



Five reasons government organizations should embark on finance transformation—now

Government organizations must approach finance transformation with a greater sense of urgency

In our work with government organizations at all levels, local, state, and federal, it's not unusual to find agencies or departments that still rely on accounting, enterprise resource planning (ERP), or financial planning and analysis (FP&A) systems that are 15, 20, or even 30 or more years old. We often see improvised customizations or add-ons and multiple manual processes designed to keep these aging systems—and the finance operations that rely on them—functioning.

It's not only the technologies that have aged, but also the business practices and governance policies and controls surrounding them. In some cases, auditors have to perform additional workarounds to review, monitor, and audit data from ERP systems because they can't rely on the data coming out of them given the organization's outdated business processes or technology-based controls.

These aging technologies and processes aren't just an annoyance; they can result in expensive inefficiencies and a lack of transparency that together can hamper agility, create potential waste, and leave organizations vulnerable to external and insider frauds and threats.

Finance transformation is designed to help government organizations address these issues. While it may seem focused on the implementation of modern, cloud-based accounting and finance technologies, it's far more than a technology modernization initiative.

Finance transformation is an opportunity to refine and/or reinvent finance functions, enabled by powerful, modern, and leading technologies and practices. It's designed to bring the finance function into today's world, to operate with the speed and agility required of today's governments, to address today's security threats, improve efficiency and transparency, produce more timely and accurate financial reporting, and meet the expectations of today's stakeholders, vendors, and constituents. It's also designed to increase the value finance brings to the table, elevating finance's visibility and responsibilities from discipline-specific expertise to a key component of an organization's strategic

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.

leadership by leveraging solutions to provide the right financial intelligence to improve overall organizational decision-making.

What's not to like? Yet government organizations continually face many obstacles that can delay the start of their finance transformation journey. It's been nearly 30 years since the Federal Financial Management Improvement Act of 1996 (FFMIA) was introduced, for example, and yet compliance with it and similar standards at state and local levels such as Government Accounting Standards Board (GASB) can still be difficult without manual interventions.





Of course, there are many reasons why these initiatives fail or are slow to get off the ground. But we see five key reasons why government organizations must approach finance transformation with a greater sense of urgency:



1 Budgeting cycles

Budget and priority realities are often cited as key reasons why finance transformation initiatives stall. As we know, in government, it's not unusual for either or both of these to shift every two years. Given that the time to properly plan for finance transformation can easily exceed the length of these cycles, efforts are often delayed to the next cycle when yet another new set of priorities always seem to appear.

We'd argue, however, that these cycles are exactly the reason why it's important to push forward sooner rather than later.

Recognize that a typical finance transformation project can take anywhere from four to ten years to complete once it's been approved and funded. Add in time to build the business case and secure funding, and a completion date could be more than a decade from now even if you start today.

Consider the impact of using what by then might be a 25-, 30-, or even 40-year-old technology—technology not designed to be continually modified and enhanced as today's technologies are. Few organizations would try to maintain 40-year-old vehicles—the return on investment (ROI) of purchasing new vehicles is clear.



We help government organizations build their business cases for finance transformation. The ROI is clear for it, too.



2 AI and other technology advancements

Technology and innovation are advancing not linearly but at an exponential pace.¹ The longer you wait, the more challenging it will be to make the transition.

In just the last five years, there have been significant advances in cloud-based ERP and FP&A solutions, most notably with artificial intelligence (AI) and generative AI (GenAI). AI-driven or enhanced features such as predictive analytics, intelligent automation, and natural language processing are changing the game for finance—but only if your current solutions support them.

These technologies are enabling continuous close, and a shift to an exception-based approach concentrating on automatically validating data and identifying anomalies. For example, they enable true end-to-end automation and validation of invoice processing, eliminating the often kludged-together processes many agencies now rely on that involve special email addresses, stand-alone apps that extract invoices from emails, and Excel files that someone manually loads into the system each day.

AI is enabling FP&A to deliver deeper insights and more robust forecasting and scenario planning, with natural language models democratizing access to these insights—just ask a question and get an answer, no specialized analytical skills required.

While perhaps less headline-grabbing than AI, other advancements are no less valuable. For example, toolkits and applications are now readily available to simplify financial reporting and asset management, or to integrate disparate systems and charts of accounts to create a single, centralized data repository without losing detail or the ability to trace a transaction back to its original source. You can also more easily incorporate nonfinancial information such as Human Resources data or economic indicators, for example, to develop more sophisticated analytics and projections.



¹ Pascal Bornet, “How The Tech Sector Can Help Bridge The Divide Between Exponential Progress And Linear Thinking,” Forbes, April 13, 2023.



3 Paradox of productivity

Gartner notes that the most commonly cited reason for not using AI in finance is that finance leaders have “other priorities.”² We’d argue this is a classic example of a paradox of productivity—agency leaders and employees are too busy with other priorities to prioritize implementing a solution that would save them time and effort.

We often see an agency dedicating so much time and effort to their mandated audits, for example, that they don’t have the time or resources to devote to finance transformation that would save them time and effort on their audits.

The Department of Defense (DoD), for example, continues to struggle with its audits, and Secretary of Defense Pete Hegseth has made this one of his top three priorities, saying they will focus on ensuring the Pentagon passes a clean audit by the end of four years at a minimum, because the American taxpayers deserve it.³ The impediments cited by the DoD Inspector General were “inadequate controls over financial data and accounting records, outdated financial data management systems, and a shortage of skilled workers”⁴—exactly the things finance transformation is designed to address.

Our recent work with two large DoD entities that achieved the clean audit milestone demonstrates that the DoD can realize its goal by modernizing and simplifying financial reporting processes and reimagining its data governance strategy.

Finance transformation is more than just freeing up resources or streamlining the audit process, however. A well-designed and implemented finance transformation can be an accelerant for other projects or priorities. Cleaner and more accurate data, more timely and trustworthy reports, intelligent forecasting, and more precise and actionable insights for policy-making and business planning are ingredients any project can leverage, including efforts traditionally considered outside the realm of finance.



4 Security concerns

Cybersecurity threats and the risk of fraud grow each day these legacy finance technologies and processes are used. Unaddressed vulnerabilities and the inability to detect anomalies in real time can have catastrophic consequences and underlying costs associated with the loss and delay of information processing.

Yet, we note some government clients consider that modern finance technologies—and AI in particular—can make them more vulnerable, not less. There is some truth to this; AI can be a powerful weapon in the hands of malicious actors. But it is an equally powerful force to help identify and blunt their attacks or fraudulent efforts. It’s more important than ever to maintain the balance of power and prevent a lopsided fight.

Modern finance technologies are designed to reduce or eliminate vulnerable and error-prone manual processes and to process and validate all data and transactions according to predefined, industry-standard rules and exception criteria. They can help you apply security and governance policies and procedures consistently and reliably, minimize human error, and maintain compliance with a wide range of regulatory requirements. And the software-as-a-service and managed services models can also help you keep pace with security and compliance measures by leveraging the provider’s resources instead of shouldering the entire burden yourself by maintaining your own legacy systems.

² Gartner, “AI in Finance: Use Cases, Strategies, Frameworks and Benefits,” 2024.

³ Matthew Olay, “Defense Secretary Underscores DOD Priorities During Pentagon Town Hall,” US Department of Defense, February 7, 2025.

⁴ Ashley Roque, “Pentagon fails 7th audit in a row eyes passing grade by 2028,” Breaking Defense, November 15, 2024.



5 Workforce composition

Considering the timelines for finance transformation and the scale of these changes, you must understand their effect on the composition of your workforce in the coming years.

In ten years, will there be a pool of available workers who understand—and who are willing to perform—the tasks required using your existing technologies and processes? CIOs and CFOs have faced a similar issue in their struggle to maintain antiquated mainframe systems that require software programmers well-versed in languages such as COBOL developed more than 60 years ago.

Will you be able to attract and retain top-tier talent if they aren't given access to the tools and methods they feel are necessary to perform their jobs and grow their careers?

People with both data science and finance skills have already become highly desirable in the private sector. Will you be able to attract any of these professionals if you're using 30- or 40-year-old systems and processes?



Why KPMG

Today, government finance leaders must evolve beyond the traditional role of transactional and historical reporting to that of a true partner within the organization. We can help accelerate and reduce the risk of Finance's transition from a reactive function to a proactive asset that can help support decision-making, provide predictive insights, and solve business and public policy challenges.

We're experienced, nimble, and flexible. KPMG has worked with federal, state, and local governments for more than a century, so we understand the unique issues, pressures, and challenges public sector agencies, education institutions, and healthcare organizations face—and we're helping them with finance transformation today.

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 finance, 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 finance transformation 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 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 can help you from strategy through implementation.

Unlike business-only consultancies, our more than 15,000 technology professionals have the resources, the skills and experience, the battle-tested tools and methodologies, and the close alignment with leading technology providers to help achieve your vision quickly, efficiently, and reliably. And unlike technology-only firms, we have the business credentials, subject matter professionals, and public sector experience to help you deliver measurable results, not just blinking lights.

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