AICPA

NASACT

Public Sector CPA Resources: **The Current Landscape and Recommendations for the Future**

About the Association

The Association of International Certified Professional Accountants® (the Association) is the most influential body of professional accountants, combining the strengths of the American Institute of CPAs® (AICPA®) and The Chartered Institute of Management Accountants® (CIMA®) to power trust, opportunity and prosperity for people, businesses and economies worldwide. It represents 597,000 members and students in public and management accounting and advocates for the public interest and business sustainability on current and emerging issues. With broad reach, rigor and resources, the Association advances the reputation, employability and quality of CPAs, CGMA® designation holders and accounting and finance professionals globally.

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Letter of introduction

On behalf of both of our organizations, we are pleased to present to you the report, *Public Sector CPA Resources: The Current Landscape and Recommendations for the Future*. It has been prepared by a joint working group of key stakeholders whose charge was to address the most important factors in hiring CPAs to work in state and local government entities and finding qualified CPA firms to audit those entities.

It is critical that government entities have strong accounting, auditing, and finance functions to ensure accountability to the citizens they serve and other stakeholders. Just as important, governments need to be able to engage qualified CPA firms when external audits are required. Having a strong pipeline of CPAs in the public sector is key in both circumstances.

The AICPA's National Pipeline Advisory Group (NPAG) is studying profession-wide issues affecting the pipeline, including the overall decline in college enrollment and the time and cost of education and preparing for the CPA Exam, and has released a **final report** analyzing root causes, potential solutions, and next steps. While those profession-wide issues clearly impact the public sector pipeline of CPAs, our work indicates there are other important factors specific to the public sector that also need attention. These factors are the subject of this report.

With the issuance of this report, we are hopeful that government entities, CPA firms, and other stakeholders will both better understand the public sector-specific issues impacting the pipeline and give serious consideration to the recommendations in this report to address these issues.

We would like to thank the members of our joint working group and our staff, listed on the next page, for their efforts in this project.

Finally, we would also like to thank the other associations and stakeholder groups described later in this report that either met with us or helped connect us with their memberships for data gathering and idea generation.

Sincerely,

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Executive summary

The accounting profession is grappling with a talent shortage. In its role as a national convener of stakeholders, the American Institute of CPAs (AICPA) has been working with various stakeholders to address the underlying challenges and build a pipeline of future CPAs.

The AICPA's **National Pipeline Advisory Group** (NPAG) has been studying the profession-wide talent shortage and in July 2024 issued the **Accounting Talent Strategy Report**, which explores the latest pipeline data, root causes of the profession's attrition, potential solutions, and next steps. But there have also been reports that government entities experience even greater difficulties hiring and retaining CPAs and finding qualified CPA firms to audit them. The AICPA has partnered with the National Association of State Auditors, Comptrollers, and Treasurers (NASACT) to determine if there are issues specific to the public sector that also need to be addressed. This report is the culmination of our joint effort and focuses wholly on issues specific to the public sector. Readers are encouraged to review NPAG's final report to learn more about the profession-wide issues that also have a significant impact on the public sector.

To carry out our work, we formed a joint working group that included key stakeholders — state auditors, state comptrollers, state treasurers, and representatives from CPA firms of various sizes and geographic locations. The working group explored questions targeted at understanding both the challenges and the best practices around the hiring and retention of CPAs in the public sector. The working group also held discussion forums and created a survey based on takeaways from these forums. The results of this work are summarized in this report.

It is important to note that the issues contributing to the CPA talent shortage within the public sector have been developing over many years and cannot be attributed to one challenge or solved by one recommendation. It will take a collective, sustained effort by all stakeholders to reverse this current trend.

Key insights from this project and a summary of our recommendations follow. We recommend a full reading of the **findings** and **recommendations** sections of this report for additional context.

NPAG's report, *Accounting Talent Strategy Report*, identifies the following six key themes:

- Making the academic experience more engaging
- Addressing the time and cost of education, which centers on three concepts that build on each other and shift direction toward measuring competency versus just academic experience
- Growing support for CPA Exam candidates
- Expanding access for underrepresented groups
- Enhancing the employee experience
- Telling a more compelling story

NPAG's recommendations are also are organized by the above themes. Readers are encouraged to review the NPAG report.

Insight 1. *CPAs are not always valued within the public sector environment, which may be at the root of many of the other challenges reported by government entities and the CPA firms that audit them.*

Recommendations:

- Government entities of all sizes must recognize the need for more qualified, better-credentialed accounting, auditing, and finance staff, including CPAs, and fund these positions in an appropriate manner.
- Government entities, especially those below the state level, such as local governments, school districts, and other types of special-purpose governments (referred to collectively in this report as local governments, unless specified otherwise), should ensure they view the external audit function with a value-based focus versus a commodity-based focus.
- State governments should consider the findings in this report and develop a program for legislative bodies and government officials to educate them and advocate for needed change. The program should explain the CPA value proposition and the need for qualified, competitively paid accounting, auditing, and finance functions, as well as the need to build institutional knowledge within government entities. It should also explain the risks of failing to make this investment. States should also share this program for use by local governments. If preferable, local governments could develop their own programs.

Insight 2. *Resource and funding constraints abound, making it challenging to offer competitive salaries to CPA positions in government and competitive fees to CPA firms auditing governments.*

Recommendations:

- Legislative bodies and government officials should explore a variety of approaches to secure appropriate funding for hiring CPA positions and other accounting, auditing, and finance positions, as well as to engage CPA firms. These include increasing budget allocations and looking for dedicated revenue streams, grants, and federal or state reimbursements.
- Government entities should benchmark salaries they are paying CPA positions and other accounting, auditing, and finance positions against other similarly sized government entities and against similar private sector positions by leveraging data available from other state and national associations. Standardized pay ranges should be adjusted for these important positions, as appropriate. The results of these efforts should be communicated to legislators, government officials, and the public.

Insight 3. *The technical expertise needed to work for or audit government entities adds a layer of complexity that may serve as a deterrent for CPAs choosing a public sector career path.*

Recommendations:

- Government entities should offer technical training and upskilling opportunities to CPAs and other accounting, auditing, and finance staff. If such opportunities cannot be offered internally, resources should be dedicated to permitting such staff to attend external training and upskill offerings.
- Governmental accounting and auditing standard-setting organizations can assist by limiting differences in standards between the public and private sectors, as appropriate, to make it easier for CPAs to move between the sectors.
- Standard-setters should consider additional ways to obtain input from smaller governmental entities on the impact of proposed standards. For example, FASB has a formal infrastructure in place to gather feedback from small businesses and private companies that may be a model for other standard-setters to consider.
- Federal and state governments should periodically review audit threshold requirements and consider offering smaller governmental entities audit alternatives that would still provide accountability (e.g., reviews, agreed-upon procedures, or compliance examinations).

Insight 4. *There is room for improvement in policies and processes relevant to state-established audit requirements, to governmental hiring and recruiting, and to the hiring of qualified CPA firms to perform audits as well as in how students are introduced to governmental accounting and auditing from both a technical perspective and as a potential career.*

Recommendations:

Audit

- Best practices should be developed for state governments, covering how frequently audit requirements of local governments should be reviewed, parameters for determining audit thresholds, and circumstances where it may be appropriate to permit an alternative type of engagement (e.g., reviews, agreed-upon procedures, or compliance examinations).
- States should consider ways to provide accounting and auditing resources or financial assistance (or both) to their local governments to assist them in preparing for and undergoing a timely audit.

Hiring and retention

- Government entities should incorporate the feedback described in this report to improve hiring and retention processes. This includes the consideration of implementing internship programs, on-campus recruiting, mentoring, hiring CPA candidates and providing them with financial and other support to attain the CPA designation, offering signing bonuses and bonuses for passing the CPA Exam, increasing pay scales, and improving career paths.

- Government entities should streamline and simplify hiring processes that are overly complex and consider options for remote or hybrid working and flexible hours if they are not already offered.
- Government entities should focus on which areas are most important to CPAs working in government and ensure that those areas are emphasized internally and in the hiring process. For example, in addition to compensation and benefits, areas to emphasize should include work-life balance, stability and job security, remote-work options, defined career paths, and making a difference in the community.
- Government entities should consider the feedback in this report regarding how to best communicate the benefits of working in government. This can be accomplished through more education and outreach to college students, faculty, and existing CPAs to raise awareness and interest in government careers.

Engaging CPA firms

- When asked about the challenges associated with hiring a qualified CPA firm and related best practices, significant differences emerged between the responses from CPA firms and those from government entities. To bring about more of a mutual understanding, CPA firms and government entities should have an open dialogue about the matters discussed in this report relative to engaging CPA firms.
- To find external auditors, government entities should ensure that the evaluation of responses to requests for proposal (RFPs) considers both CPA firm qualifications and proposed fees, versus only proposed fees. They should also consider (1) obtaining firm recommendations from the state or local governments; (2) sending RFP opportunities directly to CPA firms rather than simply posting them on a website; and (3) revising policies (whether they are written or less formal) to allow CPA firms outside of a government entity's geographical area to bid and to eliminate geographic preferences.
- Officials in finance departments should work with their procurement departments to help them understand the provisions that often appear in RFP requirements or audit contracts that are troublesome for a CPA firm to agree to. Efforts should be undertaken by government entities to develop specialized contracts for audit services that do not include such problematic provisions, where possible.

Public sector pipeline

- Colleges and universities should work to increase the number of classes that address governmental topics and work to build relationships with government entities to increase their visibility on campus (e.g., more participation at career fairs, class presentations about government careers, etc.).

Insight 5. *CPA firms do not always emphasize the importance of governmental audits, acknowledge the potential of a government-only career path for staff, or invest fully in their government practices.*

Recommendations:

CPA firms need to be proactive in helping to build a future generation of leaders that are prepared and able to perform attest services within the public sector. This will ensure better alignment of audit needs and resources to enable important accountability mechanisms for the public sector going forward. Specifically, CPA firms should:

- Emphasize to staff the importance of governmental audits to the firm to address the common perception among staff members that these audits are less important than those performed in other industry areas.
- Emphasize to staff that working in the government practice is a good career path and is not just "filler" summer work.
- Acknowledge the resources required to fully support their government practices.
- Pursue a staffing model that allows staff to specialize in governmental audits year-round without also having to work numerous additional hours during the more traditional busy season.
- Highlight the importance and benefit of public service to attract more staff interested in a governmental-auditing career path.

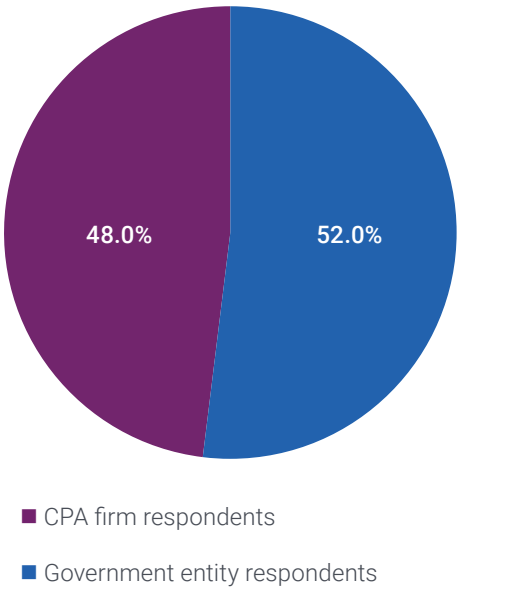
Data-gathering methodology

The working group held six virtual discussion forums for initial feedback on data gathering. The forums included local government participants who are members of the Government Finance Officers Association, state and local government participants who are members of the Association of Government Accountants, state and local government members of the AICPA's Government Performance and Accountability Committee, academic participants who are members of the American Accounting Association, students who are involved with Beta Alpha Psi, and CPA firm participants whose firms are members of the AICPA Governmental Audit Quality Center. The working group used the feedback to develop a survey to gather a wider spectrum of views. Thanks in large part to the stakeholder associations and other groups identified previously — as well as state CPA societies — the survey was distributed widely.

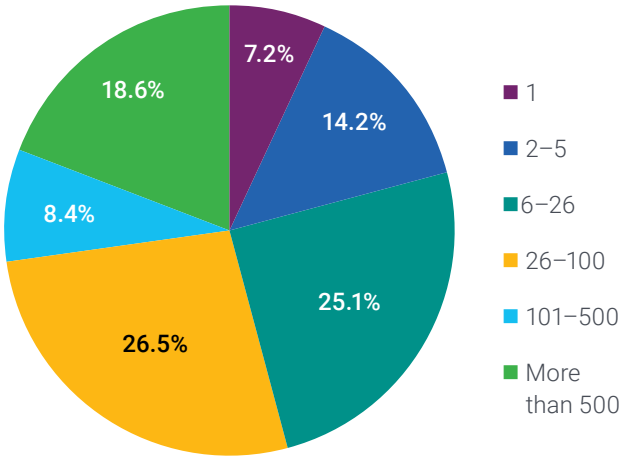
Respondent demographics

More than 900 individuals responded to our survey. About half of those identified as being employed in accounting, auditing, or finance at a state, local, or tribal government entity (herein referred to as government entity respondents) and the other half identified themselves as an auditor of state, local, or tribal government entities working in public accounting (herein referred to as CPA firm respondents).

Survey respondents



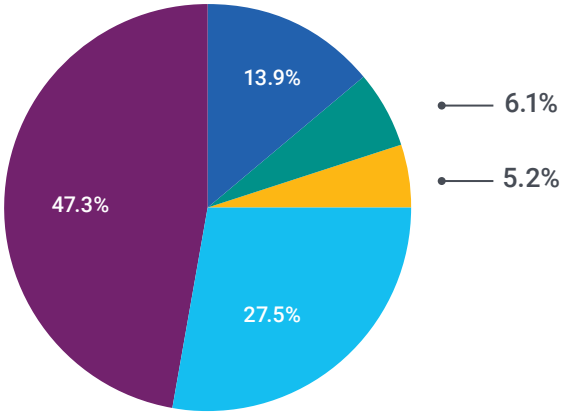
Firm size (by number of CPAs) — CPA firm respondents



CPA firm respondents were from firms of various size (based on the number of CPAs in the firm).

Also, they had significant experience. **Over 60% of respondents' firms audit at least 25 government entities in the average year, and more than 70% of CPA firm respondents were partners.**

Employer breakdown — Government entity respondents



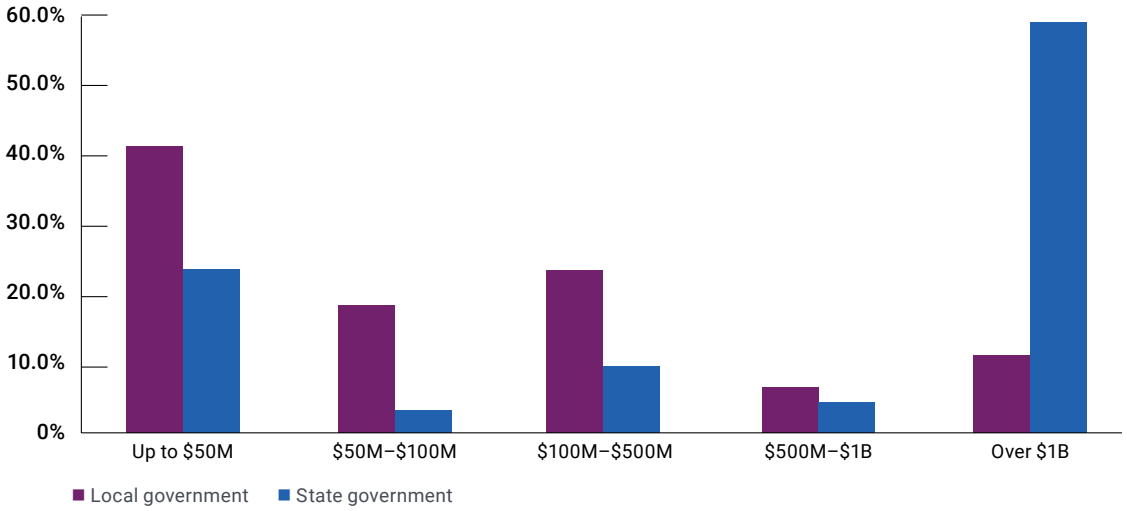
Among the total government entity respondents, about 200 were employees in local governments and over 100 were employees in state government.

Additionally, **over 70% of the government entity respondents had at least 10 years of experience.**

Budget size — Government entity respondents

Government entity respondents came from governments of various size based on budgeted total expenditures. About 40% of the local government responses came from entities with total budgeted expenditures of less than $50 million. Nearly 60% of the state government responses came from states or state agencies with budgeted total expenditures of more than $1 billion.

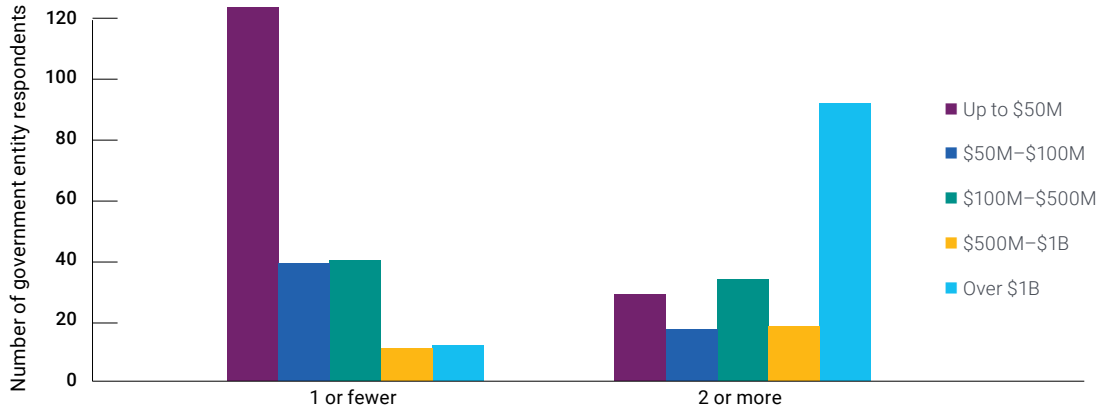
Government-wide budget for total expenditures in the most recent year



Bigger budget equals more CPAs

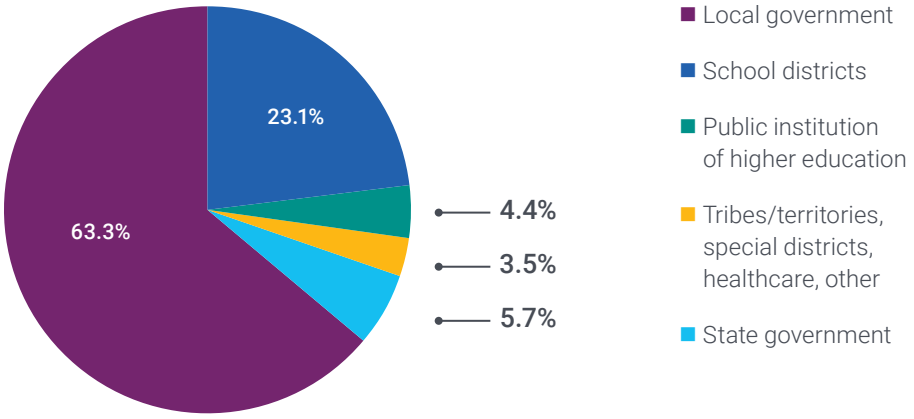
When examining how many CPAs were employed by our government entity respondents, we found a strong correlation between the size of a government entity's budget and the number of CPAs on staff. **Government entities with budgets of less than $50 million were more than twice as likely to have one or fewer CPAs.**

Number of CPAs on staff by total budgeted expenditures



A deeper dive into the data provided these additional insights:

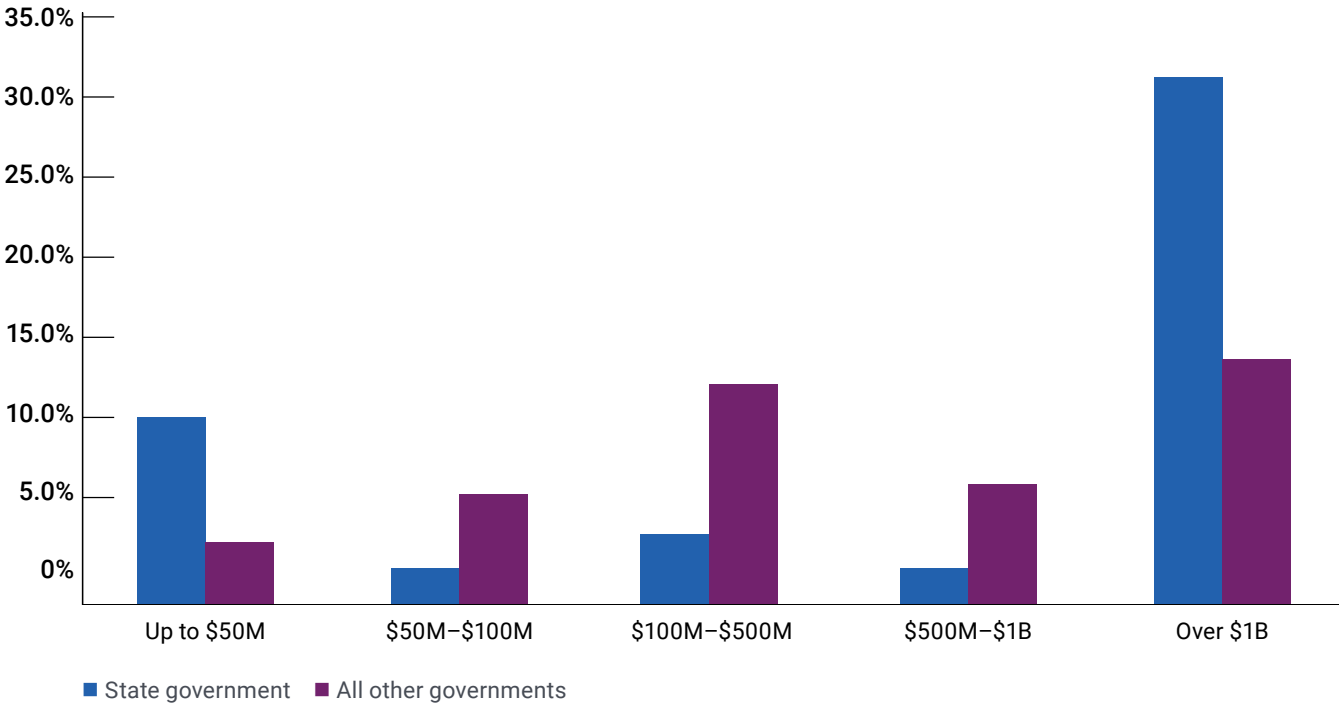
Government entities with one or fewer CPAs



63% of the government entity respondents that indicated they had one or fewer CPAs on staff were from local governments.

Further, relative to the bar graph below, 53% of the entities of the entities with two or more CPAs were state government entity respondents and 48% of the respondents with two or more CPAs had budgets exceeding a billion dollars.

Government entities with two or more CPAs

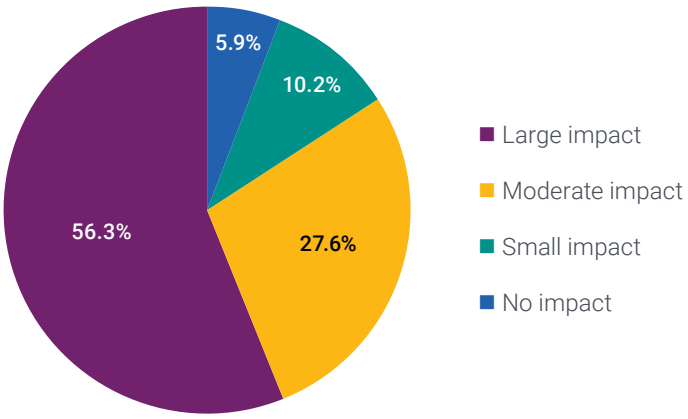


Findings

As noted earlier, the working group collected data through a survey designed to gather a wide spectrum of views on the challenges and best practices around the hiring and retention of CPAs in the public sector and engaging qualified CPA firms to perform governmental audits. The survey questions follow, along with respondents' answers and relevant feedback from discussion forums. To add additional context, we also include other key observations derived from our work as well as some quotes from various respondents.

What factors affect the hiring of CPAs by government entities?

Impact of the failure to offer a competitive compensation package on hiring/retaining CPAs



The failure of government entities to offer a **competitive compensation package** was identified by government entity respondents more than twice as often as any other factor impacting their ability to hire/retain CPAs.

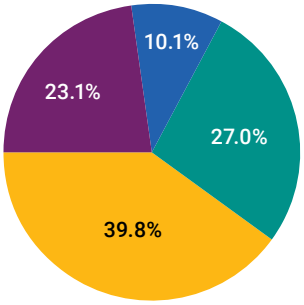
"Small to medium local governments cannot afford an actual CPA or an experienced governmental accountant … any experienced accountant can make double [the salary] doing anything else."

—Respondent from a local government entity with an under-$50M budget

"[There is a] lack of political will to compensate the finance department at salaries that may be higher than certain other departments."

— Respondent from a government entity (public institution of higher learning)

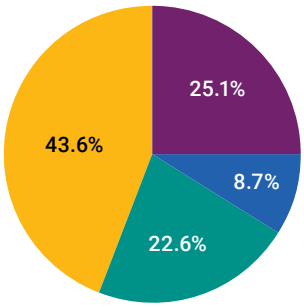
Impact of the technical government expertise required on hiring/retaining CPAs



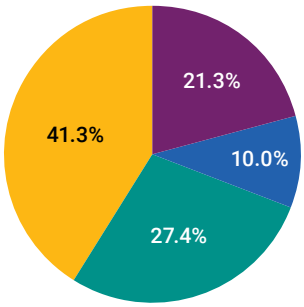
Finding CPAs who have the knowledge and experience of applying Governmental Accounting Standards Board (GASB) accounting principles and *Government Auditing Standards* (commonly referred to as the Yellow Book) is increasingly difficult. Keeping pace with changes in governmental accounting and auditing standards adds to hiring and retention issues.

As can be seen from below, after compensation and the level of technical expertise required, government entity respondents identified, in order of influence, the following factors affecting the hiring and retention of CPAs:

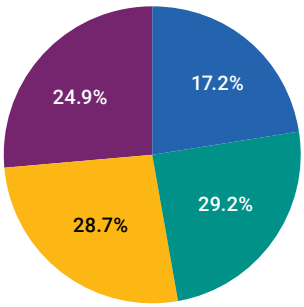
Lack of managerial positions/ room for advancement



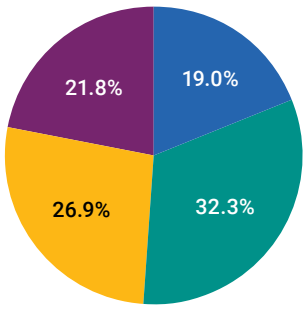
Benefits of working in the public sector aren't widely known



Outdated or complicated hiring policies (or both)



Lack of workplace flexibility (remote working, flexible hours)



Other common themes identified by the discussion forum participants and survey respondents as affecting hiring and/or retaining CPAs are as follows:

Lack of candidates: There is a lack of CPAs applying for jobs in the public sector, a lack of CPAs in general, and a thin local labor market.

Lack of focus on government careers in college: Many colleges and universities do not offer courses in governmental accounting and auditing, nor are the opportunities and benefits of working in government highlighted.

Lack of understanding of the CPA value proposition: Upper management and legislative bodies do not always understand the value that a CPA brings to the table, which is a common theme that arose in response to various survey questions. This is further evidenced in the local government environment where having a CPA designation is seldom a job requirement.

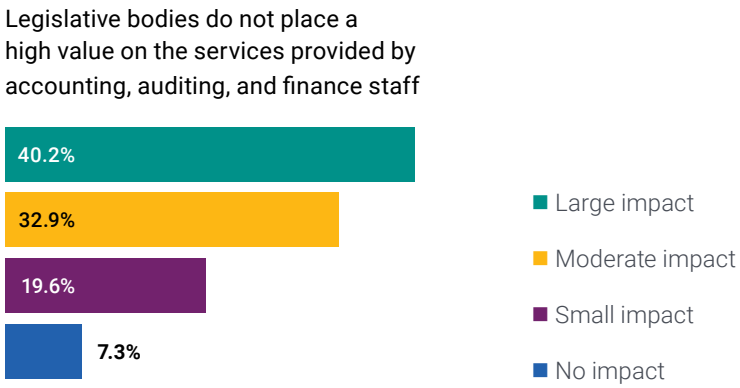
Lack of advanced technology, training, and education: Some government entities have outdated financial management systems; this negatively impacts internal controls, efficiencies, and morale. Government entities may also be challenged to provide frequent, relevant training and continuing professional education (CPE). CPA candidates working for government entities may also struggle to gain the needed experience to obtain their license when they are unable to work under a licensed CPA.

Lack of stable political and cultural environment: Government entities operate in a political environment that may be volatile, regulated, and steeped in red tape. Additionally, some cited outdated and inefficient hiring practices as a barrier. The location of the government can also present challenges as some local governments are rural or very remote, adding to the difficulty of attracting talent.

Securing funding for effectively executing responsibilities

We also asked government entity respondents to rate factors impacting their ability to secure funding necessary to effectively execute their responsibilities and the most common responses are shown in the following graphs. Topping the list, respondents noted, was that legislative bodies and elected officials aren't always buying into the CPA value proposition. They also said that upper-level management and legislators often lack awareness and appreciation for the efforts required to comply with governmental technical accounting and auditing rules that are increasing the workload of government staff.

Value perception: Legislative bodies, elected officials, and governmental human resource departments do not always place a high value on the services provided by accounting, auditing, and finance staff, leading to a lack of competitive compensation.

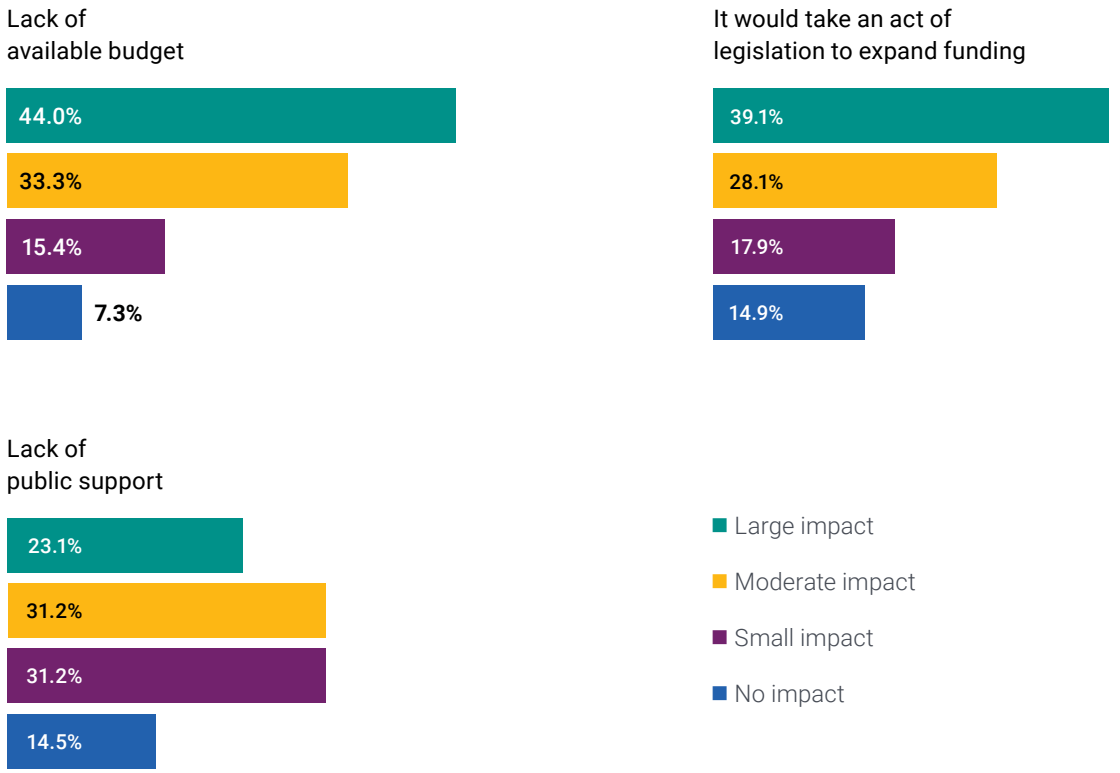


"It took a federal criminal investigation to get our funding where it needed to be."

—Respondent from a government entity

"Overall, the value provided by the accounting, auditing, and finance departments is understated. It is hard to get additional funding, or to expand benefit packages ... when the work being done by finance and accounting is undervalued throughout every tier of the organization, from City Council to the City Manager."

— Respondent from a local government entity with an under-$50M budget



Lack of public support was cited as least impactful on the ability to secure funding.

The preceding results shed light on why additional funding is often not allocated or, at least, not allocated to the degree required to be effective. The following are comments we received about funding and support from those in a position to grant it.

"Communities and government leaders need to understand the consequences of having an understaffed and inexperienced team managing their financial activities and prioritize funding accordingly. Those consequences can lead to losing funds or having to repay funding restricted for certain purposes."

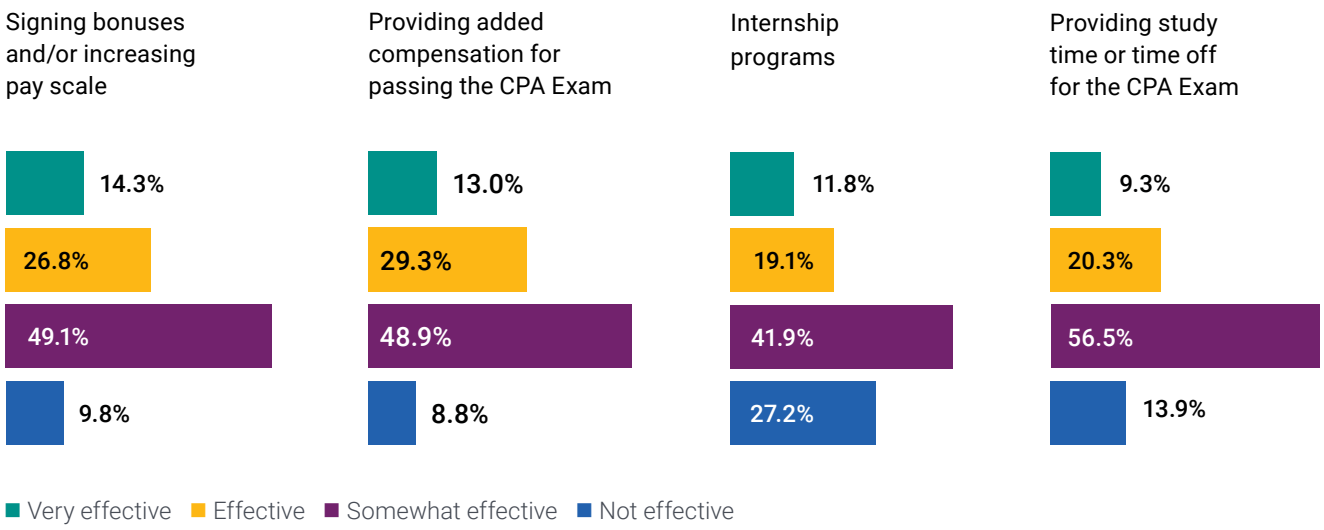
—Respondent from a local government entity

"By respecting the CPA certification and other similar professional certifications and allowing flexibility in salaries rather than jumping to the contractor option. Hiring outside contractors to fulfill the needs of the entity inevitably leaves the entity with no institutional knowledge in-house and an increased dependency on high-cost options."

— Respondent from a state government entity with an over-$1B budget

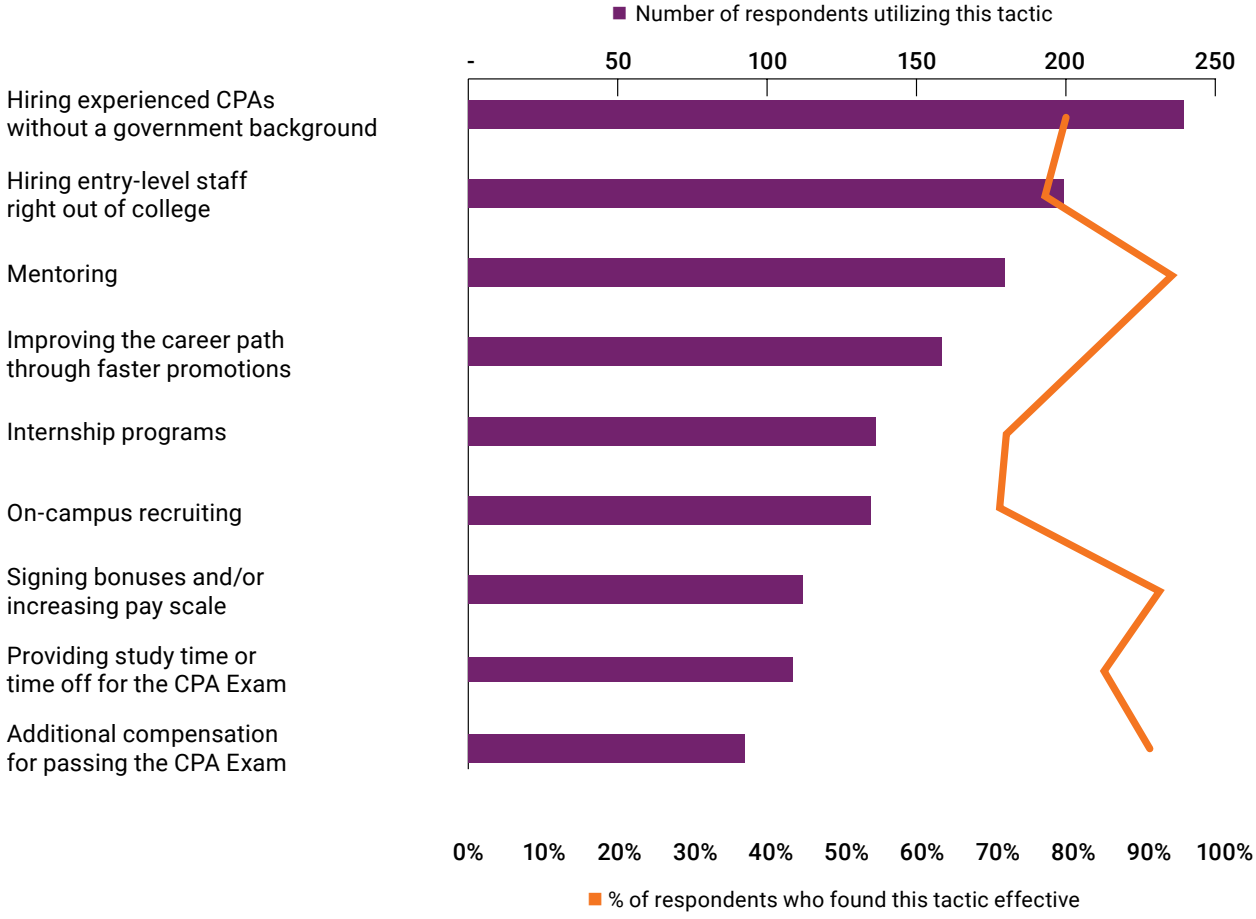
What tactics have government entities used to successfully hire and retain CPAs?

We asked our government entity respondents about the effectiveness of certain tactics to hire and retain CPAs and whether they were used by the respondents' government entities. Some reported success in recruiting and retaining CPAs using various methods. Four tactics found to be effective are noted in the charts below.



Interestingly, some government entity respondents indicated they did not use any of the recruitment and retention tactics identified in the survey. It is unclear whether that is because they did not seek to hire CPAs, or they used other tactics that we did not ask about. The following graph shows the correlation between tactics cited by respondents as either somewhat effective, effective, or very effective as compared to the number of government entity respondents indicating they used that tactic.

Correlation between the effectiveness of a given tactic and how often it is used by government entities



One point of interest is that although government entities may seldom offer monetary incentives, when they do offer them, such incentives are effective in hiring and retaining staff. The two most effective tactics identified were an increased pay scale or signing bonus and additional compensation provided for passing the CPA Exam. Mentoring was another successful tactic identified by the survey. When utilized by a government entity, respondents found it to be at least somewhat effective 91% of the time.

While on-campus recruiting is a common tactic, government entity respondents only found it to be effective or very effective 18% of the time, which was the tactic with the lowest rating. Our discussion forum participants highlighted that to be effective, on-campus recruiting for government entities requires building relationships over time. One individual commented that they've had success attracting talent by becoming more consistently visible on campus.

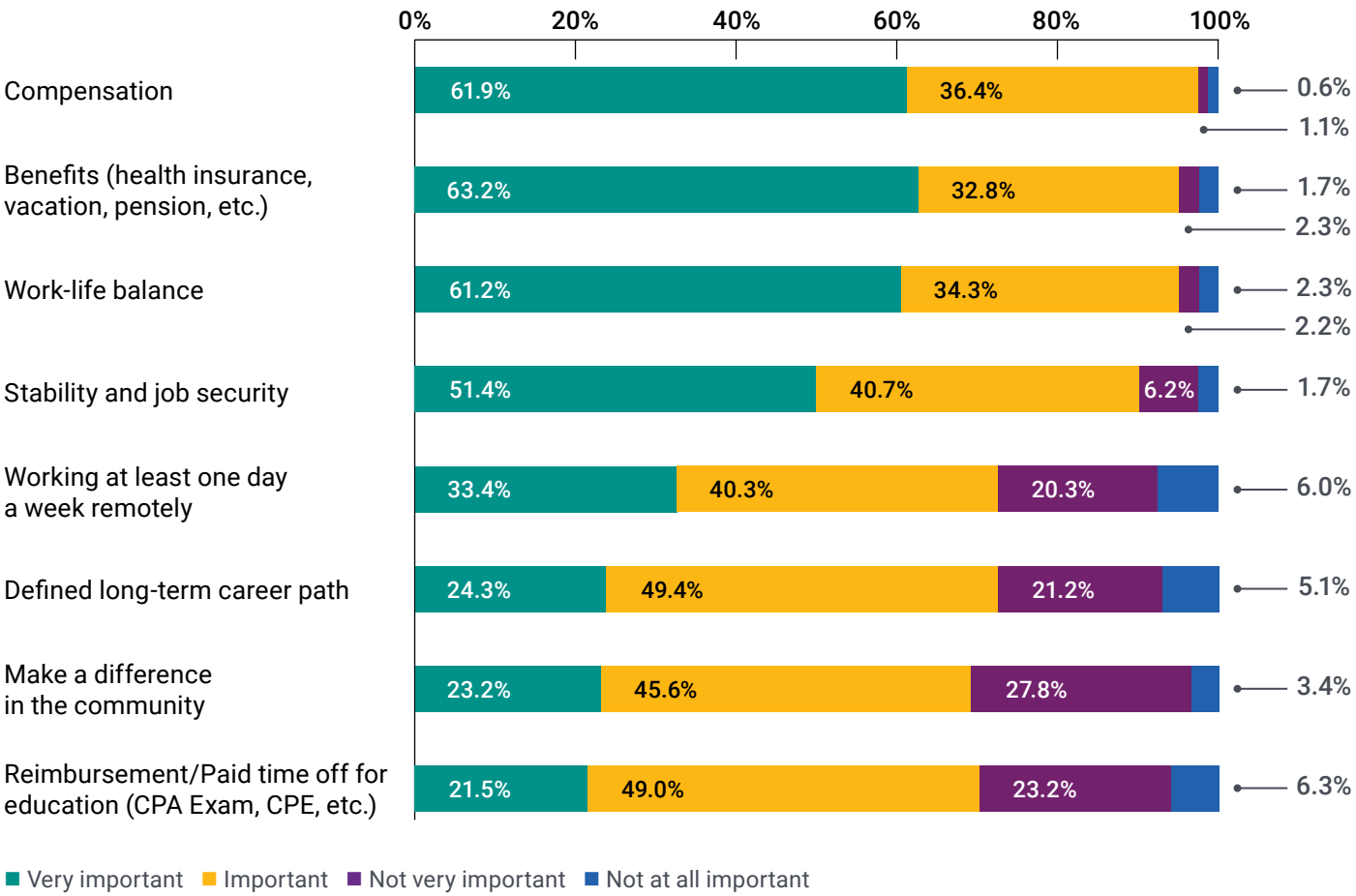
"[We were successful] when we have had connections with the instructors, […] we can present to their classes, go on campus to meet students, […] answer questions, [and] provide additional information on open positions."

— Respondent from a state government entity with an over-$1B budget

What are the most important factors to CPAs currently working for government entities?

For governments seeking to hire CPAs to work in their accounting or finance departments, it is important to understand what matters most to CPAs when looking for a position. Compensation, benefits, and work-life balance are cited by our government respondents as key components to job satisfaction. The graph that follows shows the top eight factors identified when combining "very important" and "important" responses.

Factors important to CPAs working for government entities



How can the advantages of working for a government entity best be communicated?

When examining barriers to employing CPAs in the public sector, many government entity respondents and discussion forum participants noted that the benefits of working for a government entity aren't widely known and need to be better communicated to CPA candidates and the public. Specific suggestions for the types of advantages that governments need to better communicate included the following:

- The opportunities for work-life balance and job stability.
- The ability to gain valuable experience and a well-rounded career path with a variety of opportunities for growth.
- Access to flexible working arrangements, pension plans, and the federally offered **Public Service Loan Forgiveness Program**.
- The personal satisfaction of providing public service that comes from working for a government entity.
- The opportunities to lead as a public servant at various levels within government, inform elected representatives, and provide important services to citizens.

As to the question of how to best communicate the above benefits, most believe that there is a need for governments to offer more education and outreach to college students, faculty, and existing CPAs to raise awareness and interest in government careers.

Specific methods that we learned have been successfully used by some governments to showcase the value and impact of working in the public sector include:

- Using peer interviews (that is, have current staff talk to candidates, peer-to-peer, about the work and career path) to help candidates better understand the job.
- Modernizing communication tactics to better connect with job seekers. That includes engaging more via social media; participating in career fairs; offering podcasts, webinars, and testimonials; overhauling marketing materials; and leveraging technology to improve recruiting and outreach.
- Creating an advertising campaign to promote government CPA careers.
- Developing working relationships with college professors to make sure government careers are included when professors discuss options with students.
- Taking the opportunity to "substitute teach" governmental accounting and auditing topics in academic accounting programs and share insights on what it is like to pursue a career in government.
- Developing internship programs.

What specific actions have states taken to reduce the audit burden on other governments for which they have oversight responsibility (e.g., local governments)? Are there best practices in this area?

Many state governments establish audit requirements for local governments in their state. For example, there may be a dollar or population threshold for when a local government audit is required. Alternatively, the state may require performance of a particular type of engagement or specify a time period between audits. A consistent theme we heard during our discussion forums and through survey responses was there may be an opportunity for states to reexamine their audit requirements for local governments to lessen some of the pressure due to the CPA shortage while still maintaining an appropriate level of accountability.

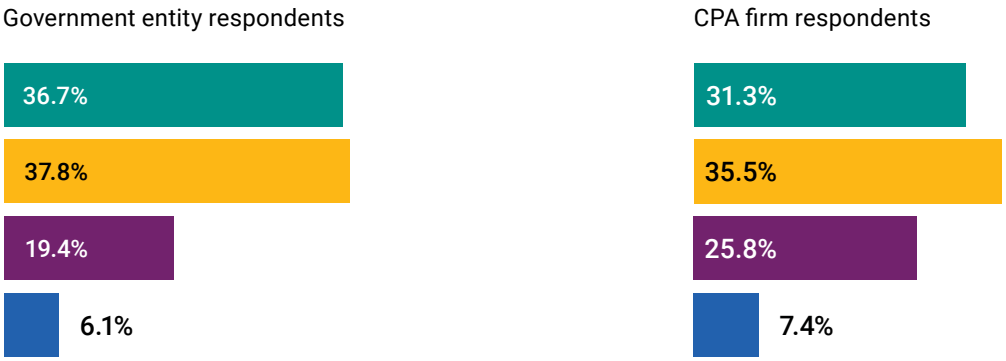
Almost 80% of the government entity respondents indicated that their state governments had not taken steps to reduce the audit burden on other governments for which they have oversight responsibility. Separately, 60% of the CPA firm respondents indicated that the state-established audit requirements for their governmental audit clients were excessive or somewhat burdensome.

"Municipalities are required to perform an annual independent audit only if recurring revenues are in excess of [a dollar threshold] beginning in 2024. Municipalities below the threshold can perform a compilation. The intent is to ease cost and burden and increase compliance."

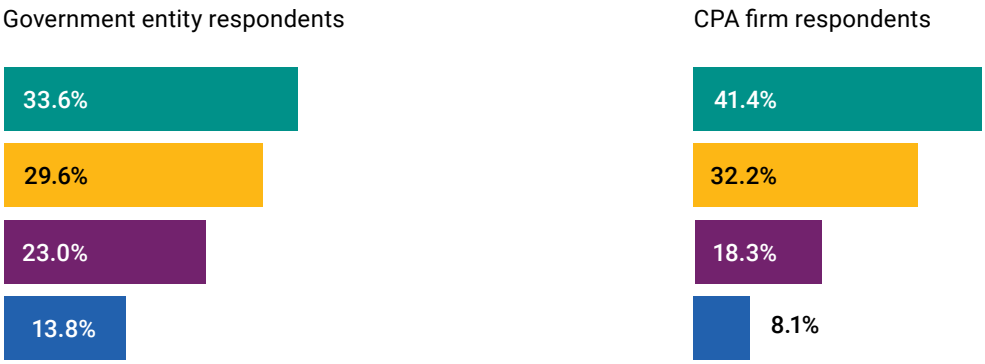
— Respondent from a state government entity with an over-$1B budget

We asked both our government entity and CPA firm respondents what potential actions taken by states would be most effective in decreasing the audit burden on local governments for which they have oversight responsibilities. The top three potential actions follow.

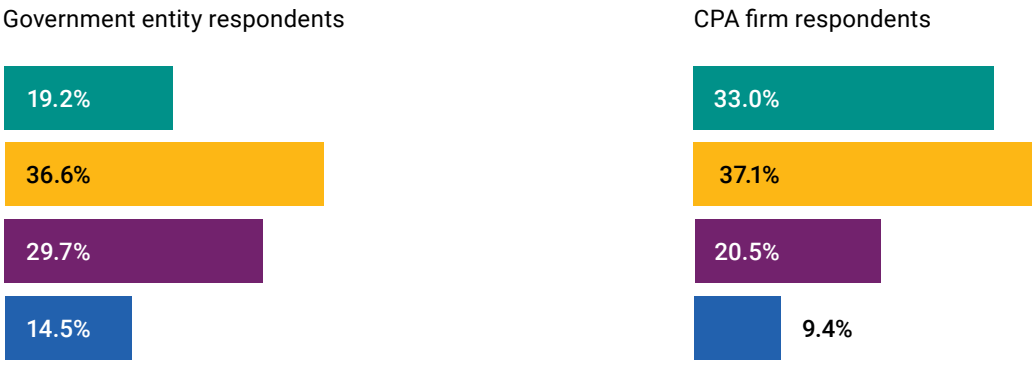
Potential action:
Provide accounting/auditing resources to local governments for technical assistance

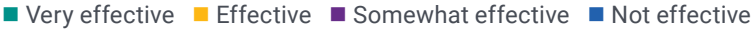


Provide financial assistance to local governments to pay for required audits

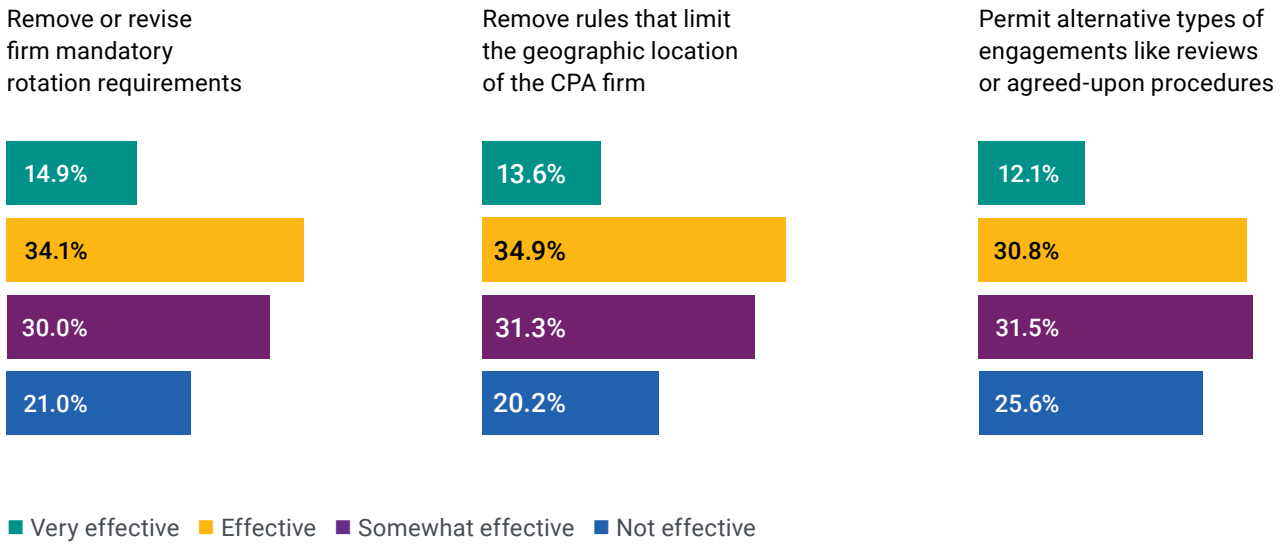


Increase thresholds that trigger local government audit requirements

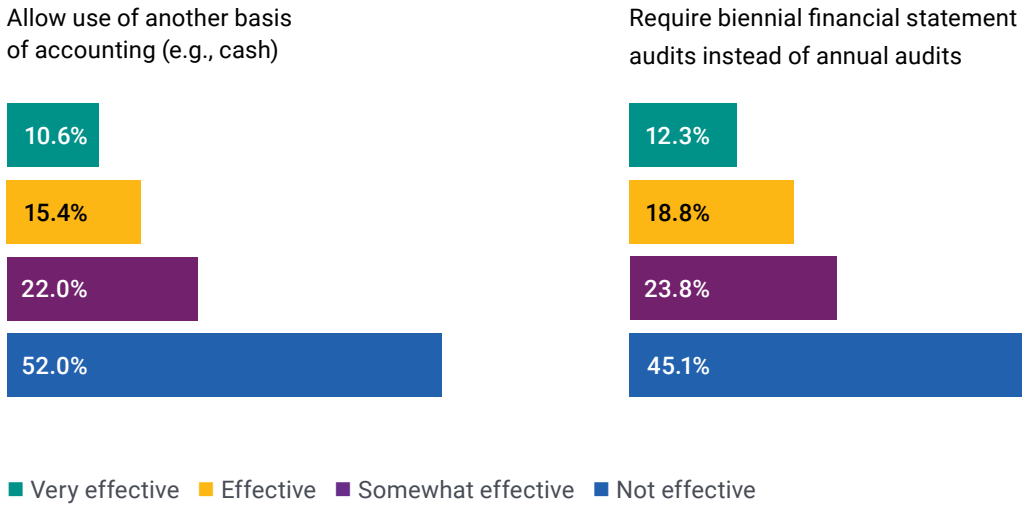




Government entity respondents also noted three other potential actions, which follow, that would be at least somewhat effective in decreasing audit burden.



Finally, government entity respondents noted two potential actions, which follow, that would be less effective approaches for states to take as compared to other actions when reexamining local government audit requirements.

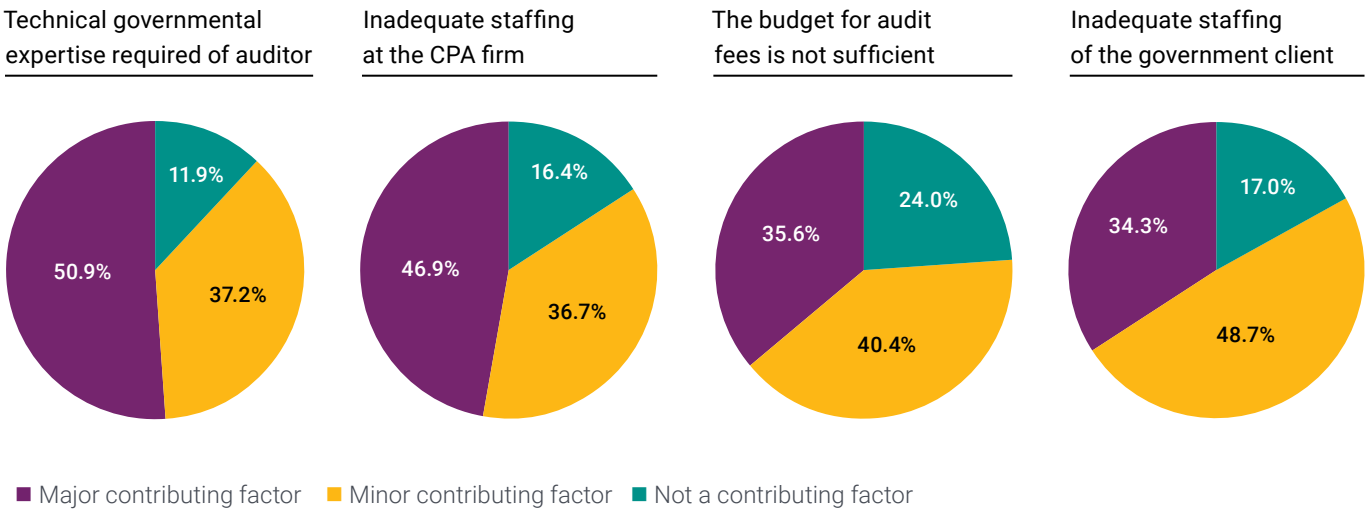


During discussion forums, participants from both government and CPA firms shed light on why these two approaches may be viewed as less effective. Regarding the use of another basis of accounting, the primary reason participants found it less effective was that it could result in a lack of consistency across governments. Regarding the period of time between required audits, concerns were expressed that significantly lengthening the period of time between required audits would result in audit inefficiencies and an increased risk due to the lack of oversight.

What factors affect engaging a qualified CPA firm to perform a governmental audit?

Prior to starting this project, we were aware that government entities at all levels were reporting difficulties in engaging CPA firms to perform required audits, including single audits of federal financial assistance. There were several related media reports, and we heard similar feedback from states attempting to assist local governments, state CPA societies, other associations, and directly from some governments. We sought to learn the reasons for these difficulties.

When we asked the above question of government entity respondents, more than 50% cited that finding a CPA firm with the required technical expertise to comply with governmental accounting and auditing standards was a major contributing factor. They also commented that the increasing complexity and frequency of changes in accounting and auditing standards, especially recent GASB pronouncements, has made finding a firm with the appropriate expertise even more difficult. Government entity respondents cited several other factors that add to the challenges of finding an auditor. Two factors related to inadequate staffing — both at the CPA firm level and within the government entities themselves. Lacking the budget for audit fees was another significant factor cited.



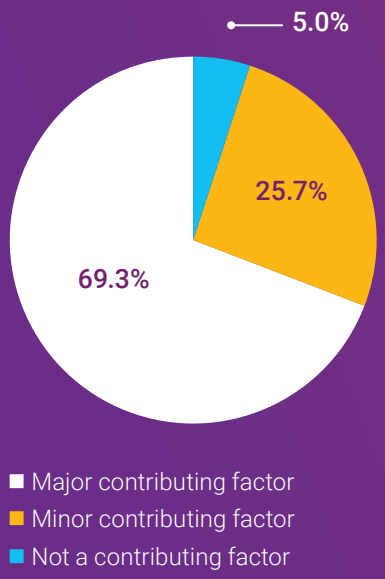
"I got a list of 200 CPAs from the state and three called me back. Only one firm ... said they would do it."

— Respondent from a rural local government entity with an under-$50M budget

What about the views of CPA firm respondents on this question? Did their feedback align with that of government entity respondents? Yes and no.

The most significant factor that CPA firm respondents cited in engaging qualified firms is that governmental audits are often not profitable and cost more to perform.

Low realization (profit margin)/Low fees



"Realization is the no. 1 driver for dropping out. The audits require TOP employees at the firm, for pennies on the dollar. It just isn't practical."

— Respondent from a CPA firm

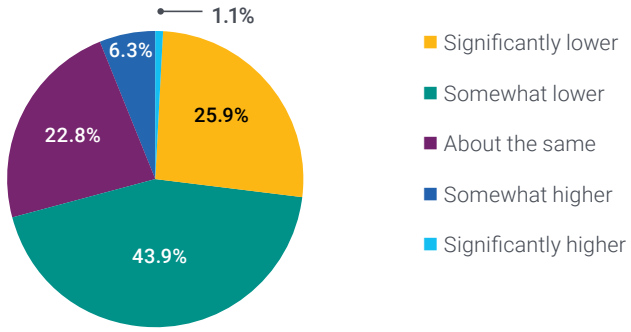
"Elected officials do not understand the work that goes into an audit, especially a single audit, and feel that fees, regardless of what they are, are too high."

— Respondent from a CPA firm

"Governmental clients treat the audit as more of a commodity than a value-added service."

— Respondent from a CPA firm

Fees earned by CPA firms for governmental audits compared to those for nongovernmental audits with similar time budgets

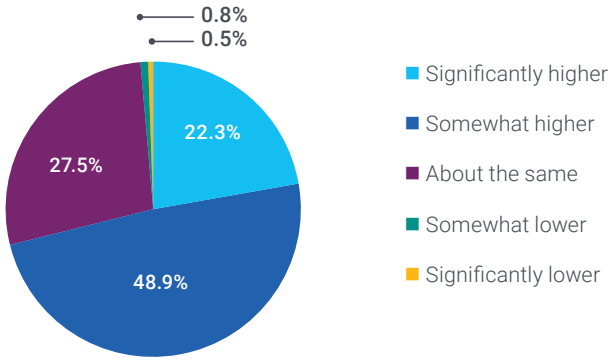


We also asked CPA firm respondents how the fees for their governmental audits compare to nongovernmental audits with similar time budgets and learned the following:

Seventy percent of the CPA firm respondents noted the following two **reasons why the fees on their governmental audits are lower:**

- Potential governmental clients focus on the lowest bid when engaging a firm.
- Some firms submit low-fee bids, compelling other firms to pass on the work.

Preparatory/performance costs borne by CPA firms for governmental audits compared to those for nongovernmental audits with a similar time budget



CPA firm respondents also shared their insights on **the costs associated with performing governmental audits.**

We asked those respondents, considering training, methodology, and other expenses unrelated to salaries and benefits, how the costs to prepare for and perform a governmental audit compare to a nongovernmental audit with a similar time budget.

We asked CPA firm respondents which factors contributed to the higher costs. The top three factors follow:

Lack of preparedness by client

Technical governmental expertise required of auditor

Lack of qualified staff at the client

- Large impact
- Moderate impact
- Small impact
- No impact

The observations that follow, from our discussion forum participants and survey respondents, further detail the issues driving up costs.

"The deliverables on a governmental audit are incomparably larger than on a for-profit entity. It's not uncommon for an ACFR [Annual Comprehensive Financial Report] to be 200-some pages long. Just getting the report ready (updating pages, schedules, formatting, etc.) takes more time than on a NFP [not-for-profit] or for-profit audit. It takes more time for [administration and quality control] to get through such a long report."

— Respondent from a CPA firm

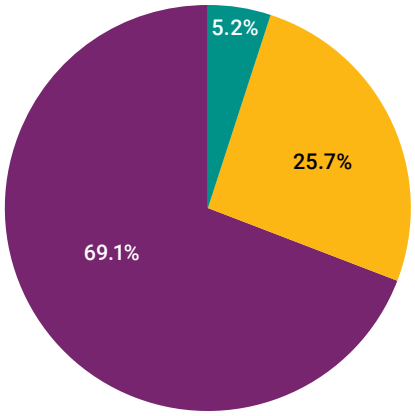
"[Cost factors include] compliance and internal control testing as part of a single audit, new and increasing federal funding, major programs, audit expectations/requirements by federal awarding agencies, and quality control reviews by inspectors general and other regulatory agencies."

— Respondent from a CPA firm

"A main factor has been the numerous years of implementing new GASB standards that are having a major impact on the governments … and the client doesn't gain knowledge and understanding of the new standards."

— Respondent from a CPA firm

Technical governmental expertise required of auditor

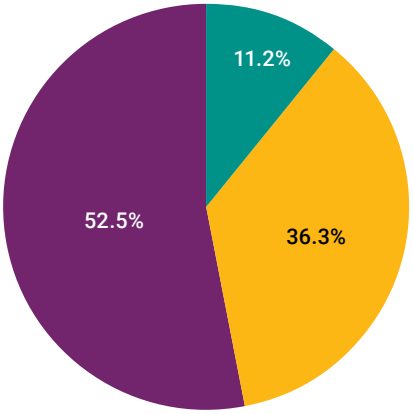


CPA firm respondents agreed with government entity respondents that **firms are deterred by technical requirements,** including frequently changing regulations, GASB accounting standards, and additional auditing requirements. They also confirmed that the performance of governmental audits exposes firms to potential additional oversight by federal and state agencies as well as in peer review.

- Major factor in deterring CPA firms
- Minor factor in deterring CPA firms
- Not a factor in deterring CPA firms

> "In our experience, CPA firms view government work as highly risky and not worth the investment because of the perceived risk."
>
> — Respondent from a CPA firm

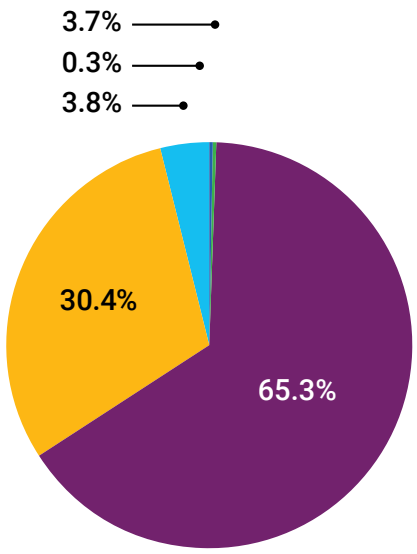
Lack of qualified client staff



CPA firm respondents also believe that, on average, **about 50% of their governmental audit clients lack the requisite competencies.** They suggest these entities need additional funds to either hire CPAs in-house or contract out the audit preparation work to a third party. Similar to what we heard from government entity respondents, CPA firm respondents observed that government positions often offer lower salaries compared to private sector opportunities, making it difficult to attract and retain qualified CPAs to prepare the financial statements. This can increase threats to auditor independence and result in more effort by the auditor, higher costs, and greater risk to the firm.

We also asked about the impacts of this barrier. CPA firm respondents indicated that the audit time budget is almost always either significantly higher or somewhat higher than audits where governments have qualified staff.

Effect on time budgets when governmental audit clients lack the requisite competencies as compared to other governmental audit clients



"For your governmental audit clients that lack the requisite competencies, how does the time budget for those audits compare to your other governmental audit clients?"

- Significantly higher
- Somewhat higher
- About the same
- Somewhat lower
- Significantly lower

A trifecta of challenges

Ultimately, CPA firms may face the increased costs that result from these three factors:

1. Ensuring their staff has the technical expertise for governmental audits
2. Auditing a potentially underprepared client
3. Earning below-market fees

The audit procurement process and stringent contracting requirements also keep firms from bidding on governmental audits, CPA firm respondents said.

"Government RFPs are becoming harder to respond to because they are asking for so much information that is private, not for public viewing, irrelevant in relation to the scope of work … We as a firm are not comfortable signing, and many times they won't even come to the negotiating table to discuss. They want to have a "one-size-fits-all" contract to use in every vendor relationship, but there is a significant difference between a contractor performing a significant construction build and an auditor performing audit services."

— Respondent from a CPA firm

CPA firm respondents also say they turn down engagements due to the impact on their staff.

The summary that follows reflects common themes we heard relative to CPA firm staff views on performing governmental audits.

Complexity and training: Staff find governmental accounting and reporting complex and often lack training in modified accrual accounting, which is a key concept in governmental financial reporting.

Work environment: Staff regard governmental audits as less prestigious than private sector audits. There are issues with audit staff having to endure double busy seasons — one for their government clients and one for their private sector clients. Some cited travel requirements as a deterrent. Others said their government clients don't make staff feel valued, leading to morale issues.

Career prospects: Many staff prefer private sector audit experience because they believe it provides better and more lucrative career opportunities.

Client qualifications: As noted earlier, some government clients lack qualified staff to prepare the financial statements, which can lead to long, drawn-out audits that staff find less desirable to work on.

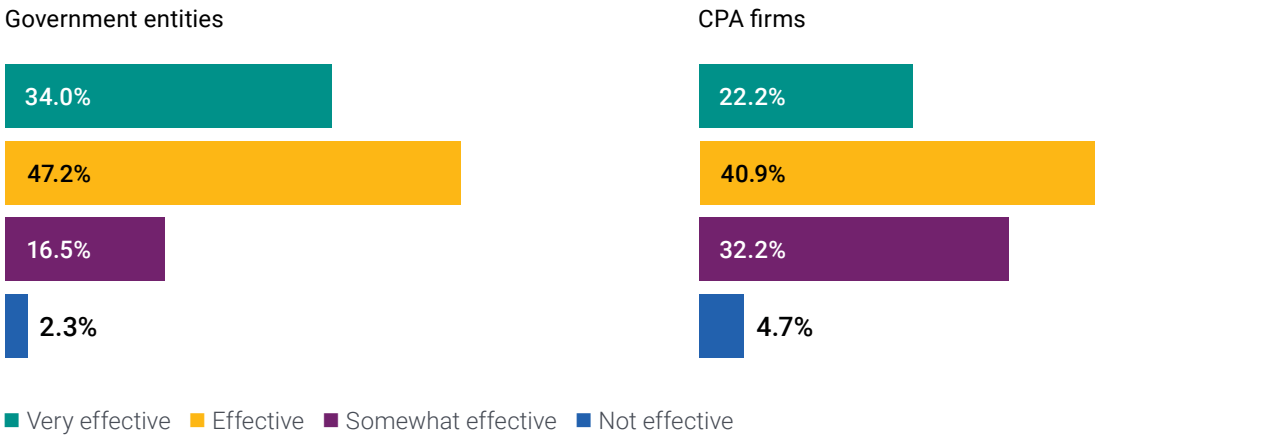
"Staff [who] believe they will move on from public accounting … want the expertise to be marketable to the private sector, where career prospects are more lucrative. That makes identifying staff [who] prioritize public-sector clients within firms challenging."

— Respondent from a CPA firm

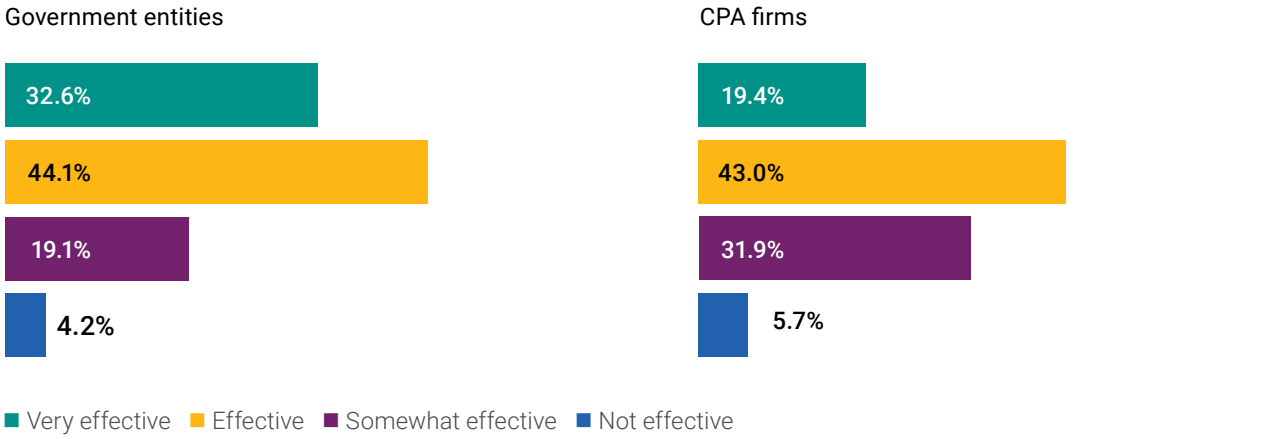
What tactics have governments used to successfully engage qualified CPA firms?

We posed this question to CPA firm respondents and government entity respondents. Both groups agreed on the two proven tactics that follow.

Utilize an RFP process with weighted factors such as firm experience, qualifications, fees, and location and base hiring on a comprehensive assessment.

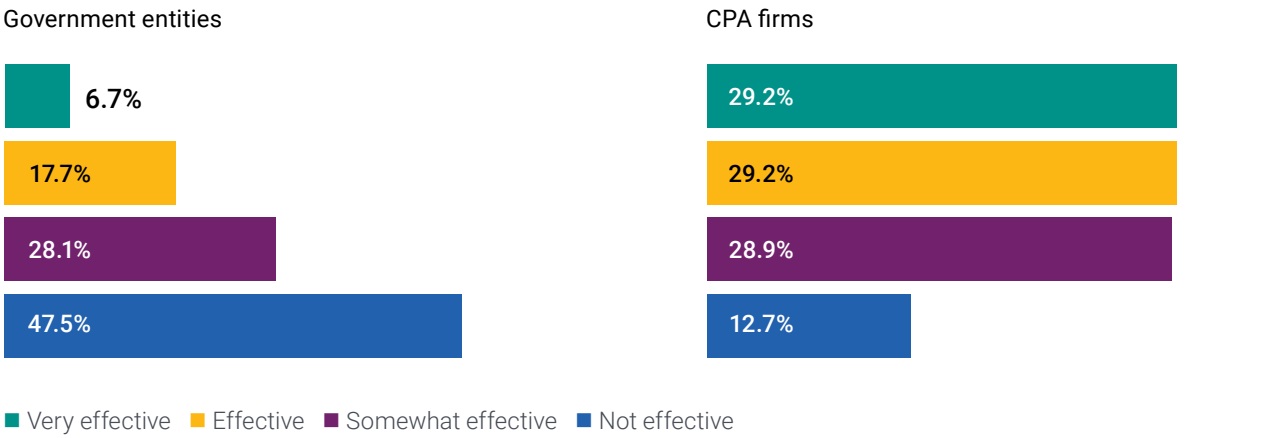


Send the RFP directly to the firm (as opposed to posting on website of the government entity)



Views differed on whether engaging one firm to help prepare for the audit and another firm to perform the audit is a successful tactic. Almost 60% of CPA firm respondents cited this tactic as "very effective" or "effective" while almost half of government entity respondents cited it as "not effective." We have no data from respondents on the reasons for these differing views. However, the working group suspects it may be that governments believe the cost of this strategy outweighs the benefit, whereas the firms believe that, in the long run, the benefit outweighs the cost.

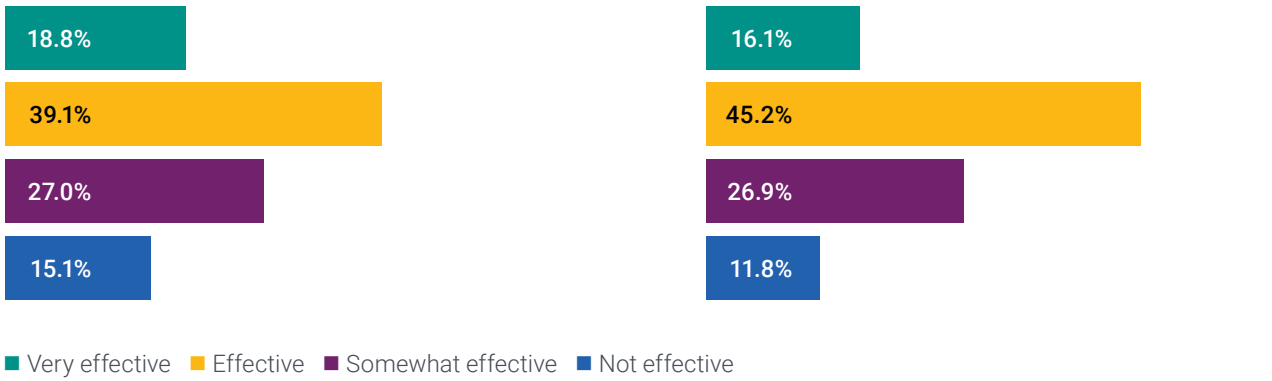
Engage one firm to help prepare for the audit and another firm to perform the audit



Government entity respondents highly recommended the following two tactics:

Obtaining firm recommendations from the state or other government entities

Bidding process that allows firms outside of the geographical area of the government



Both CPA firm and government entity respondents emphasized the need for establishing lasting, mutually beneficial relationships.

Recommendations

After considering the data received from discussion forum participants and survey respondents, the working group developed the following recommendations, which are categorized by the five key insights laid out in the executive summary. These recommendations are specific to the public sector and should be considered in addition to the broader profession-wide findings and recommendations in the **NPAG final report** discussed earlier in this report that also impact the public sector.

It is important to note that the issues contributing to the CPA talent shortage within the public sector have been developing over many years — they cannot be attributed to just one challenge or solved by one recommendation. It will take a collective, sustained effort by all stakeholders to reverse this current trend.

Insight 1. CPAs are not always valued within the public sector environment, which may be at the root of many of the other challenges reported by government entities and the CPA firms that audit them.

We heard repeatedly that legislative bodies, elected officials, and governmental human resource departments are not always aware of the high value of the services provided by accounting, auditing, and finance staff, including CPAs. We believe this accounts for many of the other key insights and affects not only government entities' hiring and retention practices but also contributes to some CPA firms dropping their public sector practices or not bidding on governmental audits (e.g., low fees, underprepared clients, and longer, more difficult audits). Some respondents also contrasted the public sector to the private sector, stating their belief that CPAs seem to be more highly valued in the private sector, evidenced by more frequent representation in leadership positions.

Government entities of all sizes must recognize the need for more qualified, better-credentialed accounting, auditing, and finance staff, including CPAs, and fund these positions in an appropriate manner. While making such an investment may be less popular than other government-sponsored activities, many of the "ills" we heard about from respondents could be "cured" if the value provided by CPAs and other financial staff were better understood (e.g., better compensation and benefits, improved hiring tactics, governments that are ready for audit, etc.). Government entities, especially those below the state level, such as local governments, should also ensure they view the external audit function with a value-based focus versus a commodity-based focus.

This lack of understanding about the value proposition has evolved over a long time and will take time and consistent effort by many stakeholders to resolve. As a start, we recommend state governments consider the findings in this report and develop a program for legislative bodies and government officials to educate them and advocate for needed change. The program should explain the CPA value proposition and the need for qualified, competitively paid accounting, auditing, and finance functions, as well as the need to build institutional knowledge within government entities. It should also explain the risks of failing to make this investment, such as a potential increase of fraud and error, potential sanctions by a federal agency, late filings of financial statements, and an inability to find a CPA

firm to perform a required audit. Also, the program should convey the importance of procuring CPA firm services, as applicable, with a focus on qualifications — not just on the lowest bid.

States should also share this program for use by local governments to educate and advocate at their level. If preferable, local governments could develop their own programs.

State auditors and state comptrollers can play a large role in educating legislators and government officials. Local government accounting and finance officials can educate at the local level. Further, associations with members for whom this issue is relevant can assist in the educational effort. Such associations include municipal leagues, treasurers associations, municipal clerks associations, and other groups with city and county memberships.

Insight 2. Resource and funding constraints abound, making it challenging to offer competitive salaries to CPA positions in government and competitive fees to CPA firms auditing governments.

Both government entity and CPA firm respondents cited lower compensation packages and low fees as significant contributors to the current state of affairs. Legislative bodies and government officials should explore a variety of approaches to secure appropriate funding for hiring CPA positions and other accounting, auditing, and finance positions, as well as to engage CPA firms. These include increasing budget allocations and looking for dedicated revenue streams, grants, and federal or state reimbursements.

Additionally, government entities should benchmark salaries they are paying CPA positions and other accounting, auditing, and finance positions against other, similarly sized government entities and against similar private sector positions by leveraging data available from other state and national associations. Standardized pay ranges should be adjusted for these important positions, as appropriate. The results of these efforts should be made transparent to legislators, government officials, and the public.

As for competitive fees paid to CPA firms, if the educational efforts described in the previous insight are successful, as well as the recommendations in this section to secure additional funding, the fee issues would likely be addressed.

Insight 3. The technical expertise needed to work for or audit government entities adds a layer of complexity that may serve as a deterrent for CPAs choosing a public sector career path.

Most respondents agreed that working in or auditing government entities requires additional technical expertise, making it less attractive to potential employees and CPA firms. If government entities recognize the value that CPAs and other financial staff bring to the table and appropriately fund these positions the technical expertise obstacle will be less of an issue in the hiring process. Similarly, external CPA firms will be more willing to invest the time and expense to ensure staff have the technical expertise needed to audit government entities. With that said, there are several additional avenues that can be explored to alleviate this concern.

- Government entities should offer technical training and upskilling opportunities to CPAs and other accounting, auditing, and finance staff. If such opportunities cannot be offered internally, budget resources should be dedicated to permitting such staff to attend external training and upskill offerings.

- Governmental accounting and auditing standard-setters can assist by limiting differences in standards between the public and private sectors, as appropriate, to make it easier for CPAs to move between the sectors.

- Standard-setters should consider additional ways to obtain input from smaller governmental entities on the impact of proposed standards. For example, FASB has a formal infrastructure in place to gather feedback from small businesses and private companies that may be a model for other standard-setters to consider.

- Federal and state governments can also play a role. For example, many smaller governmental entities become subject to governmental accounting and auditing standards due to the receipt of federal or state funding. At the federal level, a single audit of federal financial assistance involves a financial statement audit and opinion-level assurance on compliance. Many states have similar requirements relative to state funding. Federal and state governments should periodically review audit threshold requirements and consider offering smaller governmental entities audit alternatives that would still provide accountability (e.g., reviews, agreed-upon procedures, or compliance examinations). One example that should be studied by the federal government and states is a model that the U.S. Department of Treasury offered certain recipients of pandemic funding. It required a more limited type of compliance examination in lieu of a full financial statement audit and opinion-level assurance on compliance.

Insight 4. There is room for improvement in policies and processes relevant to state-established audit requirements, to governmental hiring and recruiting, and to the hiring of qualified CPA firms to perform audits as well as in how students are introduced to government from both a technical perspective and as a potential career.

The data we gathered shows that there are various other areas that government entities and others can focus on to improve the current state of affairs. We have several recommendations in the following topical categories:

Audit

Almost 80% of the government entity respondents indicated that their state governments had not taken steps to reduce the audit burden on other governments and 60% of the CPA firm respondents indicated that the state-established audit requirements for their governmental audit clients were excessive or somewhat burdensome. Best practices should be developed for state governments, covering how frequently audit requirements of local governments should be reviewed, parameters for determining audit thresholds, and circumstances where it may be appropriate to permit an alternative type of engagement (e.g., reviews, agreed-upon procedures, or compliance examinations).

Government entity and CPA firm respondents indicated that better support by states of their local governments would be most effective in decreasing the audit burden. States should consider ways to provide accounting and auditing resources or financial assistance (or both) to their local governments to assist them in preparing for and undergoing a timely audit.

Hiring and retention

Government entities should incorporate the feedback described in this report to improve hiring and retention processes. In particular, the graphic "Correlation Between the Effectiveness of a Given Tactic and How Often It Is Used by Government Entities" (page 19) shows several effective hiring and retention tactics that are likely being underutilized. These tactics include the consideration of implementing internship programs, on-campus recruiting, mentoring, hiring CPA candidates and providing them with financial and other support to attain the CPA designation, offering signing bonuses and bonuses for passing the CPA Exam, increasing pay scales, and improving career paths.

Additionally, government entities should streamline and simplify hiring processes that are overly complex and consider options for remote or hybrid working and flexible hours if they are not already offered.

Government entities should also focus on which areas are most important to CPAs working in government and ensure that those areas are emphasized internally and in the hiring process. The graphic "Factors Important to CPAs Working for Government Entities" (page 20) offers some insights. In addition to compensation and benefits, areas to emphasize should include work-life balance, stability and job security, remote-work options, defined career paths, and making a difference in the community. Also, government entities should consider the feedback in this report regarding how to best communicate these benefits, including more education and outreach to college students, faculty, and existing CPAs to raise awareness and interest in government careers.

Engaging CPA firms

While both CPA firm and government entity respondents emphasized the need for establishing lasting, mutually beneficial relationships, there were significant differences between the two groups on the challenges associated with engaging a qualified CPA firm and related best practices. This difference in viewpoints is likely a strong contributing factor to the current challenges governments are having when trying to engage a CPA firm. The first step to addressing the current situation is to raise awareness that the differences exist, which we hope this report will do. However, to bring about more of a mutual understanding, both CPA firms and government entities should also have an open dialogue about the matters discussed in this report relative to engaging CPA firms.

To find external auditors, government entities should also reevaluate their procurement processes to ensure that the evaluation of proposals in response to RFPs considers both CPA firm qualifications and proposed fees, versus only proposed fees. They should also consider (1) obtaining firm recommendations from the state or local governments; (2) sending RFP opportunities

directly to CPA firms instead of just posting them on a website; and (3) revising policies (whether they are written or less formal) to allow CPA firms outside of a government entity's geographical area to bid and to eliminate geographic preferences. Officials in finance departments should also work with their procurement departments to help them understand the provisions that often appear in RFP requirements or audit contracts that are troublesome for a CPA firm to agree to. A jointly issued document by the AICPA and the Government Finance Officers Association, **Contract Issues for Governmental Audits**, is a good resource for identifying such provisions. Efforts should also be undertaken by government entities to develop specialized contracts for audit services that do not include such problematic provisions, where possible.

Public sector pipeline

Our discussion forums with accounting students at the college level and academics made it clear that students do not learn much about governmental accounting and auditing as they earn their accounting degrees, nor do they hear much about government employment as a viable career path. Colleges and universities should work to increase the number of classes that address governmental topics and work to build relationships with government entities to increase their visibility on campus (e.g., more participation at career fairs, class presentations about government careers, etc.).

Insight 5. CPA firms do not always emphasize the importance of governmental audits, acknowledge the potential of a government-only career path for staff, or invest fully in their government practices.

CPA firms need to be proactive in helping to build a future generation of leaders that are prepared and able to perform attest services within the public sector. This will ensure better alignment of audit needs and resources to enable important accountability mechanisms for the public sector going forward.

However, staff at some CPA firms reported that governmental audits are perceived as less important to the firm than audits performed in other industry areas. To address this perception issue, CPA firms should emphasize to staff the importance of governmental audits to the firm and that working in the government practice is a good career path and not just "filler" summer work. Additionally, CPA firms should acknowledge the resources required to fully support their government practices.

Many CPA firms are also traditionally structured around a calendar-year-end, private-sector-organization busy season during which staff hours are the highest firmwide. This structure does not always align with the year-ends and busy seasons of governmental audits, which often have June 30th year-ends but may also have year-ends falling on other dates. To address this difference in year-ends and the potential for staff burnout, CPA firms should pursue a staffing model that allows staff to specialize in governmental audits year-round without also having to work numerous additional hours during the more traditional busy season.

Finally, CPA firms should highlight the importance and benefit of public service to encourage staff to pursue a governmental-auditing career path.

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