



# GenAI in state and local governments

Five things agency leaders need to be preparing for now

It's hard to think of any technology that has gone from obscurity to implementation faster than generative artificial intelligence (GenAI). Were we writing this article just a few months earlier, we might be explaining what GenAI is and the many benefits it can offer state and local governments. Today, most are past the "what" and the "why" phase and are now looking at the "how."

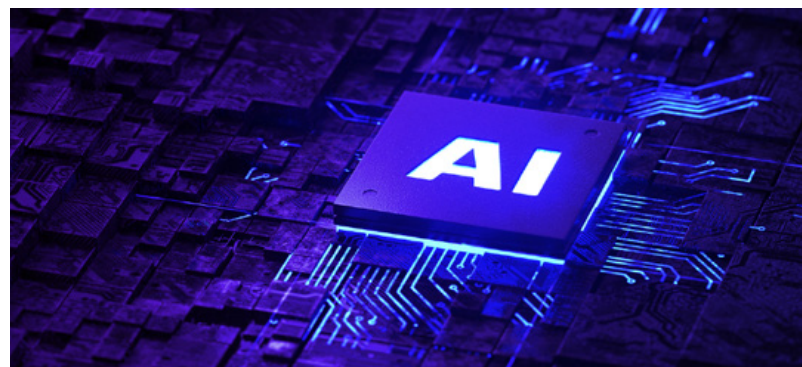
Given this rapid pace, state and local governments now find themselves in the unusual position as early adopters. Historically, governments have always relied on the private sector to blaze the trail ahead, to work out the kinks, discover where the landmines were buried, and provide models for optimum deployment efficiency and value. But not in this case, where even GenAI developers and solution providers are paddling as fast as they can to try to keep up with the flow of developments given how quickly the technology continues to evolve. Some agencies are pressing forward despite not having GenAI in their current budget—they didn't even know what it was when those budgets were made.

The people in roles that agency leaders might typically turn to for help with such projects—chief information officers (CIOs), chief information security officers, chief technology officers (CTOs), and so on—are likely already overwhelmed with their own significant transformation efforts, such as cloud migration. They, too, will be grappling with the same GenAI-related challenges as other department leaders. Many agencies seeking to implement GenAI right now are being told by IT to get in line and wait. That means agency and department heads who can't or don't want to wait must cover much of the initial GenAI ground themselves.

## Why modern government is important

Government agencies in the US must modernize in order to keep up with changing user needs, regulations, and health and public safety requirements. Leaders of modern governments rethink business processes and service delivery models to more effectively achieve their mission. This article is one of a series that features how modernizing affects the government workforce and the user experience, improves security and public trust, and accelerates the digital journey. KPMG team members offer insights intended to help guide governments in their modernization efforts to encompass all processes, technologies, policies, and the workforce so each works together to create connected, powered, and trusted organizations.

Although it's still early days, at KPMG we've worked with several state and local governments on GenAI strategy and implementation projects. We have heard the questions being asked and many of the same concerns arise. To help agency leaders get out ahead of these issues, here are five things we believe they should be thinking about now to lay the groundwork for successful GenAI adoption.





## 1 Start building an AI-ready culture now

A Pew survey about Americans' views of AI use in the workplace revealed that 62 percent of Americans believe that AI will have a major impact on workers generally, but that only 13 percent believe it will help workers more than hurt them.<sup>1</sup> Nearly a quarter of workers believe their own jobs are at risk.<sup>2</sup>

When you consider that nearly half of private sector executives responding to our [Q1 2024 KPMG GenAI quarterly pulse survey](#) said that they were measuring return on investment (ROI) on their GenAI investments through employee satisfaction, the challenge could be steeper than some had anticipated.<sup>3</sup>

Whether employee fear is justified or not is immaterial to its impact on the organization. Employees who are insecure about their continued employment display lower levels of performance, commitment, well-being, and trust in the organization.<sup>4</sup> Fear can manifest in anxiety, depression and hopelessness, and an environment in which these negative emotions are prevalent can become a very hard one to work in and be productive.<sup>5</sup> The result can be an organizational culture that forms a major barrier to any AI effort. Government agencies may also face the additional challenge of labor unions and their resistance to any AI initiatives.

You can't start soon enough to build an AI-ready culture even if you haven't yet identified your first GenAI project. Our culture-strategy colleagues at KPMG have a [detailed multistage approach](#) to help build belief and buy-in for individual use case adoption and build an AI-ready culture across organizations. But at its core, it requires one essential thing: listening to employees and involving them throughout the entire process so that any GenAI implementation is done *with* them and not *to* them.

<sup>1</sup> Source: Lee Rainie, et al., "AI in hiring and evaluating workers: What Americans think," Pew Research Center, April 20, 2023

<sup>2</sup> Source: "AI Generates Excitement and Fear as Employees Worry about Job Security," Qualtrics, June 2023

<sup>3</sup> Source: "KPMG GenAI Quarterly Pulse Survey: The path to sustainable returns," March 22, 2024

<sup>4</sup> Source: "Understanding and Exploring the Concept of Fear, in the Work Context and Its Role in Improving Safety Performance and Reducing Well-Being in a Steady Job Insecurity Period," Diego Bellini et al., Sustainability Journal, 2022

<sup>5</sup> Source: "Does Fear Motivate Workers—or Make Things Worse?," Andrew Carton, et al., Knowledge at Wharton, December 4, 2018



## 2 Focus on the right the challenges

It's clear that GenAI can have a significantly positive effect on agencies. In many cases, it can help improve employee efficiency and effectiveness, helping them deal less with bureaucratic or mundane tasks to become more customer focused, and improving job satisfaction by making work less tedious and more interesting and compelling. It can enable agencies to offer new and improved services, or provide insights that had otherwise remained elusive.

### But how to get from here to there?

Perhaps a few agency leaders might simply be relying on their current software providers to include GenAI in the next release (as many are promising), hoping that they might not have to do much more than wait for it to arrive and then begin using it. Most, however, have realized that implementing GenAI is far from that simple. It's not the technology that's the difficult part. In some cases, it really may be as easy as checking a box to enable it in existing software. Even when it's a custom GenAI solution, it may take only a couple weeks to implement.

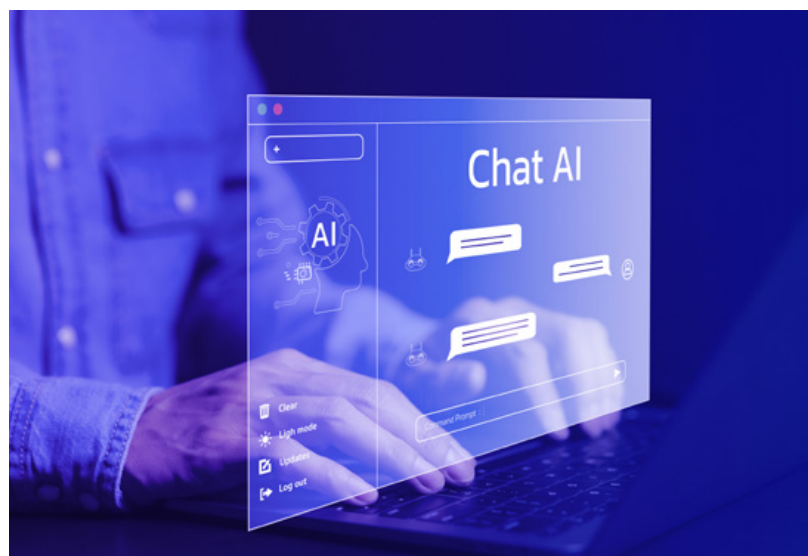
### So what's the hard part?

How do you select the right technology provider? Which capabilities do you want to enable? For whom do you turn it on? What training will be required? What impact will it have on the budget? How do you measure performance and ROI? What impact will it have on the skills needed in new hires, the agency's culture, and its relationship with unions? How does it change contracts? What data will it be linked to? How are data sources evaluated? What controls will you need surrounding it? How do you secure it? How do you ensure it delivers accurate responses? What parameters define its ethical use? How are potential biases or unethical uses identified and addressed? The list goes on.

These challenges aren't unique to government. Private sector CEOs, for example, say ethical challenges are their top obstacle to successfully implementing GenAI, not budget or technology issues.<sup>6</sup>

GenAI isn't a snap-in solution. It's an enormous collection of things agencies must account for—across people, processes and technologies—far faster than they are used to. It's a vast ecosystem that must be thought through, coordinated and transformed.

The good news is that these things have been thought through, and there are methodologies designed to help any organization address them. For example, [Trusted AI](#) is our framework for designing, building, deploying and using AI systems in a safe, trustworthy and ethical manner. It's designed to help organizations manage AI-related risks and challenges, including reputational, compliance, security, privacy, and even value risks, where insufficient resources, capabilities, or technologies might diminish the value organizations can derive from their GenAI solutions.



<sup>6</sup> Source: KPMG 2023 US CEO Survey



### 3 Understand what the technology really can and can't do

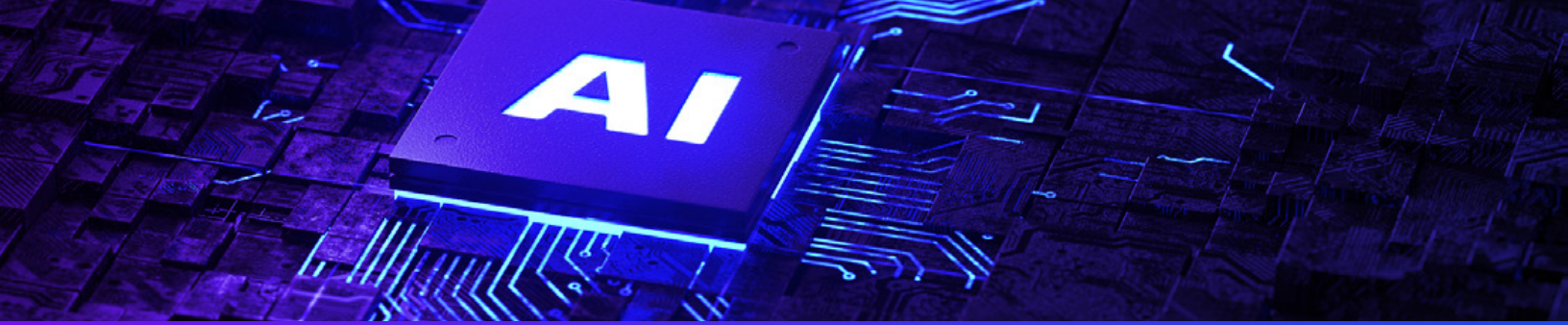
Along with GenAI's rapid appearance has come an incredible amount of confusion and hype, where some believe it can do everything from cooking dinner to solving world peace. As with any tool, if you don't understand what it does, it's difficult to understand where or how it might be used. This may be especially important in the case of GenAI given the hype that's surrounding it and the grand visions many technology providers are promoting.

As its name implies, the focus of GenAI is on *generating* new content—primarily text or images—designed to be indistinguishable from human-generated content. There's a common misperception that GenAI is "AI 2.0" or that it has replaced more traditional AI models, but they are really designed for two very different purposes. Put simply, "traditional AI can analyze data and tell you what it sees, but generative AI can use that same data to create something entirely new."<sup>7</sup> Both are likely to coexist and provide value to agencies.

Of particular note with GenAI are its hallucinations—responses it generates that contains false or misleading information. While any AI model can produce errors, GenAI hallucinations can be especially challenging because a GenAI-powered application can sound remarkably confident in its responses and eloquently defend its mistakes. Understanding the hallucination potential of a particular application is important, as is considering where in a decision or support chain it would be used, in order to fully understand the measures that must be taken to mitigate their impact.

It's important to not get caught up in the GenAI hype and automatically dismiss what might be a more ideal solution if it happens to be an AI or machine learning model other than GenAI. Just because we have calculus, for example, doesn't mean we no longer need algebra. In many of our conversations with state and local governments, we help them match the right tool for the job at hand to help them avoid wasting precious time, effort, and resources heading down the wrong path.

<sup>7</sup> Source: "The Difference Between Generative AI And Traditional AI: An Easy Explanation For Anyone," Barnard Marr, Forbes, July 24, 2023



## 4 Focus on the use cases, not the technology

While a broad understanding of the technology is essential, it's more important to understand that you don't implement GenAI technology; you implement GenAI use cases.

Technology is never enabled for technology's sake. It's always designed to drive a business outcome and help further the agency's mission in some way. Matching—or more likely, being able to adapt—a provider's technology to an agency's specific needs becomes a key challenge. That abstraction between what the technology providers are offering and where GenAI can help improve agency performance and productivity adds complexity to the decision and implementation processes.

So while everyone from the governor's office on down might agree to use GenAI, the first question for many is: where? What are the right opportunities to do this first—the quick wins?

Our Q1 2024 KPMG GenAI quarterly pulse survey revealed that private sector executives believe the greatest opportunities are for enhancing products (50 percent of respondents) and improving efficiency (48 percent).<sup>8</sup> For many agencies, the answer is often simply to help address a major pain point. The early adopters of GenAI in government aren't generally implementing futuristic solutions that require agencies to completely reimagine and reinvent how work gets done, but more practical solutions to everyday challenges. For example:

- We used natural language processing and customer sentiment analysis to help a large city department of education increase its help desk responsiveness. GenAI provided faster and more accurate responses than its previous chatbot solution. It also decreased agent workload and increase accuracy by writing and routing support tickets, as well as providing language translation support.

- We used the KPMG Ignite AI and machine learning platform to help another large city agency automate its vendor contract and invoice reviews. Leveraging document digitization, optical character recognition, and natural language processing, we developed a suite of analytics to automatically flag contracts and invoices for potential issues such as service rate discrepancies, off-contract spend or pricing disparities.
- We're also helping to use GenAI to identify buyers, compare various contract prices for thousands of commodities, and identify savings and related impacts to contract terms.

By adopting GenAI technology to address common and immediate problems, agencies will also be building the fundamental framework needed for bolder uses in the future such as vendor management, legal and procurement. Staffing shortages have been affecting city credit ratings—a shortage of accountants is causing delays in completing financial disclosure documents.<sup>9</sup> With the right systems and processes in place, overcoming challenges like this may now be within reach.

For many agencies, a careful audit of existing job requisitions may be the ideal place to start. There are many benefits to this approach. Even as it creates entirely new jobs, technology has a habit of significantly changing and even eliminating existing jobs—we no longer have travel agents or elevator operators, for example. Undoubtedly, there's lots of craft that has built up in job requisitions across the agency, too. A careful reexamination of roles within the agency may help identify GenAI use cases and help better align all positions to the agency's mission.

Interestingly, GenAI may be the ideal tool to help with that reexamination process. For example, by building a custom GenAI tool, KPMG helped a state HR organization quickly map and validate over 95,000 positions into a new job classification framework. Classifications had been unreliable and inconsistent across departments, and with over 15,000 unique job descriptions, this posed a significant risk and made it difficult to execute HR and finance services efficiently.

<sup>8</sup> Source: "KPMG GenAI Quarterly Pulse Survey: The path to sustainable returns," March 22, 2024

<sup>9</sup> Source: MissionSquare Research Institute, State and Local Workforce 2023 Survey, June 2023



## 5 Stay ahead of cost and budgeting issues

GenAI solutions, including those embedded within software that an agency already uses, may require new ways to budget for, pay for, and control costs for. Determining how GenAI will be funded is a start. Will it be at the state level? At the department level? Through IT chargebacks?

Just calculating the costs could be a major challenge. For example, a software provider might offer access to GenAI features on a per-user per-month basis, but that may not be for every GenAI feature the app might provide. In other words, it might be not a blanket “for this amount you can use it all” but rather, “for this amount you can use a pointed set of functionality.”

To project licensing costs—and avoid paying a licensing fee for users who don’t need a particular set of GenAI functionality—you need to carefully identify and track which use cases should have which sets of GenAI functions enabled. How are you going to keep track of this potentially complex use-case/feature/user/cost matrix, especially when it might involve a dozen or more licensing options, and grow to hundreds or thousands of uses cases and tens of thousands of users?

GenAI may require renegotiating software licensing contracts. Some states may have enterprise pricing, which provides unlimited usage for specific collections of features for a fixed fee. You choose—and pay for—only the specific collections of features you need. What do contract prices look like if you’re enabling GenAI features for just 50 or 100 users? Do the fees then expand as if you had enabled them for all users?

You’d also want to avoid paying a licensing fee where the cost exceeds the ROI for each specific use case. Many GenAI solution providers and government leaders at this stage may have “Field of Dreams” hopes: if we implement it, the value will come. Is the ROI really there for the use cases you’re considering? How do you calculate it?

Given the need for most agencies to budget for the long term, avoiding surprises may be more important than ever.



## How KPMG can help

KPMG has worked with federal, state, and local governments for more than a century, so we know how public sector agencies, education institutions, and healthcare organizations work.

**We're experienced, nimble, and flexible.** We understand the unique issues, pressures, and challenges government organizations face on the journey to AI adoption. We'll meet you where you are on that journey and help advance your progress with no agenda other than to see you succeed. We'll help you leverage the investments you've already made to help maximize their value—not try to sell you something new.

**We offer clarity and insight.** As a trusted advisor, we can help you make sense of everything going on in the highly dynamic world of AI that can impact your mission, from regulatory mandates to emerging technologies. We can help align your efforts with leading practices from both the private and public sectors, and help keep you moving forward quickly with confidence and conviction.

**We see the big picture.** We can help you anticipate and adapt to the wide-ranging impacts AI can have on your organization, including budgets and financial controls, business processes and operating models, and employee growth and retention. We can help you understand your data—where it comes from, what controls are required, how to help maximize value locked in it, and how to share that value across organizations. We can help you harness the power of AI ethically and responsibly with trusted AI principles and governance models for managing risk.



**We're not just thought leaders.** We're helping government organizations design and implement real use cases today. Our wide-ranging capabilities, from strategy to technology implementation, help us understand the challenges you face holistically. Our extensive network and strategic alignment with leading AI solution providers can give us ahead-of-the-curve insights and help enable us to be surgical in our approach.

## About KPMG

KPMG has worked with federal, state, and local governments for more than a century, so we know how agencies work. Our team understands the unique issues, pressures, and challenges you encounter in the journey to modernize. We draw on our government operations knowledge to offer methodologies tailored to help you overcome these challenges and work with you from beginning to end to deliver the results that matter.

The KPMG team starts with the business issue before we determine the solution because we understand the ultimate mission. When the way people work changes, our team brings the leading training practices to make sure your employees have the right knowledge and skills. We also help your people get value out of technology while also assisting with cloud, advanced analytics, intelligent automation, and cybersecurity. Our passion is to create value, inspire trust, and help government clients deliver better experiences to workers, citizens, and communities.





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