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State of the States - 2022

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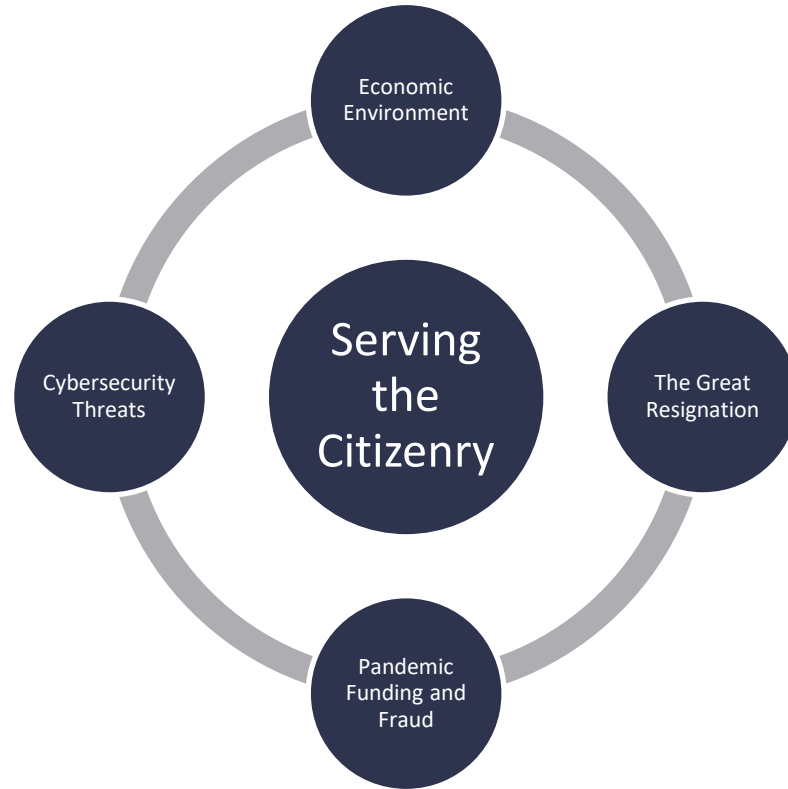
Learning Objectives

At the end of this session, you will be able to:

- ✓ *Identify current key issues impacting state financial professionals*
- ✓ *Identify solutions being implemented to address the impacts of key issues*



2022 – Unprecedented for Government





Economic Environment

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Economic Environment

- Revenues
 - 2021 State Annual General Fund Revenues – 2020 to 2021 change was largest since 2007
 - Tax deadline shift contributed to the change
 - 2021 - 47 State - revenues exceeded budget
 - 2022 – 49 States - revenues exceeded budget
 - Governors’ proposed net tax cuts are expected to reduce general fund revenue in fiscal 2023 by \$14.1B
 - Governors in 30 states have recommended net tax reductions in fiscal 2023



Economic Environment

- Revenues (Continued)
 - Workforce
 - One of the lowest participation rates in history/shrinking tax base
 - Tax growth attributed to a static volume of upper-income workers
 - Employers
 - Companies restructuring as partnerships
 - Volatility and remote work environment
 - States
 - Marijuana – excitement over States collecting excise tax
 - Cryptocurrency – taxability (capital asset, sales tax exemption)
 - Vehicles – better mileage (reduced excise taxes) and peer to peer rentals



Economic Environment

- Expenditures
 - 2022 State Annual General Fund Spending – 2021 to 2022 change was the fastest annual growth recorded for a leading national fiscal survey since **1981**.
 - Spending of 2021 General Fund Surplus (budget cuts)
 - Shift from reliance on federal to general funds
 - Medicaid spending growth is expected to slow due to the enhanced federal matching rate



Economic Environment



- Reserves
 - “Rainy Day Funds” exceeded 10% of general fund expenditures in 2021 and 2022; 2023 results are also expected to exceed 10%
 - Total fund balances exceeded 20% in 2021 and 2022; expected in 2023
 - Pension/OPEB liability Funded Ratio Medians
 - Pension – 81.2%
 - OPEB – 6.1%



Economic Environment

- Hot Topics
 - Tax Cuts
 - Risks (Inflation, COVID)
 - Federal Spending
 - One-Time Investments
 - Employee Recruitment
- Future Spending:
 - Reserves
 - Debt Repayment
 - IT Infrastructure
 - Employee Recruitment



The Great Resignation

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The Great Resignation

- A recent survey of Governmental Human Resource Officials indicated over 75% of such officials are not finding enough applicants to fill positions.
- Other specific State vacancies noted:
 - State #1 – Office of the State Treasurer – 25/60 positions vacant
 - State #2 – Office of the Comptroller – 34% of positions *vacant*
 - State #3 – Statewide – 500+ vacancies, 22.3% turnover rate
 - State #4 – Executive Branch – 9.2% turnover rate in 2021 increased to 15.7% turnover in 2022 (8.2% resignation)



The Great Resignation

- Issues noted:
 - Siloed and redundant systems
 - Siloed agencies
 - Outdated workforce model
 - Paper-based processes (including timesheets)
 - Aging infrastructure
 - Competition
 - Burnout



The Great Resignation

- Additional transitioning in state government:
 - 36 Gubernatorial elections
 - 49 Elections in 31 states for Comptrollers, Auditors and Treasurers
 - Certain partisan states – candidates running unopposed
- Unprecedented government relief packages
- Historic inflation (9.1% as of June 2022)
- Largest one-year CPI increase since 1981
- Looming recession?
- Housing costs



The Great Resignation

- *How are States addressing these issues?*



The Great Resignation

- The importance of data during transition
 - Provide the information to those who *need it*; regardless on if they know it or not
 - Strengthen **accountability** and **transparency**
 - Departments/agencies will not always ask for **help**
 - Offer help and provide help
 - Data must be *consumable* as possible
 - Today's capabilities enable governments to share more data than ever before!



The Great Resignation

- Training during transition
 - Employees filling the vacancies often have much less experience than the predecessor
 - States increasing the focus on employee development
 - Consider a central knowledge base of tools
 - Policy manuals for succession
 - Digital solutions (help desk)
 - **Collaboration** is key



The Great Resignation

- Employee engagement
 - Lack of experience does not indicate a lack of engagement
 - **Feedback** and **appreciation** are keys to **engagement**
 - Survey - follow up on experiences – key for employees *and* customers
 - Unified employee evaluation process
 - Employees want a sense of *shared identity*
 - Workforce models being examined
 - Telework and flexibility
 - Mental and physical health benefits



The Great Resignation

- Systems solutions:
 - A 40-year-old mainframe is in use in at least one state in 2022
 - Required three (3) days to pay a vendor
 - Unprecedented funding being used to improve aging infrastructure
 - Departmental systems including Treasury system modernization, E-procurement, and online voter registration
 - Centralized workforce data system
 - Surveys and Feedback



The Great Resignation

- Outreach:
 - Workforce referral programs
 - Cash bonuses to recruits
- Outsourced solutions:
 - Federal funding audit opportunities
 - Digital solutions





Pandemic Funding and Fraud

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Pandemic Funding and Fraud

Example – State and Federal Response

*U.S.
Government
Accountability
Office*

*U.S.
Department
of Homeland
Security*

*U.S.
Department
of Labor*

*United States
Secret Service*

*State
Auditors'
Offices*



Pandemic Funding and Fraud – State Example

- Starting Federal...
 - Initial concern – prompt payments and disaster response
 - The UI System’s challenges in balancing service delivery with mitigating financial loss resulted in a significant risk of improper payments at the State level
 - Improper payments increased from \$8.0B in 2020 to \$78.1B in 2021



Pandemic Funding and Fraud – State Example

- **OIG - 193,000 outstanding fraud cases as of July 2022**
 - Prior to pandemic – approximately 120 cases/year
- **Non-merited staff were hired to address the volume of claims**
 - 141,000 claims from applicants on State death registry
 - 86,000 claims identified from applicants who were incarcerated
- **Declining customer service**
 - Single instance – 60 hour customer hold time on a call which ultimately *did not address the problem*



Pandemic Funding and Fraud – State Example

Schemes included the following:

- Creation of fictitious employees
- Theft of Personal Identifiable Information (PII)
- Collusion – Employees reporting false claims while working for the employer (who corroborates the claim)
- “Money Mules” – Recipient transfers federal funds obtained to the criminal in exchange for a kickback

Red Flags

- Multiple claims with the same address
- No SSN associated with the claim
- Claimant files in multiple states
- Claims matched to State death registry



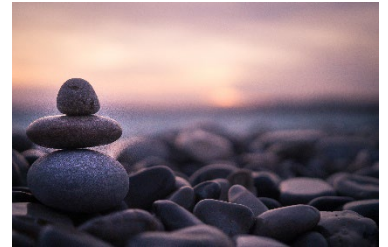
Pandemic Funding and Fraud – State Example

- The suspect activity lead to the establishment of a State ***private-public partnership***
 - Information sharing arrangement between the State government, private businesses, and the citizens
 - The sharing of information is voluntary and provides an exchange of helpful information for disaster response and recovery
 - Reporting of unemployment fraud and its impact on business
 - Sharing lead to an increase of data verifications of claimants
 - Actions resulted in the reduction to 200 allegedly fraudulent claims/week.



Pandemic Funding and Fraud – State Example

- Reflection and Outlook:
 - The **Users** were the weakest links of the control systems
 - **Data** effectively identified and reduced fraudulent activity
 - Unanimous opinion across the reporting agencies was that the pandemic led to an unprecedented amount of collaboration amongst federal, state, and local government as well as with private business
 - **Collaboration** was key in response
 - Our governments feel more **prepared** for the next disaster



Pandemic Funding and Fraud

- *Consider* – A separate State fell victim to a scheme by a State employee who processed fraudulent unemployment claims in exchange for kickbacks from the recipients
 - Resulted in a ruling of restitution of nearly **\$4 million**



Pandemic Funding and Fraud

- U.S. Government Accountability Office Response:
 - Addition of the Unemployment Insurance System to the High Risk list
 - Tool for U.S. Congress to review and determine oversight agendas as well as improve government services
 - List is typically updated every two years; the pandemic resulted in “out of cycle updates”
 - The GAO also noted a need to modernize State IT systems
 - Small Business Administration Assistance was also added to GAO’s High Risk list





Cybersecurity

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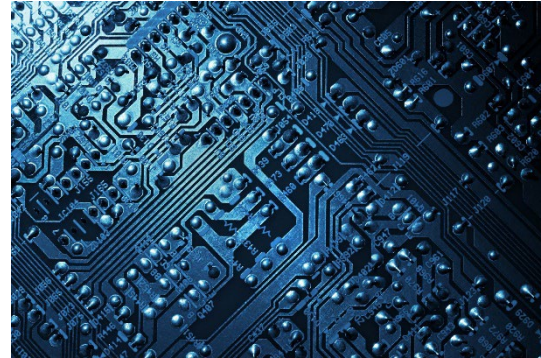
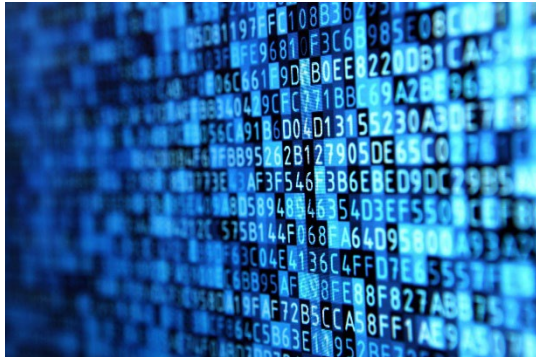
Cybersecurity

- *GAO noted “Ensuring the nation’s cybersecurity” was “High Risk List” area that has gotten worse since 2019.*
- *In 2020, the Department of State notified Congress of intent to establish the Bureau of Cyberspace Security and Emerging Technologies (BSET)*
- *Six (6) federal agencies were unaware of the development of BSET and indicated prior knowledge would have been helpful*



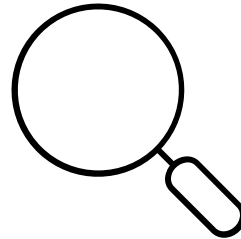
Cybersecurity

- GAO also noted federal law does not address how personal data derived from facial recognition technology may be use or shared.
- The FTC and the FCC have limited authority in overseeing communication and internet-related privacy



Cybersecurity – State Impacts

- Cybersecurity and Risk Management #1 Priority since 2014 according to NASCIO (National Association of State Chief Information Officers)
 - Digital events are now *physical* disruptions
 - Vulnerabilities in new technology
 - Verizon data breach investigative report - #1 reason for the attack was *espionage*



Cybersecurity – State Impacts

- Example – State Response:
 - First time cabinet-level position – Chief Cyber Officer
 - Ensure people are working for an established agenda
 - Identified local governments did **not** have knowledge or resources to respond to threats
 - Offered no-cost solutions to local governments
 - Implementation of multi-factor authentication (MFA) within state agencies
 - Partnership with the U.S. Department of Defense to understand the issues impacting the state government



Cybersecurity – State Impacts

- Other State Responses
 - Less than 20 states have a dedicated Chief Information Security Officer to drive information security budgets and funding
 - Other states are subject to a “shared vision” through committee
 - Intra and interstate shared IT services are also being implemented



Cybersecurity – State Impacts

- Cyber Insurance Private Perspective
 - Current coverage is approximately half the benefit at double the cost, since inception
 - Larger carriers are leaving the marketplace
 - Determinations indicate participants can willingly or unwillingly falsify information because of a consistently changing IT environment
 - Inconsistency with initial answers on the policy questionnaire





Serving the Citizenry

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Serving the Citizenry

- *How about the stakeholders?*



Serving the Citizenry

- Where to start?
 - According to a survey published by the National Association of State Chief Administrators (NASCA), 55% of citizen respondents indicated they knew where to start when seeking assistance from a state agency.
 - 13 of the 23 Chief Administrative Officers (CAO's) surveyed indicated that knowing where to begin as the most challenging step in accessing state services.



Serving the Citizenry

51%

Respondents indicated digital encounters with State government were “good” or “very good”

31%

Respondents who said they still prefer to interact with government in person or via phone

100%

CAO’s surveyed who said there are “more” or “significantly more” digital channels today than two years ago.



Serving the Citizenry

- State Perspectives
 - Departmental Liaisons allow for direct customer communication with agencies
 - Nothing “thrown over the fence”
 - Various states implementing digital solutions through various methods
 - E-Claims system for unclaimed property



Serving the Citizenry

- State Perspectives (Cont.)
 - Aging infrastructures replaced with electronic methods which cut down processing time drastically
 - States are also reconsidering the need to hold real estate
 - Adoption of telework allows problems to be resolved **faster than ever!**



Conclusion

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2022 – Unprecedented for Government!

- *“The measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge” – Martin Luther King Jr.*
- *“Our government has made more strides in improving our operations in the past 2 years than in the previous 50.”*



2022 – Unprecedented for Government!

- *Hard times have been accompanied by our government's preparation for what the future may hold.*
- *Collaboration is key...*



Citations

Economic Environment Survey Data

- <https://www.nasbo.org/reports-data/fiscal-survey-of-states>

Cybersecurity

- <https://www.gao.gov/high-risk-list>

Serving the Citizenry Survey Data

- <https://www.nasca.org/news-and-press-releases>



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