Finance-as-a-Service: A game-changer for state and local governments

Finance operations in state and local governments are feeling the squeeze—with little relief in sight

In today's demanding environment where a scarcity of government-focused talent and ever-tightening budgets square off against the increase in the number and complexity of federal, state, and local financial reporting requirements, it's high-time for a new approach to meeting the "do more with less" demands on government finance operations.

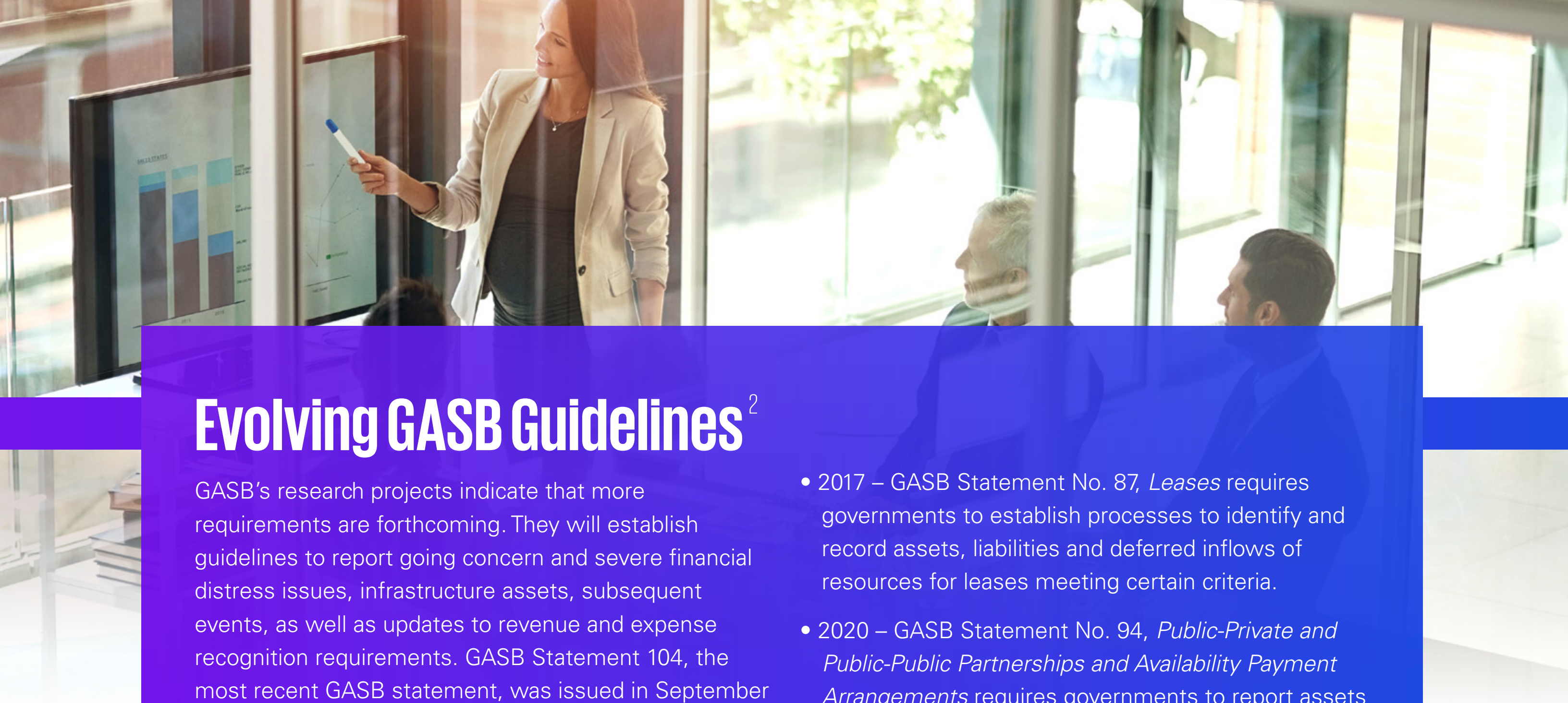
Hitting a moving target

Even those trained in governmental accounting processes are hard pressed to keep pace with evolving reporting standards. The Governmental Accounting Standards Board (GASB) recently celebrated its 40th anniversary, with four decades of targeted improvements and enhancements to reporting parameters already under its belt. And more proposed revisions are upcoming, including improvements to the financial reporting model, classification of capital assets, and measurement of infrastructure assets. We can anticipate ongoing revisions to address technology's impact on how financial statements are prepared, how they are audited, and how they are consumed.[1]

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.

[1] Source: "GASB Plans New Standards and Guidance for Accountants," Michael Cohn, Accounting Today, May 21, 2024.



Evolving GASB Guidelines[2]

GASB's research projects indicate that more requirements are forthcoming. They will establish guidelines to report going concern and severe financial distress issues, infrastructure assets, subsequent events, as well as updates to revenue and expense recognition requirements. GASB Statement 104, the most recent GASB statement, was issued in September 2024 and requires expanded note disclosures for capital assets. It joins a long lineup of accounting and financial reporting requirements issued since the GASB was established in 1984. Following are select GASB Statements that have required the most significant effort to implement:

- 1999 – GASB Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments* arguably the most significant standard ever issued, established a complete revision of the government reporting model and required implementation over a three-year period depending on the size of the government.
- 2012 – GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* requires governments to record liabilities for its pension benefits.
- 2015 – GASB Statement No. 72, *Fair Value Measurement and Application* requires governments to measure and report their investments in a way similar to private sector businesses.
- 2015 – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* requires governments to record liabilities for their postemployment benefits.
- 2017 – GASB Statement No. 84, *Fiduciary Activities* requires a government to include activities meeting certain criteria be included in the government's financial reporting entity, such as pension and postemployment benefit plans.
- 2017 – GASB Statement No. 87, *Leases* requires governments to establish processes to identify and record assets, liabilities and deferred inflows of resources for leases meeting certain criteria.
- 2020 – GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* requires governments to report assets and liabilities for arrangements meeting certain criteria.
- 2020 – GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* requires governments to establish processes to identify and record assets and liabilities for information technology arrangements meeting certain criteria.
- 2022 – GASB Statement No. 101, *Compensated Absences* requires governments to record liabilities for certain leave benefits, whether used by or paid in cash to employees.

Keeping up is a challenge. Retooling enterprise resource planning (ERP) software and updating processes may not take you far enough, fast enough. Consider a practical alternative: **Finance-as-a-Service (FaaS)**.

FaaS can provide not only a reprieve, but also a lasting benefit for chief financial officers (CFOs) and comptrollers in state and local governments. FaaS provides access to experienced finance professionals with functional government and accounting experience to provide the talent you need to comply with your monthly, quarterly, and annual financial close and reporting requirements, all while helping to minimize the "cost of ownership" to get there. You define the scope of the engagement, provide the data, and specify the timing and nature of the desired outputs, and managed services will do the rest for an easily predictable monthly flat fee.

[2] Source: "GASB at 35: A Look Back, A Look Forward," David R. Bean, The CPA Journal, April 2020.

Five reasons to explore FaaS for state and local governments

1 Dive into a deep talent pool

Many state and local government managers are simply unable to find and hire people with the level of expertise required to meet their needs. FaaS can provide a solution.

With an aging workforce, having a succession plan for government finance and accounting roles is a critical need. High turnover is also an issue, even for traditionally "stable" government employees. State and local governments are hard pressed to compete with private employers' pay scales and benefits packages. But finding accounting talent to offset attrition, especially those trained in the intricacies and nuances of government financial reporting, is harder than ever today. Robert Half predicts an ongoing scarcity of finance talent in 2025, noting that data from the US Bureau of Labor Statistics shows the unemployment rate for accountants and auditors was just 2.0 percent during the fourth quarter of 2024 and the rate for bookkeepers was 1.7 percent.

Other finance and accounting positions with unemployment rates trending well below the 4.1 percent national average in December include financial analyst (1.9 percent) and compliance officer (2.2 percent).[3] The lack of a pipeline for new talent will only exacerbate the problem. Many college graduates are not interested in a career in government. In addition, most colleges no longer focus on government accounting and the American Institute of Certified Public Accounts (AICPA) has proposed limiting, or even entirely removing, government accounting content in the CPA exam.[4]

What if talent scarcity were a thing of the past? With the finance as a service model, you can tap into the experience and skill sets of a broad range of finance professionals well-schooled in government accounting and reporting requirements.

[3] Source: "2025 In-Demand Finance and Accounting Roles and Hiring Trends", Robert Half, January 31, 2025.
[4] Source: "CPA Exam Gets Refresh after Practice Analysis," Ken Tysiac, Journal of Accountancy, November 20, 2020.

2 Reduce workforce costs

In a cost-benefit analysis contemplating both dollars and exposure to risk, when comparing available full-time employees versus the FaaS staffing model, our money is on FaaS.

Hiring and retaining a workforce is expensive. Tally the costs of recruitment, salaries, health and other benefits, pension expense, not to mention expenditures for employee development and skill enhancement—the total is sobering. The Society of Human Resource Management (SHRM) reports that many organizations estimate the real cost of recruitment to be three-to-four times a position's salary, when considering both associated hard and soft costs.[5] As a rule of thumb, the smaller the available applicant pool, the higher the recruitment costs and the richer the employment package—that's bad news for highly constrained government hiring budgets.

While the costs to hire and retain employees are not insignificant, the cost of losing them puts more than dollars at risk. Consider the costs of a disruption in essential financial operations and processes, loss of institutional knowledge, and the associated vulnerability to missed deadlines and their consequences, to compliance failures, as well as to outright errors. The price of the traditional staffing model just may be too high.

3 Enjoy technology upgrades without disruption

Get a leg up. Let FaaS handle the systems and equipment; you enjoy the fruits of operational transformation without the platform selection, integration, and implementation headaches.

FaaS offers access to leading technologies and solutions, tailored to your needs, without in-house maintenance or long-term capital commitments. Migrate to cloud-based services, confident that your internal compliance and regulatory requirements have been accommodated and risk and governance managed in accordance with your specifications. FaaS can help ensure that your data is integration-ready and protected, with sophisticated tools for data validation, cleansing, and security. And think about the potential efficiencies and productivity enhancements in deploying artificial intelligence (AI) for transaction processing, reporting, planning, and analytics.

[5] Source: "The Real Costs of Recruitment," Katie Navarra, SHRM.org, April 11, 2022.

4 Protect grant funding

Deploying a FaaS solution can help accelerate reporting and improve compliance, protecting essential federal grant funding and uninterrupted service delivery.

Loss of federal funding due to noncompliance with the complex set of accounting and reporting requirements of the Uniform Guidance and individual grant agreements is a very real threat to government operations and delivery of services. State and local governments rely on federal funding for critical healthcare, income security, education, and infrastructure initiatives—funding that has steadily increased over the last three decades. In 1981, federal grants accounted for $5.3 billion, or 18 percent, of the average state's revenues when adjusted for inflation; in 2021 they increased to $22.0 billion, or 20 percent, of the average state's total revenues. Federal grants to state and local governments also increased as a share of total federal outlays over the same period, from 14 percent in 1981 to 18 percent in 2021.[6] In parallel, the regulations to administer federal grants to state and local governments have also increased in both number and complexity. When finance staffing and technology constraints negatively impact the business processes supporting federal grant administration, the results can be catastrophic.

5 Enhance the value of finance to your organization

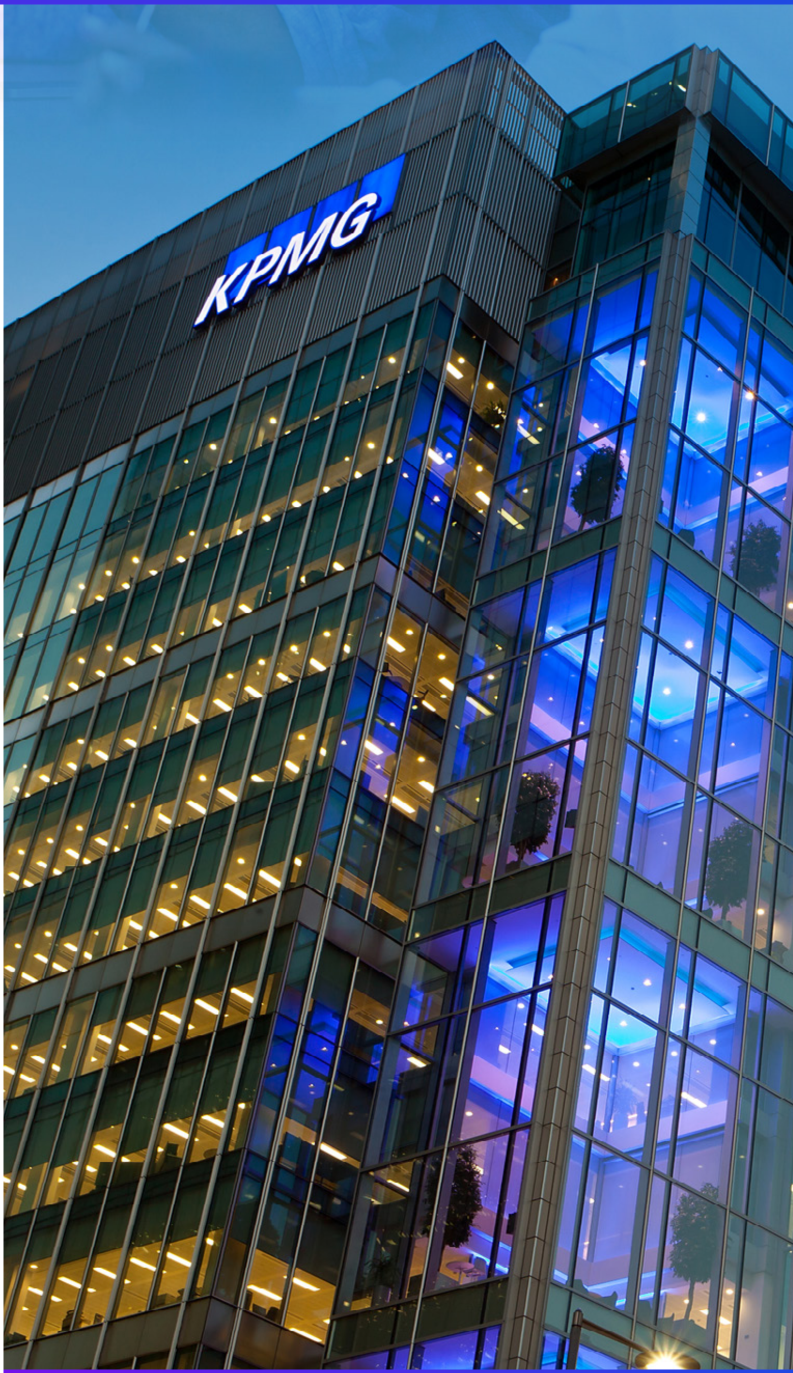
Expectations for finance are changing; deploying FaaS will help finance transform to stay relevant.

Today, forward-thinking government finance leaders are evolving beyond the traditional role of transactional and historical reporting to that of a true partner within the organization. Information is needed faster for the decision-making process and finance is often the custodian of the data that supports that information. Using FaaS to complete day-to-day accounting and financial reporting activities will allow your finance professionals to have more time to analyze data, provide valuable insights, and claim a seat at the table for the decision-making process in your organization.

[6] Source: "How Much Do State and Local Governments Receive from Federal Government?," Peter G. Peterson Foundation, April 11, 2024.

Why KPMG

KPMG LLP has worked with government agencies at federal, state, and local levels for over 100 years and has the knowledge and experience to help organizations make positive changes that can transform operations, communities, workers, and citizens. Our FaaS and managed services solutions can be cost-effective and help drive results that add value while balancing regulatory governances and risk challenges. We can help accelerate finance’s transition from a reactive function to a proactive asset that can help support decision-making, provide predictive insights, and solve organizational and public policy challenges.



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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