State financial management leaders are working to offer increased services and transparency even as they contend with the need to accomplish more with limited resources. Government accountability, innovation in technology and strategic partnership initiatives will usher states into an exciting era of positive change.

Opportunities

Accounting and Financial Reporting

For several decades, state and local governments have looked to the Governmental Accounting Standards Board (GASB) for accounting and financial reporting standards. Without adequate funding, however, the independent standard-setting services provided by GASB cannot be sustained. In 2004, the National Association of State Auditors, Comptrollers and Treasurers (NASACT) worked successfully with the National Association of State Treasurers and the Government Finance Officers Association to implement a bond assessment fee to supplement GASB’s budget. The assessment, which is being collected by The Bond Market Association, was expected to shore up any cracks in GASB’s funding, allowing for the seamless continuation of the board’s vital services to state and local governments. Although the system is currently in place, there is still much work to do to achieve the level of collections necessary for the funding of GASB. In addition, the concept of a “filing fee,” which would be imposed on all governmental entities that prepare financial statements according to generally accepted accounting principles as promulgated by GASB, is being explored.

The issuance of timely financial statements and disclosures continues to be a topic that state governments address on a regular basis. Our research shows that 27 states issued their comprehensive annual financial reports in fewer days after year-end in fiscal year 2003 than in fiscal year 2002. Interim disclosure of financial-related information is also becoming a reality in some states. NASACT has worked with interested parties to discuss the mechanics of providing interim information and to develop a template for information that might be useful. Several states served as pilots in 2004 to implement the recommended template and have begun providing interim disclosures on their Web sites. The usefulness of the interim disclosures will be examined in the coming year as participating states begin to receive feedback.

Addressing current issues faced by state government finance officials is not enough—we must also work together to identify issues that will affect our profession in the future. In partnership with the Association of Government Accountants, NASACT will participate in a research project to ascertain the extent, if any, to which certain provisions of the Sarbanes-Oxley Act might be applicable and appropriate for state and local governments in the United States to implement. The development of a survey and the gathering of data for this project will occur over the next six to nine months. Additionally, state government officials will remain alert to the notion of a worldwide convergence of accounting principles, as conversations about the need for international accounting standards continue.

Corporate Governance and Accountability

While certainly not a new topic, corporate governance continues to be a priority for state finance officials. Corporate scandals that have plagued our nation have resulted in a number of reforms that attempt to restore investor confidence and re-establish the integrity of our nation’s corporations and financial reporting practices. Better shareholder access through reforms being implemented as a result of the Sarbanes-Oxley Act is key among the issues being considered by financial officials as stewards of public monies.

A strong corporate governance structure can be linked to a healthy and stable economy. As investors in U.S. and foreign corporations, states are shareholders with a keen interest in making sure directors are doing their jobs to oversee the financial well-being of the companies in which they serve. Accountability has always been of utmost importance to fi-
nancial officials in managing taxpayer dollars, and carrying out fiduciary duties through better shareholder participation only improves this notion. More democratic forms of corporate governance are necessary to assure that there is a proper structure in place for appropriate management of corporate affairs. State finance officials will continue to promote successful reforms so that the companies in which they invest seek greater transparency and better accountability.

Institutional investors often face public criticism for investing in companies that are operating in countries designated by the state department as sponsoring terrorism. This issue, however, is not a simple one. Public pension funds have the ability to identify financial risks associated with companies having operations that may expose states to countries listed by the federal government as sponsors of terrorism. Public pension funds do not, however, have the ability to determine which companies compromise national security through the business they conduct, and public pension funds are not in a position to determine foreign policy.

The issue is further clouded by the fact that institutional investors may or may not have information about which companies have businesses or subsidiaries operating in terrorism-sponsoring states. When registering on U.S. exchanges, a company is required to provide only information that the U.S. Securities and Exchange Commission considers to be “material.” State finance officials are diligent about seeking information about the firms in which they invest and as part of their fiduciary duty will factor in any financial risk associated with business in these countries. However, the responsibility for national security lies with the federal government.

**Technology and Innovation**

The delivery of benefits in the states is an important task performed by finance officials, and thus the quest for efficient, cost-effective delivery systems remains an area of special interest. The electronic benefit transfer card has been a very effective means of delivering food stamp benefits; however, the number of programs that can be run on the card is limited. Although stored value cards have been around for some time, more and more states are now considering the use of stored value cards to deliver other types of benefit payments.

There are numerous advantages to using stored value cards as a method of payment. Originally offered as an alternative for paper checks and direct deposit, the use of stored value cards in the states has expanded to include payments for payroll, child support and unemployment. Some benefits of using stored value cards include card acceptance wherever the credit card is accepted, cash withdrawal at ATMs worldwide, zero consumer fraud liability under credit card rules, and 24-hour customer service support. Payment flexibility is an important benefit for the recipient, and increased efficiency and administrative cost reduction add value for states.

The authentication of electronic credentials remains a technological challenge for both the public and private sector. Through the Electronic Authentication Partnership, a public-private partnership working to develop interoperability among public and private electronic authentication systems, state finance officials are working to find a solution to the problem. The partnership has recently developed its first board, which will set into motion initiatives to provide the public and private sectors with a straightforward means of relying on digital credentials issued by several different e-authentication systems.

State finance officials will also be keeping a close watch on the development of an initiative designed to facilitate common reporting—the emergence of eXtensible Business Reporting Language (XBRL). XBRL provides a common XML-based platform for critical business reporting processes and has the potential to improve the reliability and ease of communicating financial data among users.

In the wake of slightly improving budget situations for some states, enterprise resource planning (ERP) has once again become a viable topic of discussion. A survey of the states conducted in 2004 indicates that of 26 responding states, over two-thirds have completed implementation of new ERP systems, have started ERP implementation, or are in the planning stages for ERP. The business process re-engineering that typically precedes an ERP implementation is an important step toward greater efficiency. States report that other advantages ERP can bring include easier online processing, better system interfacing, easier data retrieval, improved reporting, faster posting of expenditures to federally funded programs and faster drawdown of federal funds.

**Benchmarking, Best Practices and Partnering for Success**

As state governments continue work to streamline operations and reach new levels of efficiency and innovation, benchmarking, the study of best practices and partnering to accomplish goals are logical starting points.

In order to improve, state governments must first
have some measure by which to examine performance. With that aim in mind, the National Association of State Comptrollers asked its Benchmarking Committee to investigate the feasibility of a national benchmarking project to collect performance metrics for the accounting and payroll functions in state government. The objective of the project was to build a database of state performance metrics and practices that participants can use to assess their own performance. In 2004, a pilot project by six states was undertaken to gather performance metrics on four comptroller functions. The results of the project were presented at the 2004 NASACT annual conference, and the group will be looking for ways to expand the project in 2005 to involve more states and cover other areas of financial management.

Cost recovery projects continue to be a vehicle for states looking to recover more fully their costs of administering federal programs. States are finding that recovery auditing offers a win-win scenario. Agencies do not need a budget to get started, and contingency fees are based upon a percentage of actual recovered dollars. Additionally, accounts payable firms contracted to perform recovery services use software developed specifically for the purpose of identifying overpayments—software that also provides benchmarking capabilities. Based upon recent audit recovery successes, more states will likely look to this method as a low-cost, high-yield investment of time and resources.

The receipt of credit card payments by both state and local governments is a topic that has also been scrutinized lately by state finance leaders. NASACT is currently gathering data about the receipt of payments via credit cards by states with a view toward creating a “government” rate for interchange fees that reflects the high volume and low risk that state and local governments present to the market. Once the survey data for this initiative is analyzed, those working on this project intend to negotiate with the major credit card vendors for lower interchange fees for government.

Challenges

One of the biggest challenges state governments are likely to face in coming years is the shortage of qualified, trained professionals to fill vacant positions in government financial management. With more and more government finance professionals retiring or migrating to the private sector and fewer students pursuing finance-oriented degrees and careers, labor shortages are on the horizon for many states.

NASACT recently expressed its support of a project called the Cooperative for Contemporary Curricula in Financial Management, or C3FM. This initiative will address the shortage of qualified individuals going into government finance by exploring the feasibility of a financial management education partnership in the Western region. We look forward to seeing results from the project, which is being spearheaded by the Hatfield School of Government at Portland State University, and to examining ways that the program might be expanded to the national level to address the same problem in other regions of the country.

As it does on a regular basis, GASB has promulgated some especially challenging new standards; of particular note are those standards on accounting and reporting of other postemployment benefits (OPEB), of which health care is the largest. The new standards will require for each OPEB plan a statement of plan net assets, a schedule of funding progress and a schedule of employer contributions. Because many OPEB plans in the past have been funded on a pay-as-you-go basis and have not established trust funds to collect assets to meet long-term liabilities, states expect to be reporting large OPEB liabilities when the standard becomes effective in fiscal year 2007.

State finance officials remain keenly aware of ever-evolving security, privacy and information technology concerns. With the emergence of new technologies including wireless applications, state finance professionals find it increasingly important to become educated on advances that affect the security of equipment, data and entire systems.

Not investing in technology is not an option for states. E-commerce and e-government have become the norm, not the cutting-edge exception, and governments have made great progress toward utilizing technology to offer expanded and improved services to citizens. This is an exciting time for state finance officials who are now more familiar with the benefits—and the costs—involves with implementing new technologies.

Conclusions and Perspectives

State government financial management wears a different face today than in the past. State leaders are operating in an environment that grows increasingly complex with each new technological advance or political shift. And as citizens come to expect a certain level of service from government, state leaders will continue to be challenged to think strategically to address growing demands for efficient ser-
Now more than ever, state finance leaders must work together across the divides between states, functions and agencies to develop integrated and innovative solutions to old problems. State budgets, although improving, will likely continue to slow the pace of investment in new technologies to improve state operations. Our task will be to think creatively to address the inevitable new challenges.

About the Author

W. Daniel Ebersole is director of the Georgia Office of Treasury and Fiscal Services and president of the National Association of State Auditors, Comptrollers and Treasurers. He is a past president of the National Association of State Treasurers and a current member of the Finance and Strategic Planning Committees of The Council of State Governments. Ebersole has been commissioner of the Georgia Merit System, senior executive assistant to Gov. Zell Miller, deputy director of the Office of Planning and Budget, and Senate research director.