



GOVERNMENT SERVICES INDUSTRY

Winds of Change Impact Local Governments

Cherry Bekaert's 10th Annual Local Government Survey provides insight into how state and local governments plan for and respond to a wide range of issues including workforce and benefits, impacts on budgets, use of technology, and more.



Executive Summary

Based on responses from local government participants, we are able to share valuable feedback that allows governmental organizations to compare their own performance, accomplishments, and challenges with similar entities across the United States. This report highlights trends across state and local governments in how entities are handling a variety of issues and provides recommendations on changes that need to be made to better prepare for the future. Such topics we address, in addition to those previously mentioned, include COVID-19, financial reporting, and risk assessments.

COVID-19 brought both challenges and opportunities, but with it also came new risks, including fiscal pressures, that created the need for local governments to increase mitigation of those risks around a remote workforce, cybersecurity and other areas.

Highlights from this year's results include:

- ▶ A competitive salary and career advancement are the most significant barriers to recruiting and retaining talent
- ▶ Retirement is the most common factor attributed to turnover
- ▶ While insufficient budget or funding was identified as the main barrier to implementing new technology, respondents were almost twice as concerned about having enough budgeted funding for the replacement of aging infrastructure
- ▶ 70% of respondents feel only somewhat prepared for a cyber-attack
- ▶ Although 82% of respondents believe the increased use of technology will be necessary to keep costs under control, 51% of the respondents still require paper based or manual steps for most internal administrative processes
- ▶ Very few entities are using cryptocurrency, with only a few considering using it in the near future
- ▶ Less than half of the respondents received \$10M or less in Coronavirus Relief Funds
- ▶ 74% of respondents have not started or have just begun the implementation process of GASB 87

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"Our local government survey finds COVID-19 impacts are ongoing on revenue, staffing compensation and technology investments. As the federal government enacts new mandates, the trickle down affect is considerable on state and local levels."

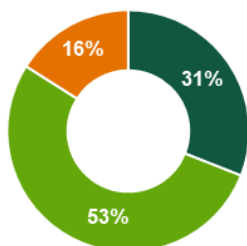
- John J. Gilberto, *Government Industry Leader*



Respondent Profile

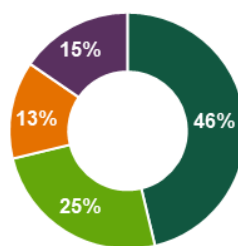
Thank you to the many government, operational and financial professionals across the U.S. who participated our 10th Annual State and Local Government Benchmarking Survey. We appreciate the support of external organizations that allows us to reach a wider audience to inform results and insights.

Participant Titles



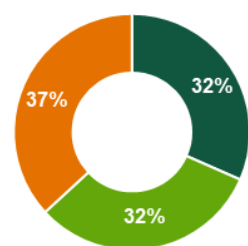
- CFO/Director of Finance
- Controller, Accting & Finance Mgr.
- Other

Number of Employees



- 0 - 500
- 501 - 2,500
- 2,501 - 5,000
- > 5,000

Size By Revenue



- < 50 million
- > 50-250 million
- > 250 million

Workforce and Benefits

Our survey uncovers several key areas to attracting and retaining workers in state and local governments. Healthcare and other benefits are always seen as a positive. Two-thirds of respondents indicated that their government entity has reduced healthcare costs while adding wellness programs and better incentives – a trend we have seen year-over-year. However, state and local governments are falling short around demonstrating career advancement opportunities and combating competitive salaries to attract new workers, which would help to offset or mitigate losses from an aging workforce. **Figure 1** shows that significant contributions to turnover are centered around retirement and salary, followed by career advancement.

Government leaders know their organizations, especially post-COVID-19, will need to be committed to making improved efforts in attracting new talent. 10% of respondents had a decrease in the staffing level for financial and accounting positions, a trend that has continued to increase since 2018. 84% cited competitive salaries as the top barrier to retaining and acquiring talent. Just over half of the respondents saw salary increases over the last year; however more salaries stayed the same this past year versus a higher increase in salaries the previous year. 81% of respondents anticipate salaries will increase in the next budgeting cycle.

To fill positions, governments not only must seek qualified recruits and market themselves, but they should consider utilizing retirees to help train and mentor future talent. All of

the respondents provided employee training in at least one form. A variety of types of training are needed to quickly upskill existing talent and help bridge the gap of retiring talent.

As the workforce now balances more caregiving duties, government organizations will need to adapt to the demands, per **Figure 2**. Work-life balance, benefits surrounding caregiving options, and flexible working arrangements can also be opportunities for attracting talent and allow governmental entities to compete against corporate and industry jobs.

Key workforce considerations for local governments:

- ▶ Competitive salary continues to be where governments struggle amongst competition, but benefits could be a potential source of attraction.
- ▶ Continued training, upskilling, and benefits opportunities are the largest areas of opportunity for retaining and growing talent.

Figure 1. What do you believe were the contributing factors to the turnover?

Check all that apply.

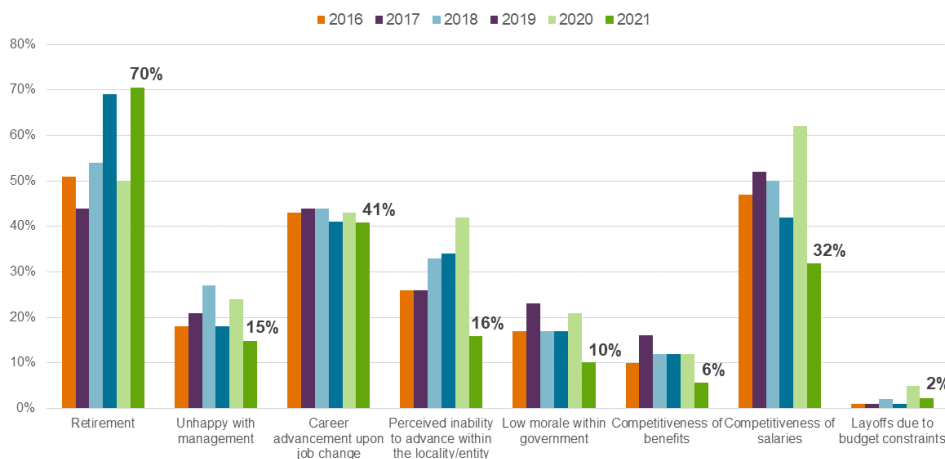


Figure 2. What do you believe are the most significant barriers to recruiting and retaining talent?

Check all that apply.

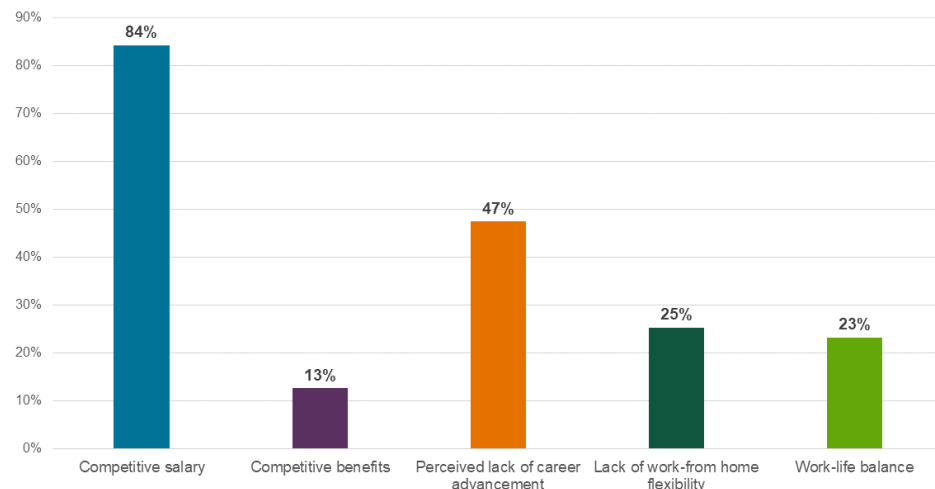
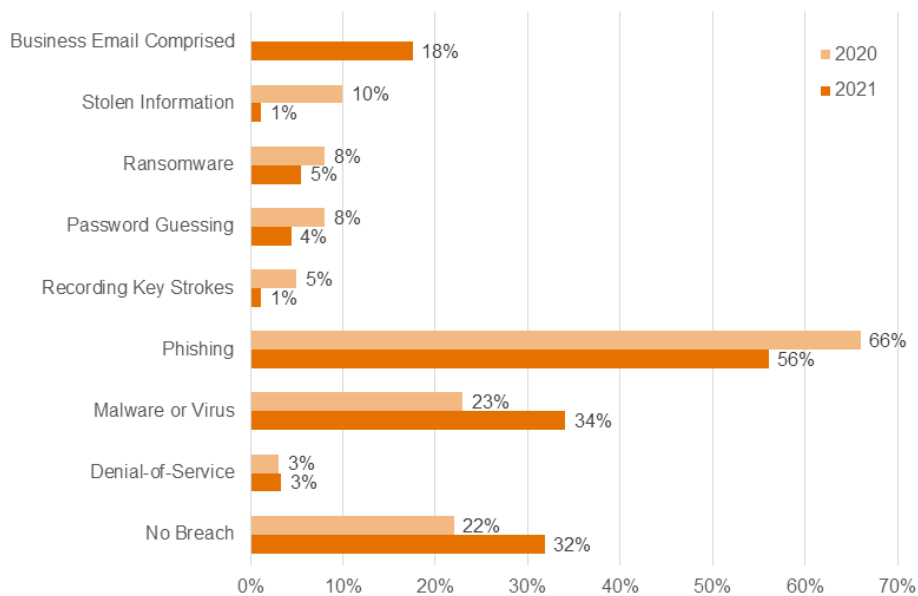



Figure 3. In the past year, has your entity experienced a data breach (actual or attempted)? Check all that apply.



71% 

of respondents said the (actual or attempted) data breach was deliberately perpetrated by an external party.

Use of Technology

Technology continues to be a main priority as governments advance efficiency, connectivity and productivity. Respondents indicated insufficient budgets and competing priorities are the main barriers to implementing new technology. 82% of respondents believe the increased use of technology will be necessary to keep costs under control. In larger entity respondents, we have seen a decrease in overall IT-related full-time employees year-over-year.

Cybersecurity is a constant threat to all, and government entities are no exception. Only 24% feel very prepared for a cyber-attack, while 70% believe their organizations are somewhat prepared. Just over half of respondents believe their employees are well trained on the importance of cybersecurity as a result of formal training. Cyber liability insurance covers the cost for a business to recover from a data breach, virus, or other cyber-attack. Almost 70% of the respondents maintain current cyber liability insurance.

Data management is critical, but the task is particularly complex in cybersecurity for a host of reasons, including data volume, types of data, disparate forms of data, a patchwork of security tools and inflexible reporting systems. Local governments tend to underestimate the importance of data management in security analytics. In looking at data breaches, 68% of respondents experienced an actual or attempted data breach of some type, outlined in more detail in **Figure 3**, and 71% were deliberately perpetrated by an external party. Fortunately, the majority of respondents are confident in their incident response program in detecting, responding to, and recovering from a breach.

Only a third of respondents have a formal data strategy and program and only 12% utilize a Governance, Risk and Compliance (GRC) application to manage and maintain

“Most often when organizations fall victim to a cyberattack, the vulnerability could have been easily avoided.”

- Steven J. Ursillo, Jr., *Cherry Bekaert Cyber Leader*

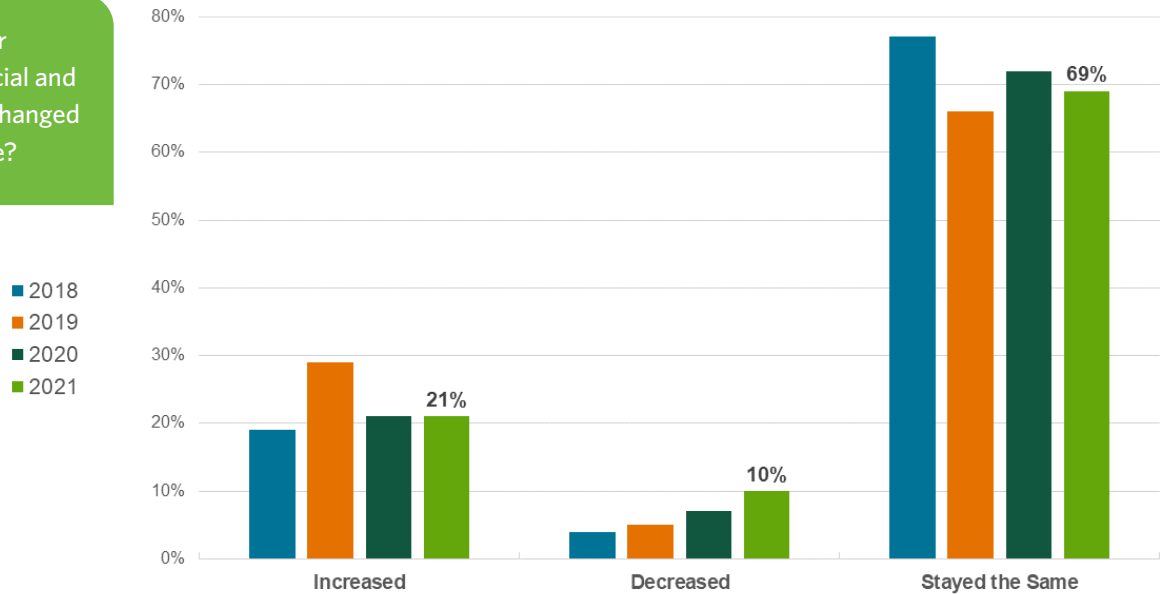
their internal controls or compliance requirements. Over a third of respondents anticipate replacing enterprise business systems or other business systems in the next two years, with over 75% considering moving to the Cloud.

Specifically in the age of COVID-19, where data- and cybersecurity have seen increased challenges, there is a need for organizations to protect themselves in more ways than ever due to the work-from-anywhere landscape. However, throughout 2020, only half of governments' cyber initiatives and security measures stayed the same.

Key considerations for stronger data management for cybersecurity:

- ▶ Adopt and adapt data management standards for cybersecurity.
- ▶ Maintain an updated compendium of data sources and the content held by them.
- ▶ Empower security analysts with the right tools and platform.

Figure 4. How has your staffing level for financial and accounting positions changed in the last budget cycle?



Whirlwinds of COVID-19

COVID-19 affected us all in and out of the workplace, creating both challenges and opportunities. Challenges created new risks, including fiscal pressures that made local governments reallocate funds and think about budgeting differently. Most of the respondents received some type of coronavirus relief funding, with most of that funding being allotted to personal and protective equipment (PPE); public safety and public health employee payroll costs or remote working technology.

Over half of respondents stated that charges for services are more than likely to negatively impact their governments, followed by sales and use taxes.

Opportunities, however, were shown in the advancement of remote work flexibility. We continue to see mixed approaches for teleworking generally and our survey results are no different. Over 50% of staff members have telecommuted, and are likely to continue doing so for the next 12 months. While remote work does sport challenge, the ability to prioritize safety and flexible work arrangements when necessary prove positive.

Key post-COVID-19 considerations for local governments:

Establishing the ability to telework as the new norm provides employees with greater flexibility and helps to recruit top talent.

Budget

Over half of respondents have concerns about budgeted funding for the replacement of aging infrastructure. 62% have infrastructure that needs attention and only 2% feel that their entity's infrastructure is fit for the future. Over 20% of respondents have concerns about budgeted funding for transportation, technology and security/prevents of cyber-attacks.

For most respondents, the staffing level for financial and accounting positions at their organization has remained the same. However, as **Figure 4** reflects, an increasing number of entities have seen a decrease in the staffing level over the last four years.

Out of all the respondents who completed this survey, not a single governmental entity is transacting in cryptocurrency, and only 6% are considering utilization in the near future.

Financial Reporting

While COVID-19 did prompt the GASB to delay GASB No. 87 by 18 months, implementation is looming around the corner. Per GASB No. 87, Leases, governments that act as lessees must report a liability for the contract, as well as report an intangible right-to-use lease asset indicating their ability to use the leased item. For government entities that are lessors, they must disclose a receivable for the lease and a deferred inflow of resources.

“Given these important improvements in financial reporting, we are committed to providing meaningful assistance to governments as they implement the changes. We have been working diligently with government entities to make compliance to these standards as smooth as possible.”

- Lauren Strobe, Director, Assurance Services

Despite this lease standard, 74% of respondents have not started or have just begun the implementation process of GASB 87. This lag in beginning to implement the standard may be due to the complexity of the process, as more than half of respondents indicated that both the identification of their entire lease portfolio and the review of lease data in all contracts were the largest challenges.

As seen in **Figure 5**, the stage of implementation for governments is greatly varied. While many have read the guidance, only 10% of respondents have developed a transition plan.

Cherry Bekaert is proud to provide a professional member of our government services industry team, Scott Anderson, to serve as a Government Accounting Standards Board practice fellow, a two-year assignment working with GASB on technical matters. We recently compiled his insights into current projects at GASB, **which can be found here**.

Key financial reporting considerations for local governments:

Local governments have stalled in the GASB 87 implementation process, largely due to the complexities surrounding the lease standard and the impact of COVID-19 but it is important to start the implementation process now.

Risk Assessment and the Audit Process

Local governments are not immune to fraud. Internal audit standards require that the internal audit function conduct an annual risk assessment in order to develop a risk-based internal audit plan for the year. Our survey reveals that over half of respondents are not aware of fraudulent events in their governments. However, almost half of participants indicated not having a fraud hotline – of those who do have a hotline, there are varied responses on how the tips are gathered, shared, and handled. For those respondents who are aware of fraudulent events in their governments, internal audit was the leading indicator in identifying these occurrences.

Our findings show that, year-over-year, only those in municipalities, authorities or commissions are seeing an increase in Freedom of Information Act (FOIA) requests. Given the tracking, response of receipt, process to research, and release of records takes a considerable amount of time for these agencies, despite a potential fee charge by the government entity.

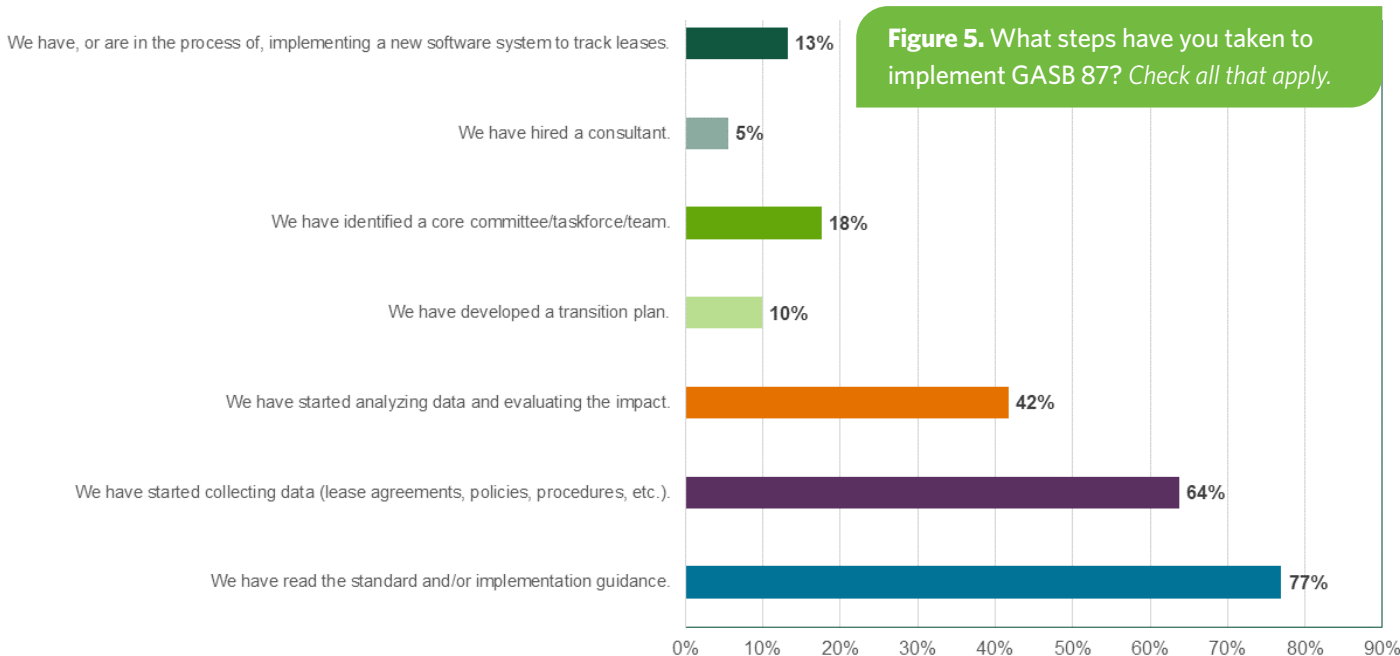


Figure 5. What steps have you taken to implement GASB 87? Check all that apply.

Key risk assessment considerations for local governments:

- ▶ Local governments need to seek continuous improvement to their risk assessment and internal audit planning process to mitigate fraud risks.
- ▶ Ensuring adequate controls are in place to help avoid fraud occurring paired with management reviews are vital.

What's Next for Local Governments?

There's a lot at stake for counties, cities, schools, and authorities as the world settles into the new normal. While local economies try to bolster back to pre-COVID norms, local governments should keep their focus on scaling their workforce talent and finding ways to solve local infrastructure, connecting with citizens, improving technology and streamlining cost and efficiencies.

Is your next step to adapt your processes and controls for a changing requirements, manage risk, or meet regulatory requirements, or a combination of these?

Whatever your immediate or long term needs, our professionals can support you, so connect with our Government team today.

Contacts for Additional Guidance



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About Cherry Bekaert

Ranked among the U.S. largest accounting firms, Cherry Bekaert offers assurance, tax, risk, digital, transaction advisory, benefits consulting, and wealth management solutions. With clients in across the U.S. and internationally, we have industry knowledge in technology, healthcare and life sciences, industrial manufacturing, private equity, real estate and construction, professional services, hospitality and retail, government and not-for-profit. We exercise a deliberate curiosity to know our clients' industries and work collaboratively as one team to guide them forward.

Cherry Bekaert LLP is a founding, independent member of Baker Tilly International, a top-ten global accountancy and business advisory network.

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“Nonconforming engagements for risk assessments problems have risen. Auditors need to consider and understand local governments’ risks to avoid misstatement. Properly identifying and assessing the risks allow local governments’ to respond to risks faster and put measures in place to further mitigate potential risks.”

- Denise Lippuner, Risk & Accounting Advisory Services, Government Services Leader

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