-communicated strategy in place, another **31%** are working to identify specific initiatives and timelines. Still, **three out of four** (76%) say Federal organizations are not moving fast enough.

## To what extent has your organization developed a strategy for finance transformation?



**76%** say that while some organizations are making progress, the overall pace of Federal finance transformation is too slow



**83%** say modernizing Federal financial systems is critical for rebuilding public trust in government spending

**Take away:** Organizations are making progress with finance transformation, but it's not fast enough




# Evolving Priorities

As organizations progress in their modernization journeys, priorities shift from foundational to strategic. Those currently using legacy systems naturally prioritize upgrades to more modern technologies. Conversely, those already leveraging modern systems can focus on optimizing their data management capabilities and business processes. Nearly **all** see an opportunity to improve automation.

## How would you rank the following finance transformation priorities in your organization?

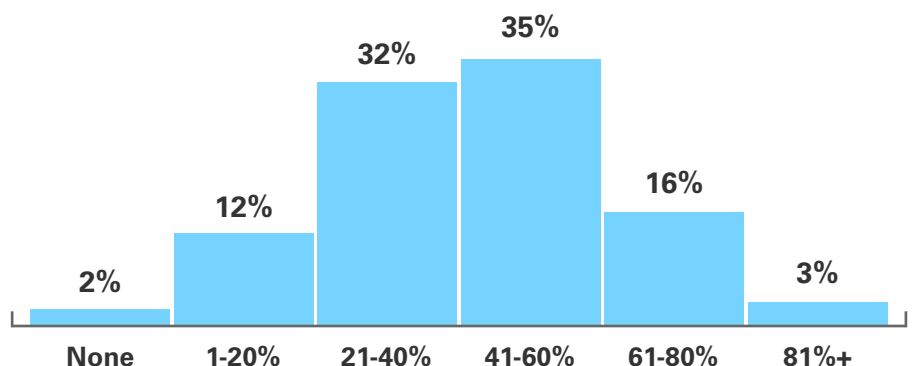


Organizations with primarily **legacy financial systems**<sup>2</sup> rank technology upgrades as their **No. 1** finance transformation priority, followed by governance improvements. Those with primarily **modern systems**<sup>3</sup> prioritize data management and business process transformation



**Additionally, 86% say the Federal government could achieve significant savings by automating routine financial tasks**

## Approximately what percentage of your organization's current financial systems, if any, do you think *could* be automated through ML or AI?



**Take away:** Automation stands to unlock major efficiency gains, especially around data management and analytics priorities

<sup>2</sup> Those saying their organization's financial management system is primarily manual processes or legacy systems with limited automation  
<sup>3</sup> Those saying their organization's financial management system is primarily modern, integrated systems

# Key Roadblocks

As organizations pursue finance transformation, **93%** say they face challenges beyond funding. Chief among them is the lack of alignment between finance and IT teams, followed closely by cybersecurity and data quality issues. Compounding these hurdles are skills gaps in cloud computing, project management, and cybersecurity awareness.

## Aside from funding, what do you see as the most significant barriers to implementing modern financial solutions in your organization?

- #1 Lack of alignment between finance and IT teams
- #2 Cybersecurity challenges
- #3 Data quality and consistency issues
- #4 Legacy systems/technical debt
- #5 Regulatory, risk, or compliance concerns
- #6 Lack of skilled personnel



Organizations with primarily legacy financial systems<sup>2</sup> are significantly more likely than those with a modern financial system<sup>3</sup> to list lack of skilled personnel as a barrier (**35% vs 13%**)

## In your opinion, where are the most prominent skill gaps within your workforce when it comes to supporting finance transformation?



Cloud computing expertise



Project management experience



Cybersecurity awareness

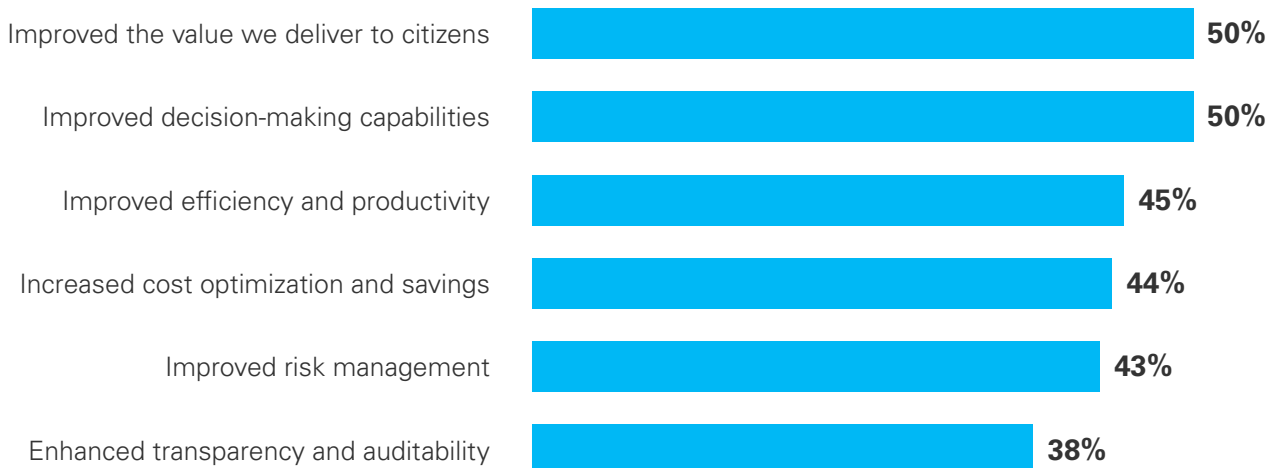
**Take away:** True change will take communication, collaboration, and continuous learning

<sup>2</sup> Those saying their organization's financial management system is primarily manual processes or legacy systems with limited automation  
<sup>3</sup> Those saying their organization's financial management system is primarily modern, integrated systems

# Operational Impacts

Early results from organization finance transformation initiatives have yielded many benefits, particularly in the areas of citizen service and decision-making capabilities.

## What benefits, if any, has your organization realized from finance transformation efforts to date<sup>4</sup>?



IT managers are significantly more likely than finance managers to say finance transformation efforts have improved risk management (**59% to 36%**)



Organizations with primarily modern financial management systems<sup>3</sup> are **twice as likely** to report very effective financial planning capabilities (**56% to 26%**) and nearly **three times as likely** to report very effective compliance capabilities (**44% to 16%**) compared to those with legacy systems<sup>2</sup>

● ● | **Take away:** Modern financial systems streamline operations and boost customer value

<sup>2</sup> Those saying their organization's financial management system is primarily manual processes or legacy systems with limited automation

<sup>3</sup> Those saying their organization's financial management system is primarily modern, integrated systems

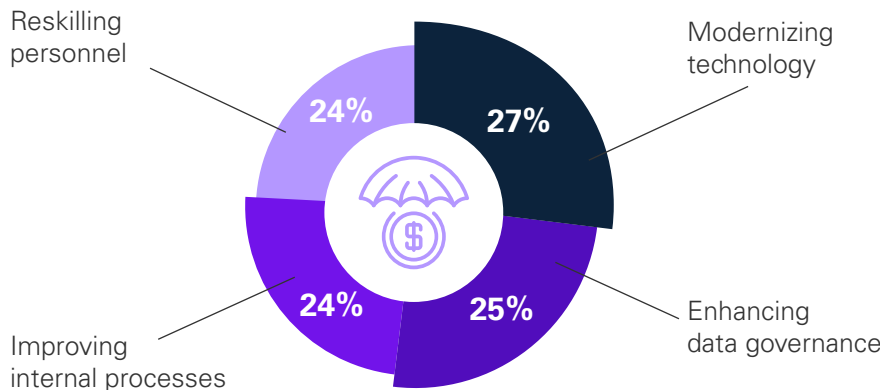
<sup>4</sup> According to those who are at least in the early implementation phase of finance transformation



# The Way Forward

Despite widespread recognition of cost savings and advancements achievable through modernization and automation, a universal approach to unlocking an organization's full financial potential is not one-size-fits-all. The optimal path forward depends on an understanding of each organization's specific needs, infrastructure capabilities, and cultural readiness for change – and balancing investments accordingly.

## To achieve your vision of finance transformation, how should your focus be divided among these four areas?

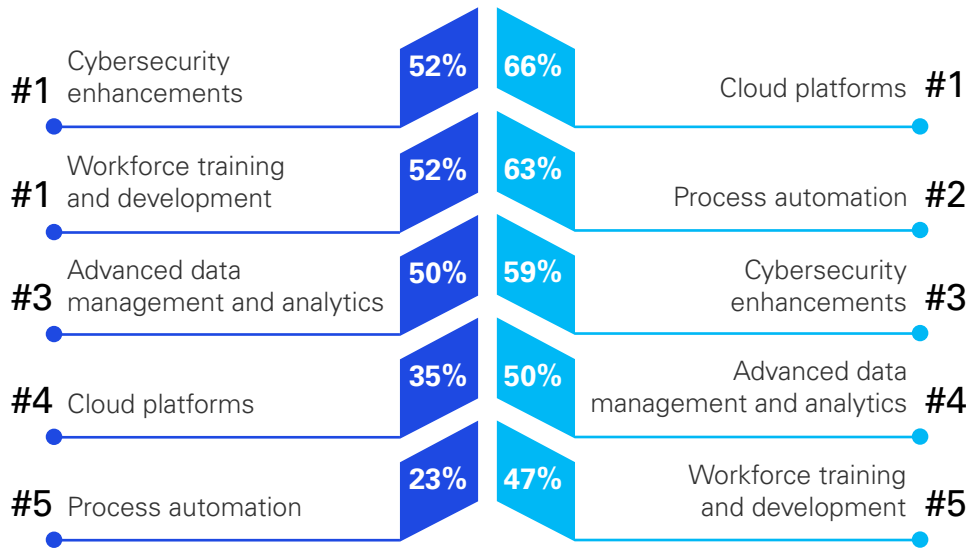


**Additional requests include:**  
 Better collaboration between finance and IT teams, new business models that take advantage of emerging technologies, and a better understanding of expected ROI

## What investment areas would have a significant impact on your organization's financial operations over the next two years?

According to those with primarily legacy systems<sup>2</sup>

According to those with primarily modern systems<sup>3</sup>



**Take away:**  
 Financial priorities should reflect each organization's state of transformation

<sup>2</sup> Those saying their organization's financial management system is primarily manual processes or legacy systems with limited automation  
<sup>3</sup> Those saying their organization's financial management system is primarily modern, integrated systems

# Advice to Leadership

Federal finance and IT professionals urge their leadership to acknowledge the inherent challenges associated with modernization initiatives. To support their journeys, they recommend top-down prioritization of finance transformation, an emphasis on streamlining processes and leveraging automation to enhance efficiency, and help cultivating a more collaborative environment between finance and IT departments.



## What advice would you give to Federal leadership on improving the efficiency and effectiveness of Federal financial management?

“Prioritize the modernization of legacy financial systems and infrastructure to improve efficiency and reduce maintenance costs”

“Implement automation and AI technologies for routine financial tasks”

“Reduce redundant processes and the number of reviews and checks that are required by automating routine tasks”


“Establish clear financial management objectives and develop measurable indicators to assess performance and progress”

“Encourage innovative procurement and public-private partnership models ... to promote effective and fair allocation of resources”

“Streamline procurement processes to reduce bureaucratic hurdles”

“Encourage collaboration between finance and IT departments to ensure consistency of goals, share best practices, and fully utilize collective expertise”

“Enhance data analytics capabilities for better financial insights”

 **Take away:** Strong finance transformation leadership can bridge communication gaps and accelerate adoption across teams

# Recommendations

## **Prioritize comprehensive data management and analytics capabilities.**

To truly capitalize on the data-driven future, organizations need to build a strong foundation by integrating information from across business processes and systems to consolidate data and improve data-driven decision making. With data analytics emerging as the top priority for finance transformation, organizations should focus on implementing advanced data management practices, integrating data from diverse sources, and leveraging analytics tools to advance data-driven decision-making, cost optimization, and risk mitigation.

## **Pursue an automation-first approach to drive efficiency.**

Federal finance leaders report significant opportunities for automation across financial operations. Organizations should systematically review routine tasks to identify opportunities for automation, ranking them by ability to be intelligently automated and the potential automation value. Then, enable priority processes through robotic process automation (RPA), machine learning, and artificial intelligence. This can free up personnel for higher-value work while reducing costs and errors.

## **Develop a comprehensive workforce strategy emphasizing continuous learning.**

With skills gaps in areas like cloud computing, project management, and cybersecurity hindering progress, organizations must invest in workforce development programs that combine traditional training with hands-on learning experiences. Cultivate a culture of continuous upskilling to keep pace with evolving technologies and requirements.

## **Bridge the divide between finance and IT through enhanced collaboration.**

Overcoming the lack of alignment between finance and IT teams is critical. Leaders should foster cross-functional partnerships, establish shared goals, and implement standardized systems and processes to ensure incoming technology solutions effectively address operational needs for both teams and maximize their transformative impact.

## **Take a holistic approach to change – balancing process, data, technology, and people.**

Effective finance transformation requires equal emphasis on modernizing internal processes through business process integration, enhancing data governance, reskilling personnel, and upgrading technology solutions. Leaders should develop comprehensive roadmaps that address all four pillars to drive sustainable, long-term transformation.

# Methodology and Demographics

MeriTalk, in collaboration with KPMG, surveyed 150 Federal financial systems managers and decision-makers across finance and IT departments in May 2024. The resulting research has a margin of error of **±6.93%** at a **95%** confidence level.

## Organization Type

- 56%** Federal government – Civilian organization
- 44%** Federal government – DoD or Intelligence organization

## Job Title

- 31%** Senior financial executive (CFO, Deputy CFO, etc.), manager, or other lead
- 27%** Financial systems manager, analyst, technician, or administrator
- 4%** ERP (Enterprise Resource Planning) specialist
- 21%** IT executive (CIO/Deputy CIO, CTO/Deputy CTO, etc.), manager, or other lead
- 8%** IT analyst, system administrator, IT project manager, or technician
- 5%** Procurement/acquisition executive (CPO/Deputy CPO, CAO/Deputy CAO, etc.), manager, or other lead
- 3%** Purchasing agent, buyer, or procurement specialist
- 1%** Contract specialist, compliance officer, or risk manager

**100%** of respondents have responsibilities related to financial management, procurement and purchasing, budget planning and analysis, financial systems management, and/or risk management and compliance

**100%** of respondents make, contribute, or otherwise influence their organization’s decision-making on financial systems and processes

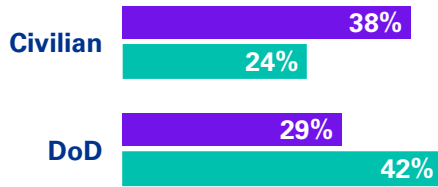
# Appendix: Federal Civilian vs. DoD Snapshot

While strengths and weaknesses vary, **less than half** of civilian or defense organizations feel their current financial systems are very effective.

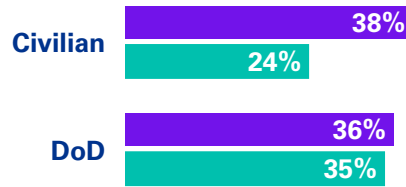
**When it comes to your organization's current financial systems, how effective are each of the following?**



## Cost optimization



## Data integrity and usability

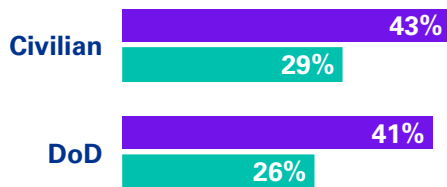


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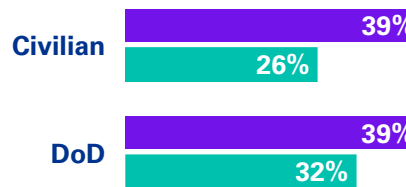
- Very Effective
- Somewhat Effective



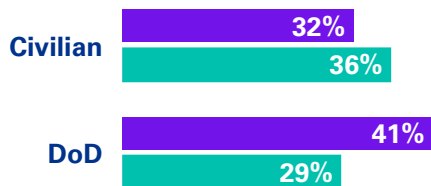
## Financial planning



## Legal and regulatory compliance



## Risk mitigation



On average, defense organizations see themselves as further along the finance transformation curve than their civilian counterparts

**Which of the following best describes your organization's state of finance transformation?**

	Civilian	DoD
Not yet started	3%	0%
In the planning stages	9%	7%
Early implementation phase	36%	20%
Ongoing implementation	26%	26%
Mature and well-established digital solutions	26%	47%

<sup>1</sup> Includes respondents from DoD or Intelligence organizations



# Appendix: Continued

Finance transformation priorities differ as well, with defense organizations more likely to focus on technology upgrades and civilian organizations more likely to focus on workforce development.



## Top civilian priorities

- 1 Data management and analytics
- 2 Workforce development
- 3 Governance, Risk, and Compliance (GRC)



## Top DoD priorities

- 1 Technology upgrades
- 2 Data management and analytics
- 3 Governance, Risk, and Compliance (GRC)



When it comes to barriers to implementing modern financial solutions, defense organizations are nearly twice as likely as civilian organizations to see cybersecurity challenges as a barrier – 45% to 23%

## Going forward, what do you most need to make your vision of Federal finance transformation a reality?



### Top civilian priorities

- 1 Better collaboration between finance and IT teams (51%)
- 2 Training and workforce development (42%)
- 3 New business models that take advantage of emerging technologies (40%)



### Top DoD priorities

- 1 Training and workforce development (52%)
- 2 Modern data infrastructure (45%)
- 3 More streamlined procurement processes tied with better collaboration between finance and IT (42%)

## **KPMG can help jumpstart your finance transformation journey – no matter where you are.**

Whether you need help with modernizing technology, reskilling personnel, improving internal processes, or enhancing data governance, we've got you covered. Our experienced professionals can action real change tailored to your needs, today.

To learn more, go to: [visit.kpmg.us/fedfintrans](https://visit.kpmg.us/fedfintrans)



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