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State of the States - 2024

October 10, 2024



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Learning Objectives

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

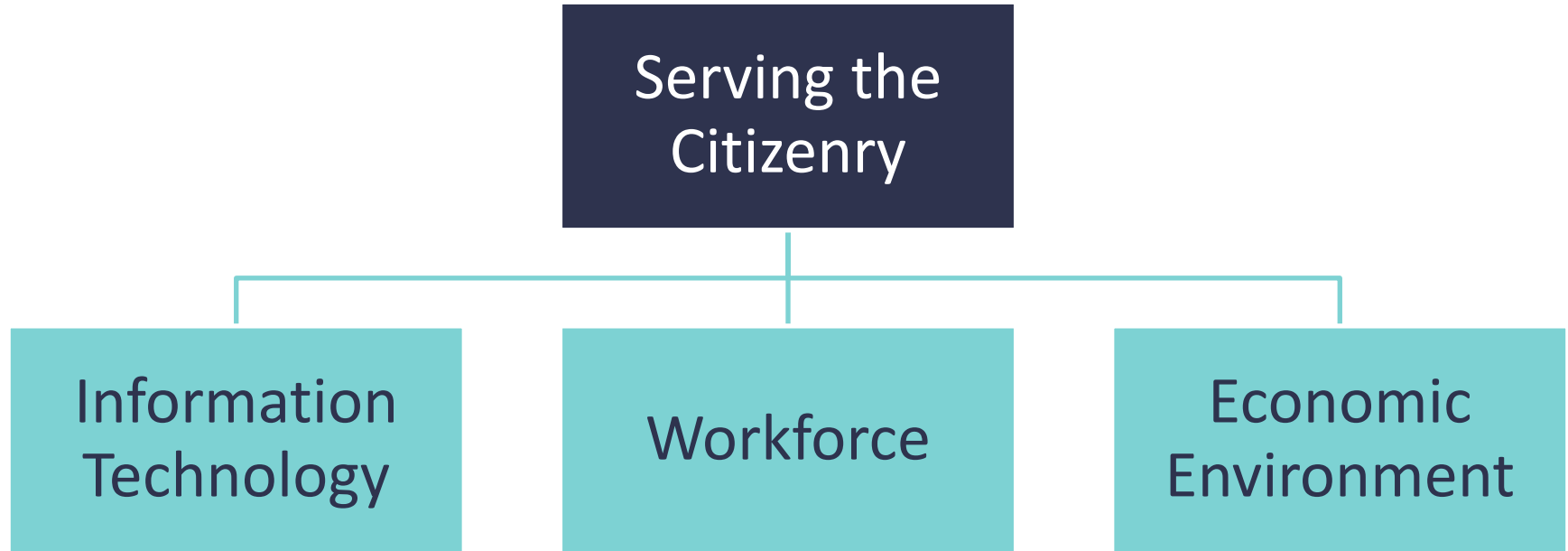
Identify current trends impacting state financial professionals as well as practices to address such trends

Recognize current economic indicators and outlook topics for the states

Discuss the impacts of upcoming accounting and audit guidance



2024 – Trends and Discussions





Information Technology



U.S. GAO's June 2024 *Green Book* Exposure Draft



Modernizes the discussion of information technology to discuss pervasive nature of IT and expand on information security risk



Principle 8 now defines information security risks impacting confidentiality, integrity, and availability of information



Principle 11 now defines general information technology control activities and provides a graphic to clarify the relationship between general, application, and user controls

U.S. GAO's June 2024 *Green Book* Exposure Draft

Information Security Risks

Unauthorized
access

Exploitation of
personnel

Installation of
malicious
software

Automated
attacks

Undetected
errors

Threats to
physical
environment



U.S. GAO's June 2024 *Green Book* Exposure Draft

Information Security Controls

Security
management

Logical and
physical
access

Configuration
management

Segregation of
duties

Contingency
planning



The Roles of the Chief Information Officer (CIO)



Primary
technology
business leader
of the State



Anticipate
policy
implications of
issue and return
a vision of
technology
needs



Plan to combine
technology with
top policy
priorities in
addressing
State services



Responsibility
to support
agency
infrastructure
requirements
and security



CIO Interactions

- As of March 2024, approximately half of State CIO's operate as information technology Cabinet Secretaries
- Approximately 90% of States utilize the Agency chargeback model versus dedicated funding
 - Constraints when billing State Agencies
 - Impact on Federal SWICAP allocation
- Ideal model – general appropriation for universally required services; with the flexibility of chargebacks for optional services



Changing CIO Priorities

- | | | | |
|----|--|---------------------|--|
| 1 | Tie: Cybersecurity and risk management
Digital government and digital services | 3 | Artificial intelligence and process automation |
| 4 | Legacy modernization | 5 | Workforce |
| 6 | Data management and analytics | 7 | Broadband/wireless connectivity |
| 8 | Identity and access management | 9 | Cloud services |
| 10 | | CIO operating model | |



Changing CIO Priorities

- 2024 NASCIO priority survey of States Digital Government and Digital Services tied for priority #1 with Cybersecurity and Risk Management
 - Cybersecurity stood alone at #1 for several years
- Focus on an improved citizen experience through digital services, state portals, privacy, and accessibility



Cybersecurity

Risk

- **Ransomware – most attacks made on entities in government, healthcare, and education**



“Zero-Trust” model to roll out multifactor authentication as *end users* are most at risk



Initiatives receiving the most attention include endpoint detection, awareness, and training



Other responses – *foreign technology and workforce*

2021 BIL Program to provide \$1 Billion to the States over four years with a required match and 80% funding requirement to local governments

State and
Local
Cybersecurity
Grant

Majority of States are providing shared services approach which include training, endpoint detection, risk assessments, support for .gov migration, and adoption of multifactor identification



State and Local Cybersecurity Grant

Support for .gov domain adoption

Identity and access management (multifactor authentication)

Security monitoring

Statewide security operations center

Incident response and vulnerability management

Data security and recovery



Volume, differences, and interaction amongst state websites serving citizens

“Siloed” agency perspective in implementing strategy

Digital Government Services - Challenges

Funding sources and project priorities

Opening door to bad actors



Digital Government Services - Responses

Digital methods
of services

Customization
and uniformity of
digital services

“No wrong door”
initiative

Legislative
initiatives

Customer service
positions



Digital Government Services



Citizens want State government digital services comparable to those in the private sector (Amazon)



Security perspective – the .gov domain is a *critical* component in enhancing the public trust in government

Artificial Intelligence and Process Automation

- NASCIO State Survey – which area will be most impactful in the next 3 to 5 years?
 - Generative Artificial Intelligence – **53%**
- State proactivity:
 - Creation of advisory committees/task forces
 - Responsible use, security, and ethics policies
 - Data governance – concern of integrity and bias of inputs
 - Assess impact on operations on workforce



Artificial Intelligence and Process Automation

Appeals

- Cybersecurity
- Improved customer service
- Fraud detection and prevention through data analysis of large populations

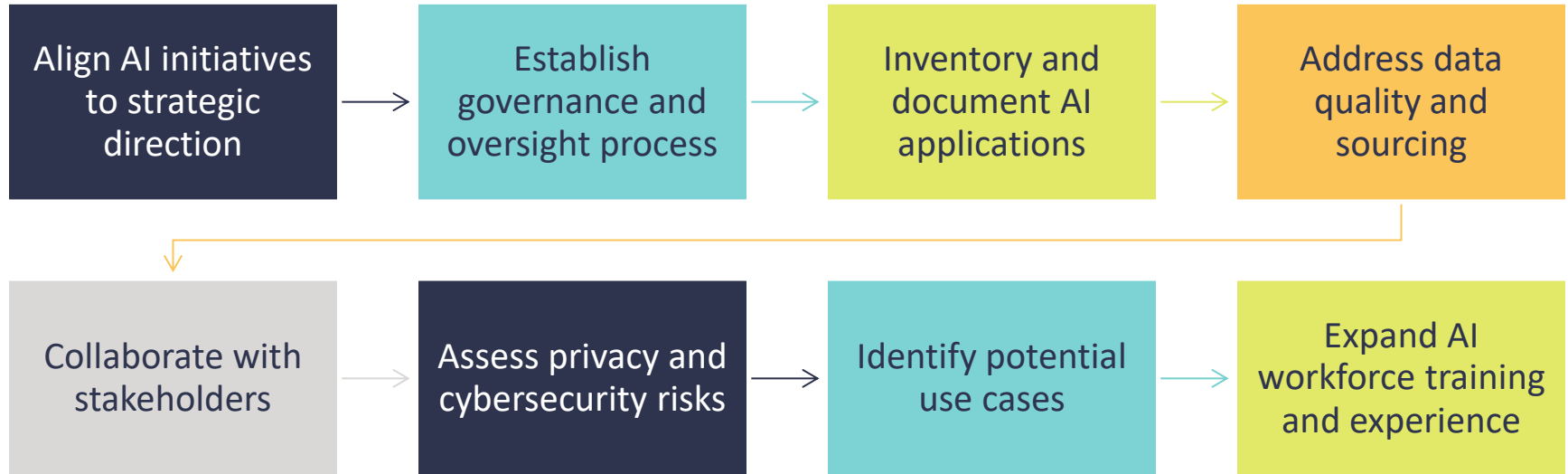
Concerns

- Data integrity and confidentiality
- Critical evaluation and approval of the results
- Analysis paralysis



Artificial Intelligence and Process Automation

NASCIO State Blueprint Objectives



Cyber Insurance Trends

Many states moving to self-insurance model



NASCIO encourages eliminating unlimited liability clauses



New commercial policies are fairly limited to data breaches only





Workforce



The Great Resignation

Previous
Issues
noted:

Siloed and redundant systems

Siloed agencies

Outdated workforce model

Paper-based processes (including timesheets)

Aging infrastructure

Competition

Burnout



Talent Shortage – Government

- Census.gov – approximately 700,000 open positions in State and Local government industry in January 2024
- Infor survey – March 2024
 - 65% of government HR professionals consider retention in top 3 priorities
 - 53% of employees leave government due to compensation concerns
 - 50% of workers are eligible for retirement in next 10 years
 - 70% of workers are unengaged at work; 20% actively disengaged and sabotaging colleagues



Talent Shortage – Accounting Professionals

- **75%** - AICPA's members were at retirement age as of December 2023
- **33%** - Decline of first time CPA exam candidates sitting for the exam from 2016 to 2021
- **7.8%** - Decline of accounting students earning bachelor's degrees from 2021 to 2022
- **\$23M** – 2022 AICPA revenue projection shortage due to decrease in CPA exam candidates



Talent Shortage



Competitive
compensation



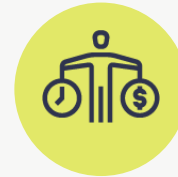
Flexible work
arrangements



Career paths



Government
benefits



Work/life
balance



Talent Shortage – Strategies

- Virtual CFO's
- Just-in-time talent strategies
- Automated processing (invoices, bank reconciliations)
- Revisiting application process
- Revisiting requirements (4-year degree, CPA)



Talent Shortage – Strategies

Appeals



Flexibility



Cost savings
(benefits)



Reallocation of
employees



Analysis and
transparency

Concerns



Communication
(remote)



Onboarding



Seamless
integration
curve



Succession



Talent Shortage

- AICPA's initiative to improve the CPA pipeline
 - **Awareness** – Increase awareness about the accounting profession and promote the benefits of a career in accounting
 - **Improved perceptions** – Dispelling outdated perceptions and updating positive messaging to students about the profession
 - **Training and Education** – Provide high-quality accounting education and training opportunities
 - **Firm culture and business models** – equip firms with tools to offer competitive salaries and benefits
 - **Diversity, equity and inclusion:** Attracting and retaining broader range of talent



Talent Shortage

- State Perspectives – Retention Strategy:
 - Present accounting as meaningful work - impacts everyone
 - Blend position to other passions (public safety, public health, education)
 - Raising salaries (\$15,000 plus in certain states)
 - Camaraderie – people want to come to work
 - Recruiting across state agencies
 - Encouraging the substitution of qualifications (alternate certifications and experience)



Talent Shortage

- Polling Question: Which method of recruiting/retention has been most successful for your organization?
 - Competitive Salaries and Benefits
 - Culture and Purpose
 - Revisiting Qualifications and Restrictions
 - Remote Work Environment





Economic Environment



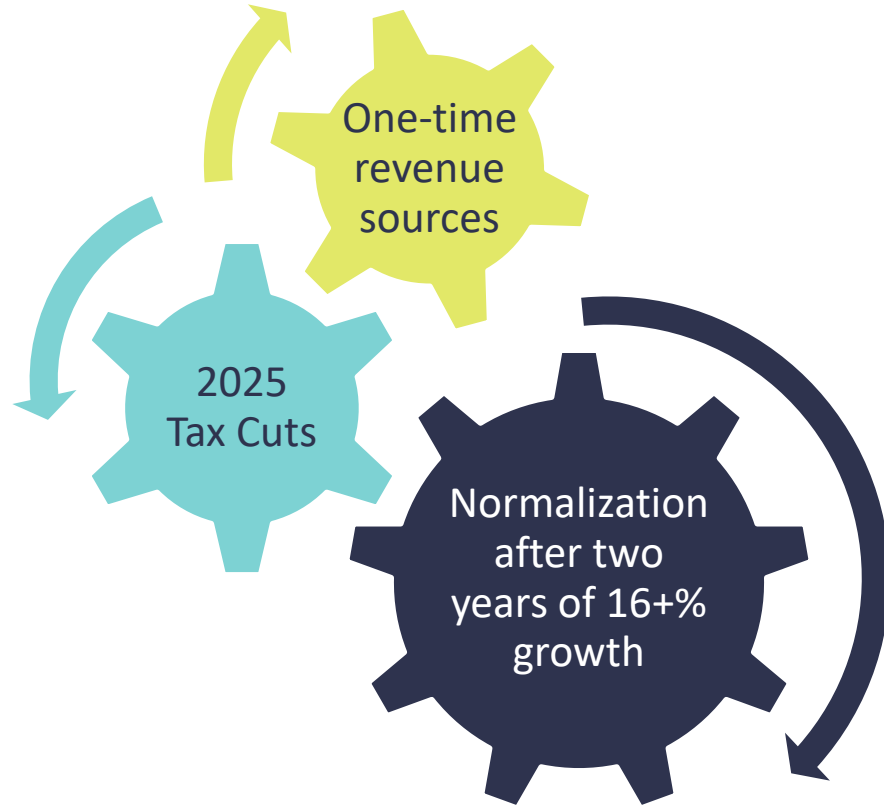
Economic Environment

- Revenues
 - General Fund revenues static trend continued in 2024 (0.6% increase)
 - \$1,181 Billion in annual general fund revenue across states in 2024
 - \$1,173 Billion in annual general fund revenue across states in 2023
 - 2024 – 33 States - revenues exceeded budget
 - 7 States on target, 10 lower than target
 - 2023 – 46 States – revenues exceeded budget
 - 1 State on target, 3 lower than target
 - 2025 growth projected at 1.6% based on governors' recommended budgets as of Spring 2024



Economic Environment

Revenues



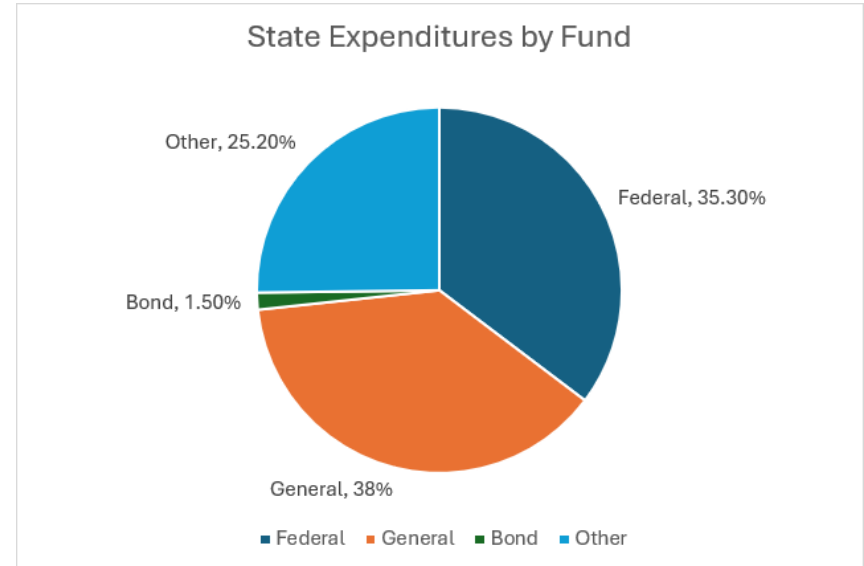
Economic Environment

- Expenditures
 - 2024 State Annual General Fund spending increased 14.4%
 - Strong tax collections and one-time expenditures from surplus funds
 - 2025 State Annual General Fund spending projection is a reduction of 6.2% based on 2025 governors' recommended budgets
 - Result of one-time excess expenditures not occurring in 2025.
 - May appear as budget cuts, but essentially reflects normalization.



Economic Environment

- Expenditures
 - For the first time in 2021 and 2022, federal funds expenditures exceeded general fund share of state spending



Statistics from 2023 NASBO State Expenditure Report

Economic Environment

Rainy Day Funds



Median ratio of fund balance to general fund expenditures increased from 12.3% in 2023 to 13.2% in 2024



Expected to increase to 15.0% in 2025 based on governor's recommended budgets



“Great Success” of the pandemic – State government more prepared than ever for the next “rainy day”

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



Economic Environment

- Debt Ratings Perspective
 - 98% of states are investment grade because of revenue stream (taxes)
 - Contrast – 10% of corporations rated by S&P are investment grade
 - Three States had ratings upgraded in 2024 with no downgrades; however, there one State was provided negative outlook which was the first since 2022.
 - States were budgeting for a recession that never came; now negative feelings associated with normalization.



Economic Environment

\$605 billion associated with extreme weather events between 2019-2023

45% more extreme heat days by 2050's (61.5 days per year)

50% more days with wildfire conditions by 2050's (17.5 days per year)

Global temperature continuing to rise, leading to increased climate risks.

Climate data can inform ratings analysis but is not expected to lead to credit rating actions based on data alone.



Economic Environment

Outlook Topics:

Elections

Consumer
debt

Tax structures

Inflation

Event risks

Demographics



Economic Environment

Outlook Topics (Continued):

Medicaid

Childcare

Employee
compensation

Property tax
relief

Housing

Budget
pressures





Upcoming Accounting Guidance



Upcoming Accounting Guidance

- GASB Statement No. 101, *Compensated Absences – Fiscal 2025 for Y/E 6/30*
 - Recognition criteria:
 - Leave is attributable to services already rendered
 - Leave accumulates
 - Leave is more likely than not to be used for time off or otherwise paid or settled
 - Certain exceptions (military leave, sabbatical, unlimited leave) – recognized when *used*



Upcoming Accounting Guidance

- GASB Statement No. 101, *Compensated Absences – Fiscal 2025 for Y/E 6/30 (Continued)*
 - Accrue liability with pay rates as of reporting date for leave that:
 - Has been used but not settled or paid (accrued payroll)
 - Leave that has not been used (compensated absences)
 - No new note disclosures
 - Option to present net increase/decrease in the long-term liability footnote



Upcoming Accounting Guidance

- GASB Statement No. 102 – *Certain Risk Disclosures – Fiscal 2025 for Y/E June 30*
 - Provide additional information about concentrations and constraints which could limit the government’s ability to acquire resources or control spending.



Upcoming Accounting Guidance

- GASB Statement No. 102 – *Certain Risk Disclosures – Fiscal 2025 for Y/E June 30*
 - Concentrations:



Upcoming Accounting Guidance

- GASB Statement No. 102 – *Certain Risk Disclosures – Fiscal 2025 for Y/E June 30*
 - Three (3) criteria for disclosure – all must be met:
 - Concentration or constraint is known to the government prior to the issuance of the financial statements
 - The concentration or constraint makes the reporting unit vulnerable to the risk of a *substantial* impact
 - Event(s) associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are probable to begin to occur within 12 months of the date of the financial statements issuance date



Upcoming Accounting Guidance

- GASB Statement No. 102 – *Certain Risk Disclosures – Fiscal 2025 for Y/E June 30*
 - Disclosures should include:
 - Concentration or constraint
 - Each event associated with the concentration or constraint that could cause a substantial impact if the event had or had begun to occur prior to the issuance of the financial statements
 - Actions taken by the government prior to the issuance of the financial statements to mitigate the risk



Conclusion



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Citations

Information Technology

- <https://www.nascio.org/press-releases/>

Economic Environment Survey Data

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

Talent Shortage

- <https://www.cpajournal.com/2023/12/01/the-accounting-profession-is-in-crisis>

AICPA Pipeline

- <https://www.aicpa-cima.com/resources/article/draft-plan-to-accelerate-talent-pipeline-solutions>

