

Emerging Issues in Government Finance & Auditing

October 2025

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NASACT

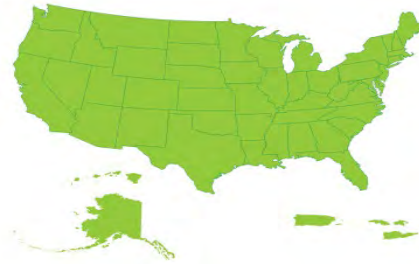
National Association of State
**Auditors, Comptrollers
and Treasurers**

Today's Agenda

- State Fiscal Outlook
- Legislative and Regulatory Issues
- Transparency Initiatives
- Auditing and Accounting Issues
- Accounting Industry Capacity Challenge
- FYI: Links within presentation, the regulatory landscape is evolving quickly!

State Fiscal Outlook

NATIONAL OVERVIEW



GDP growth:

2025 – Q1 -0.5%*, Q2 3.3%

2024 – 2.8% overall

2023 – 2.9% overall

* Significant increase in imports
drove GDP down

Stock Market:

2025 – DJIA up 10.7%
through 10-7 after rocky
first half year.

2024 – DJIA up 12.8%;
S&P 500 up 24%

2023 – DJIA up 13.7% for
the year; S&P 500 up 24%;

Debt: FFY '25 99.9% of
GDP, FFY '35 118.5%

1946: 119.1%

1981: 31%

Deficit: Proj FFY '25
\$1.9 trillion - CBO

Interest rates and Inflation:

Steady Dec '24 through
July '25 4.5%. Cut Sep
'25 .25%

Inflation (CPI)– rose 0.4%
Aug, up 0.2% July, up
0.3% June up 0.1% May.
Unadjusted 12 months
ended August '25 2.9%

Unemployment:

Aug '25 – 4.3%, April '23 Post-
COVID low 3.4% still close to
50-year lows

Real Earnings:

2025 – (0.1%) Aug, 0.1% July,
(0.1%) June

2024 – hourly earnings up 1%
in annually

Jobs:

Aug '25 – add 22k, July –
add 73k, Jun - add 147k,
May add 139k

Interest Payments and Social Security:

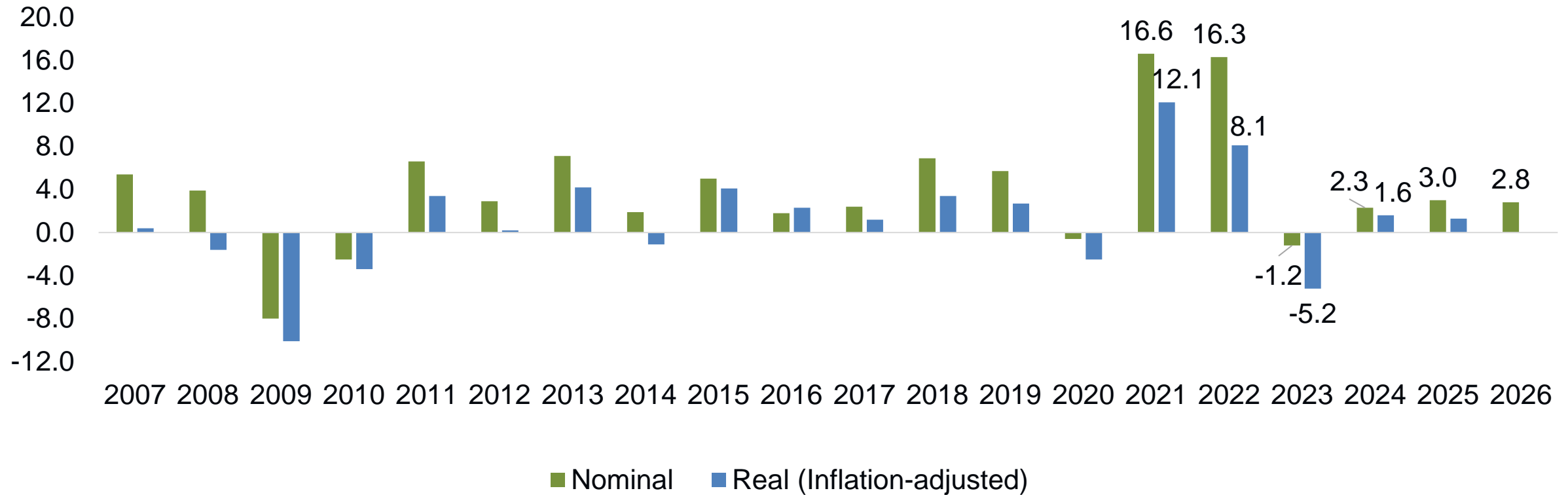
Interest costs exceed
defense spending FFY
'24.

OASDI combined trust
fund depleted by mid
2030s.

State General Fund Revenue Collections

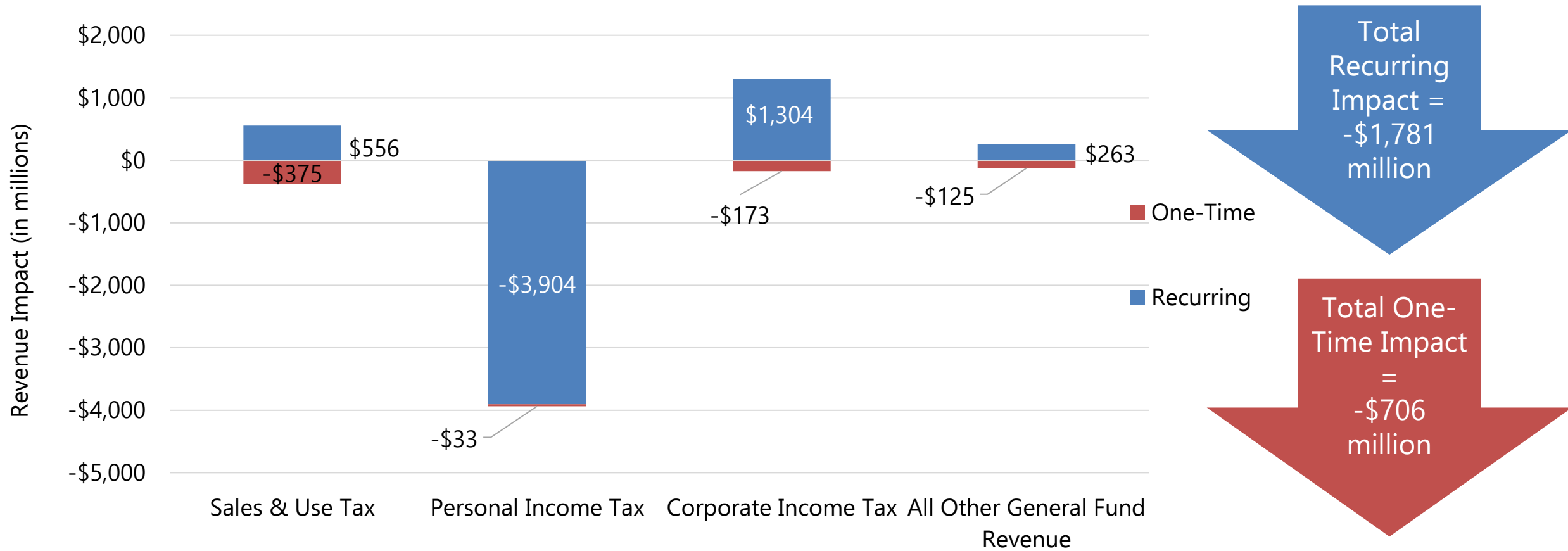


Annual General Fund Revenue Percentage Changes Fiscal 2007 to Fiscal 2026



*Note: Fiscal 2025 figure is estimated and fiscal 2026 figure is projected based on governors' recommended budgets.
NASBO Fiscal Survey of States*

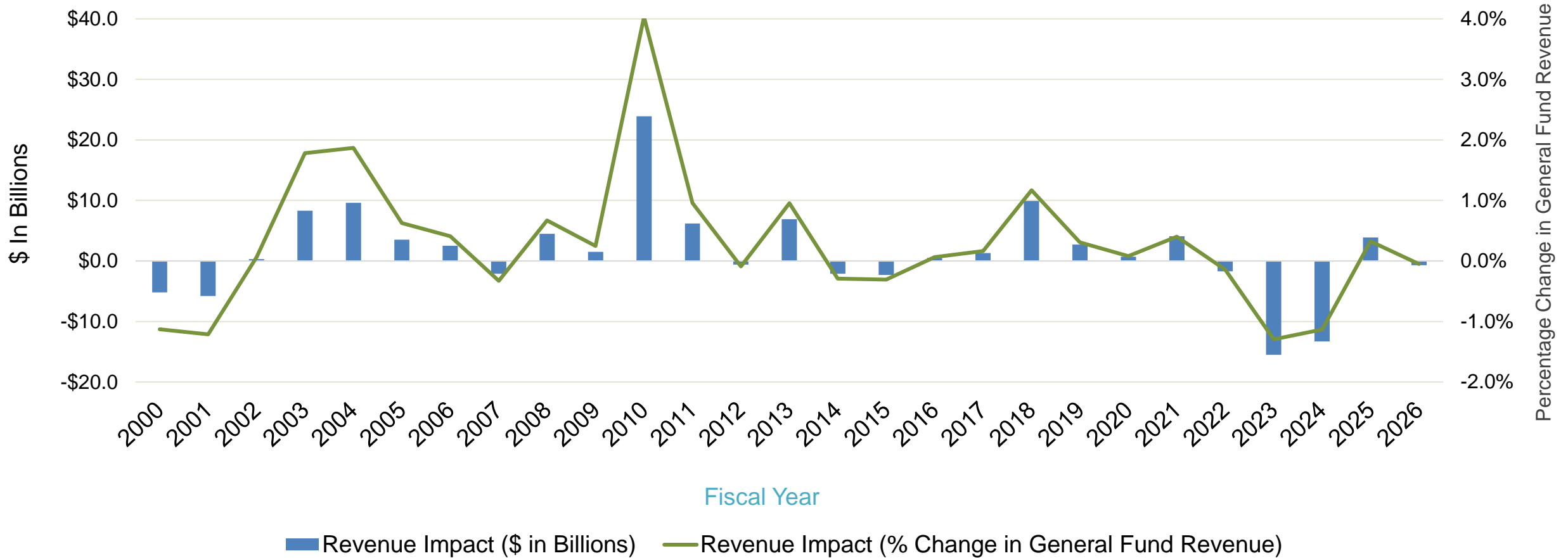
Net Tax Decreases Proposed in Fiscal 2025



Source: NASBO Fiscal Survey of the States

Impact of State Revenue Actions Over Time

\$ in billions and % change in total general fund revenue

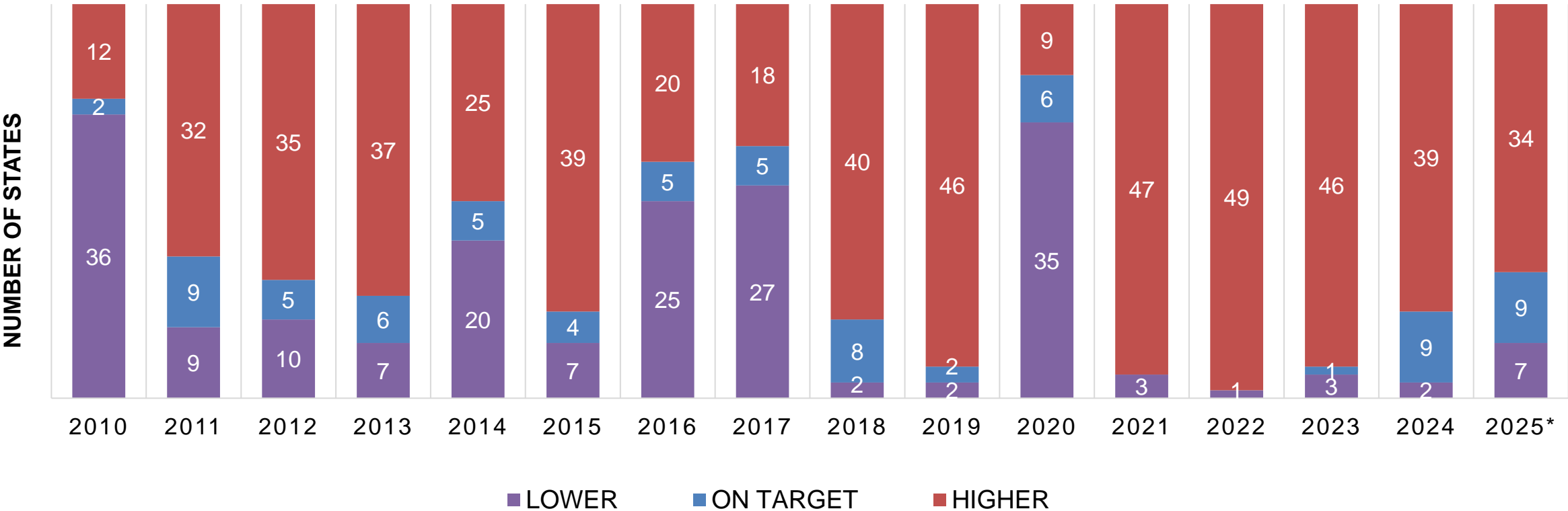


Note: Fiscal 2026 figure is based on governors' recommended budgets.

NASBO Fiscal Survey of States

General Fund Revenue Collections

General Fund Revenue Collections Compared To Original Revenue Projections (By Fiscal Year)

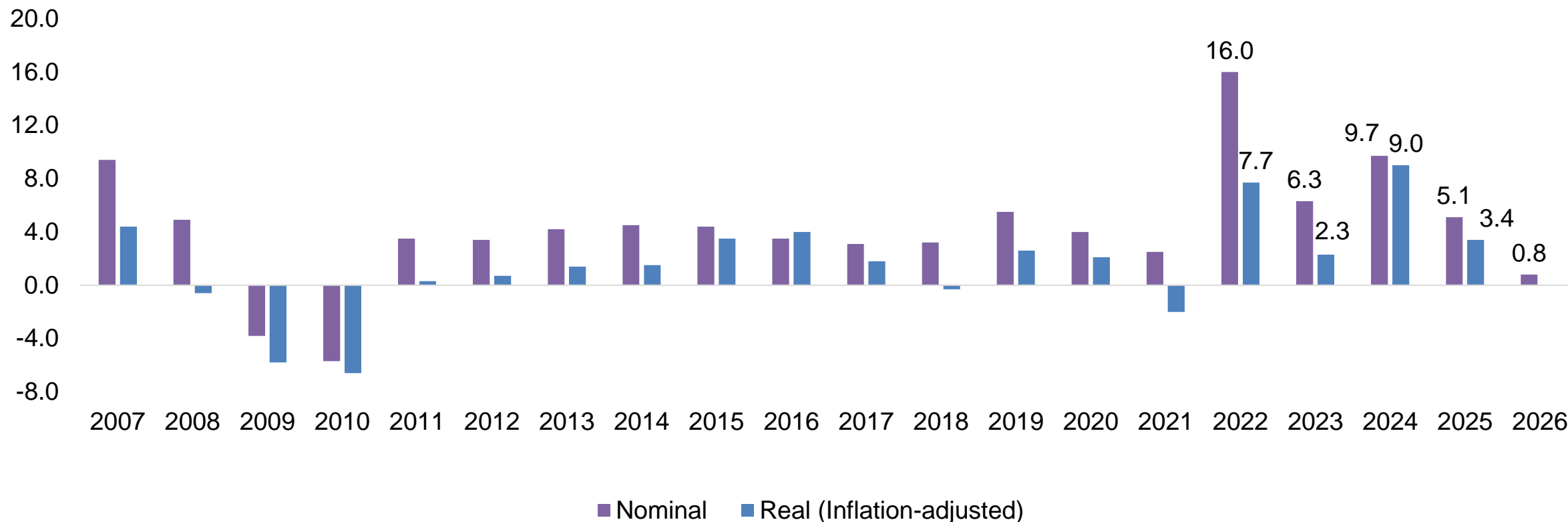


**Fiscal 2025 is ongoing and figures are subject to change.*
General Fund Revenue Collections Compared To Original Revenue Projections (By Fiscal Year)
NASBO Fiscal Survey of States

State Spending Trends (General, Federal, and Total)

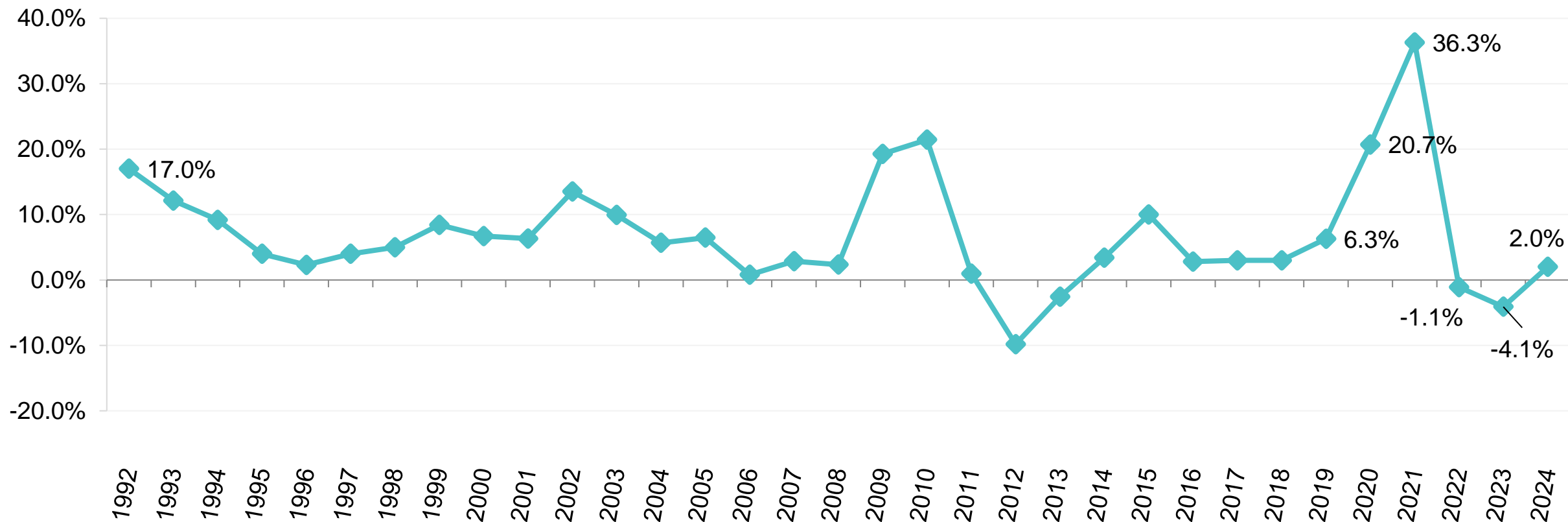


Annual General Fund Expenditure Percentage Changes Fiscal 2007 to Fiscal 2026



Note: Fiscal 2025 figure is based on current estimates; fiscal 2026 figure is based on governors' recommended budgets.

Changes In Federal Fund Spending



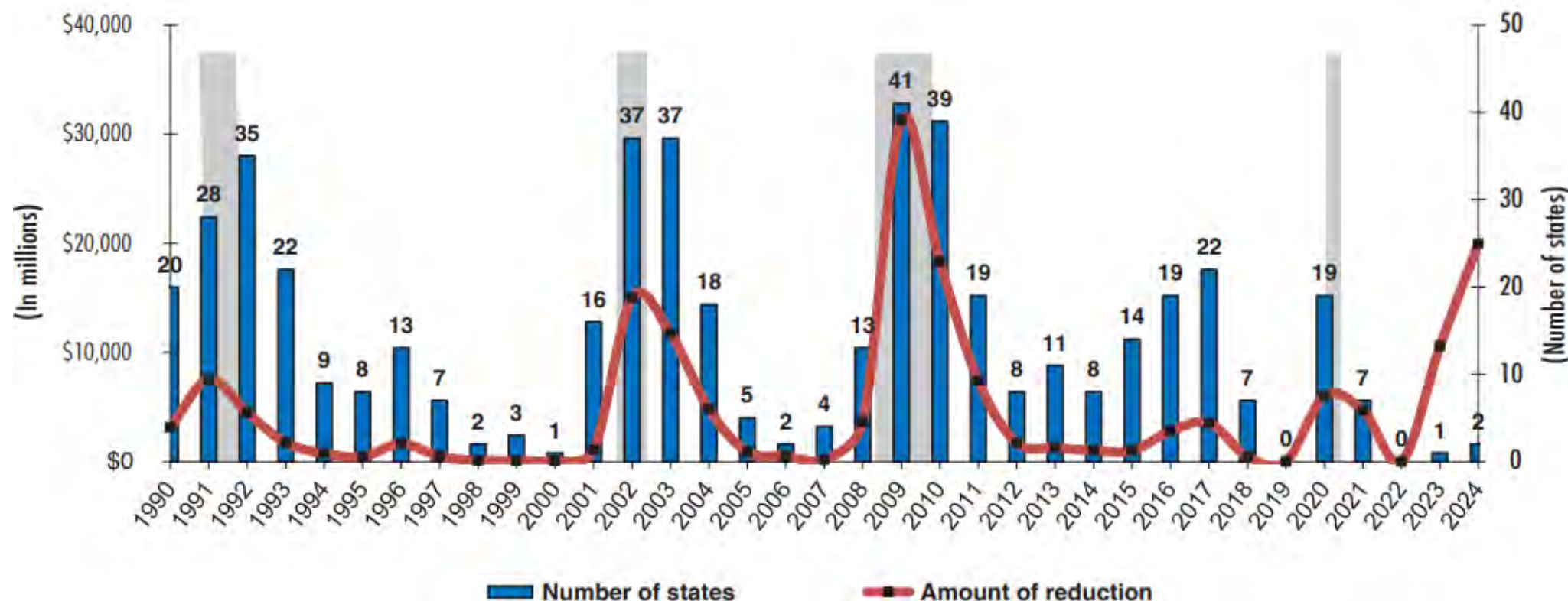
Source: NASBO State Expenditure Report

Mid-Year Budget Cuts & Fund Balances



Mid-Year Budget Reductions Due to a Shortfall

Budget Cuts Made After The Budget Passed



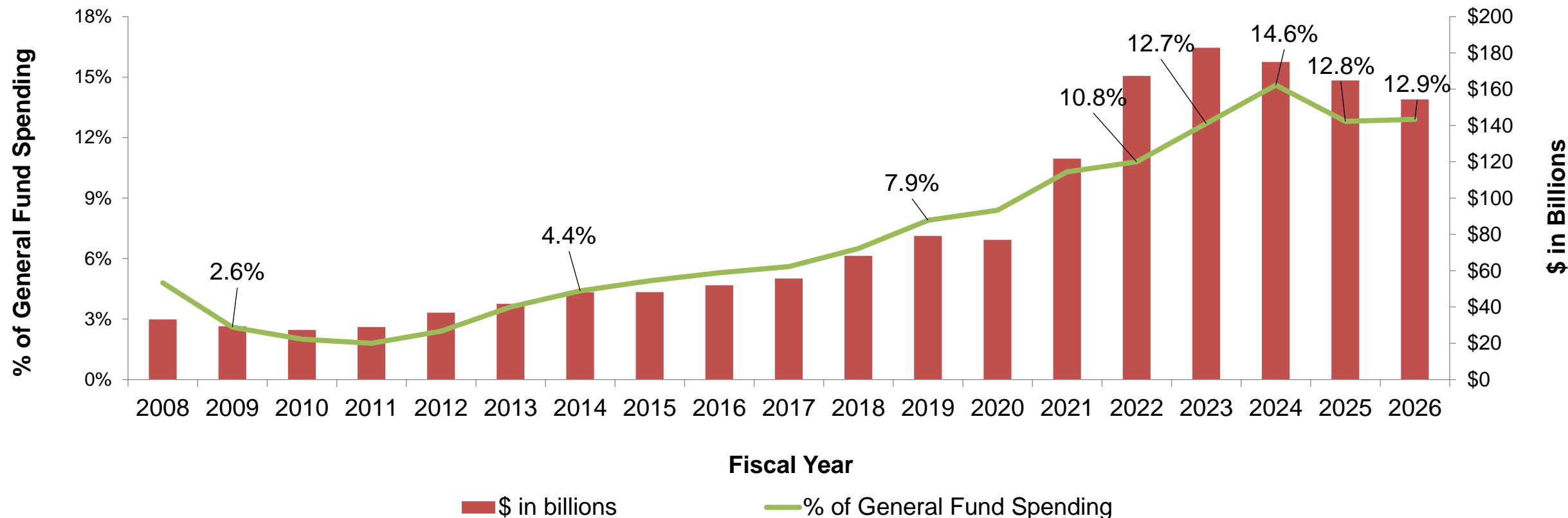
Gray boxes denote recessionary periods, based on a July-June fiscal year calendar that most states follow. Recession dates are as follows: Early 1990s recession (July 1990 to March 1991); Early 2000s recession (March 2001 to November 2001); Great Recession (December 2007 to June 2009); COVID-19 Recession (February 2020 – April 2020).

Note: Beginning in Fiscal 2018, NASBO asked states reporting net mid-year budget reductions whether the reductions were made due, at least in part, to a revenue shortfall. Effective in FY2018 going forward, only states reporting mid-year budget cuts due to a revenue shortfall are included in the totals reported in this figure. Prior to FY2018, particularly in non-recessionary periods, states that reported mid-year cuts that were due to other reasons, such as a reduction in caseload, would have been included in the counts above.

Source: NASBO Fiscal Survey of States

State Rainy Day Funds Fiscal 2008 to Fiscal 2026

In Dollars and as a Percentage of General Fund Expenditures



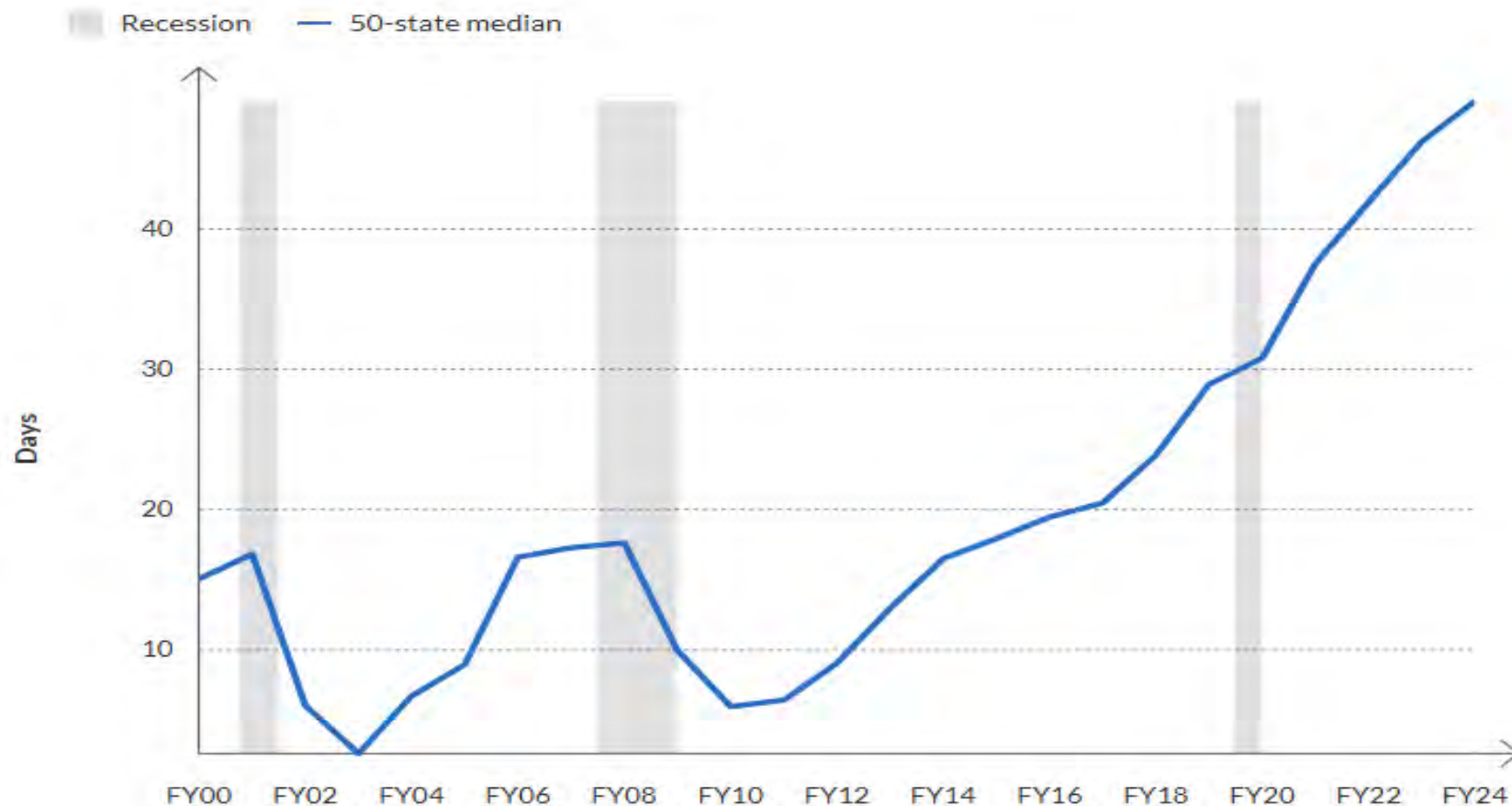
Note: Fiscal 2025 are estimated figures and fiscal 2026 are recommended figures. Total dollar amounts for fiscal 2025 and fiscal 2026 are adjusted to allow for year-over-year comparisons by including most recent rainy day fund balance figure available for states that were unable to report rainy day fund balance projections for those years.

NASBO Fiscal Survey of States

Rainy Day Fund Runway (FY24)

Days Each State Could Run on Only Rainy Day Funds

Fiscal years 2000-2024, preliminary actual

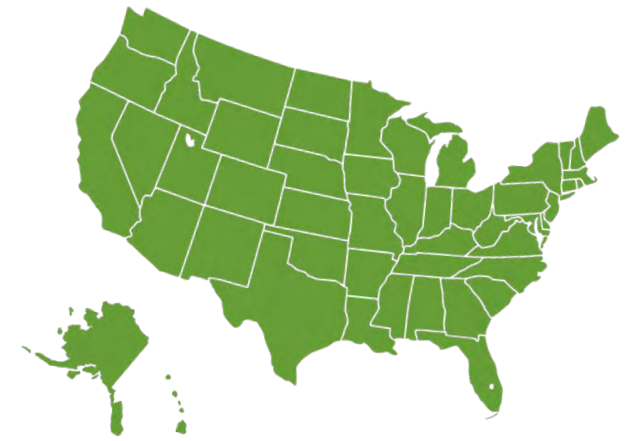


Source: Pew Trusts

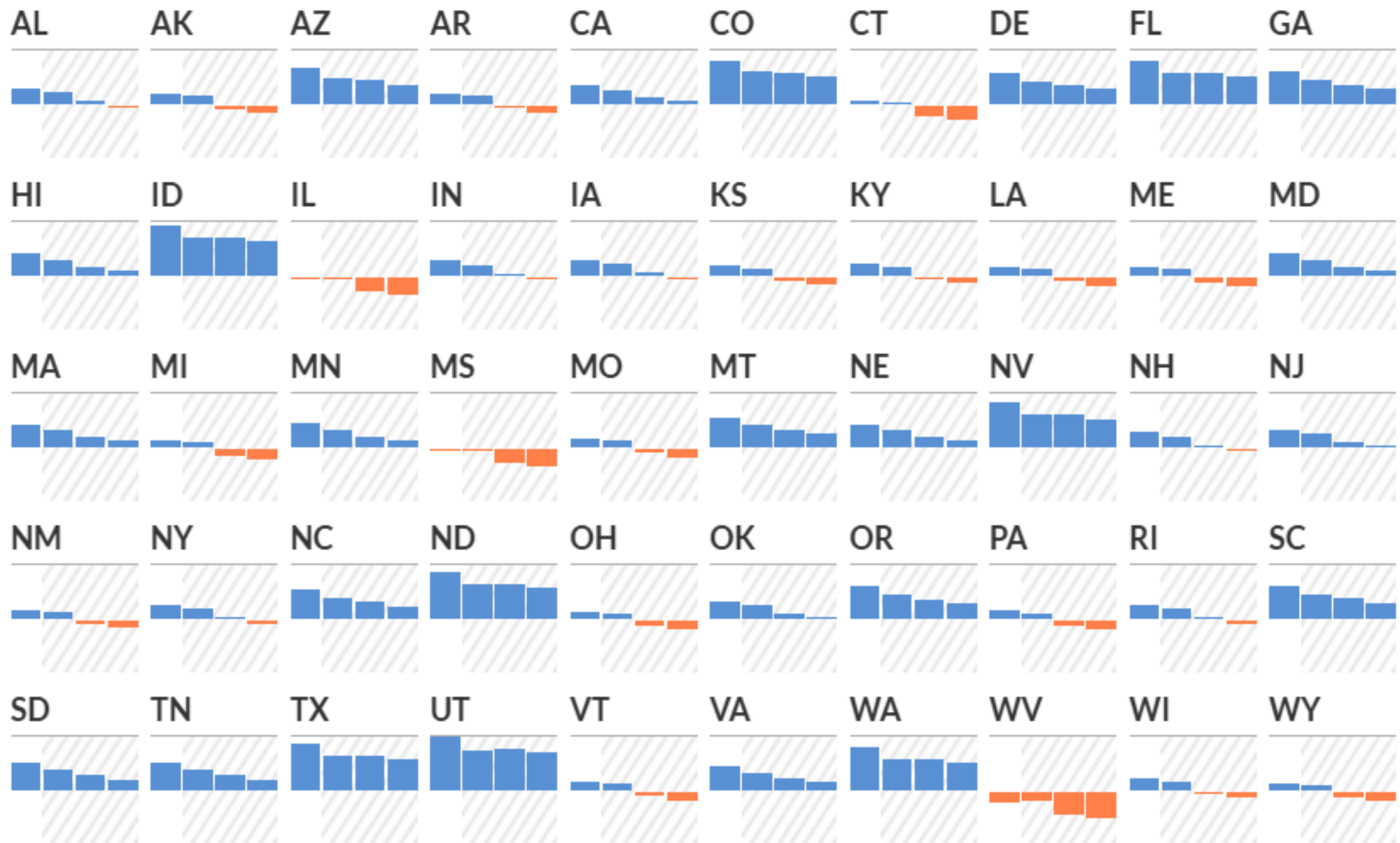
Looking Ahead – Domestic Concerns

What should states be *aware* of?

Looking Ahead - Domestic



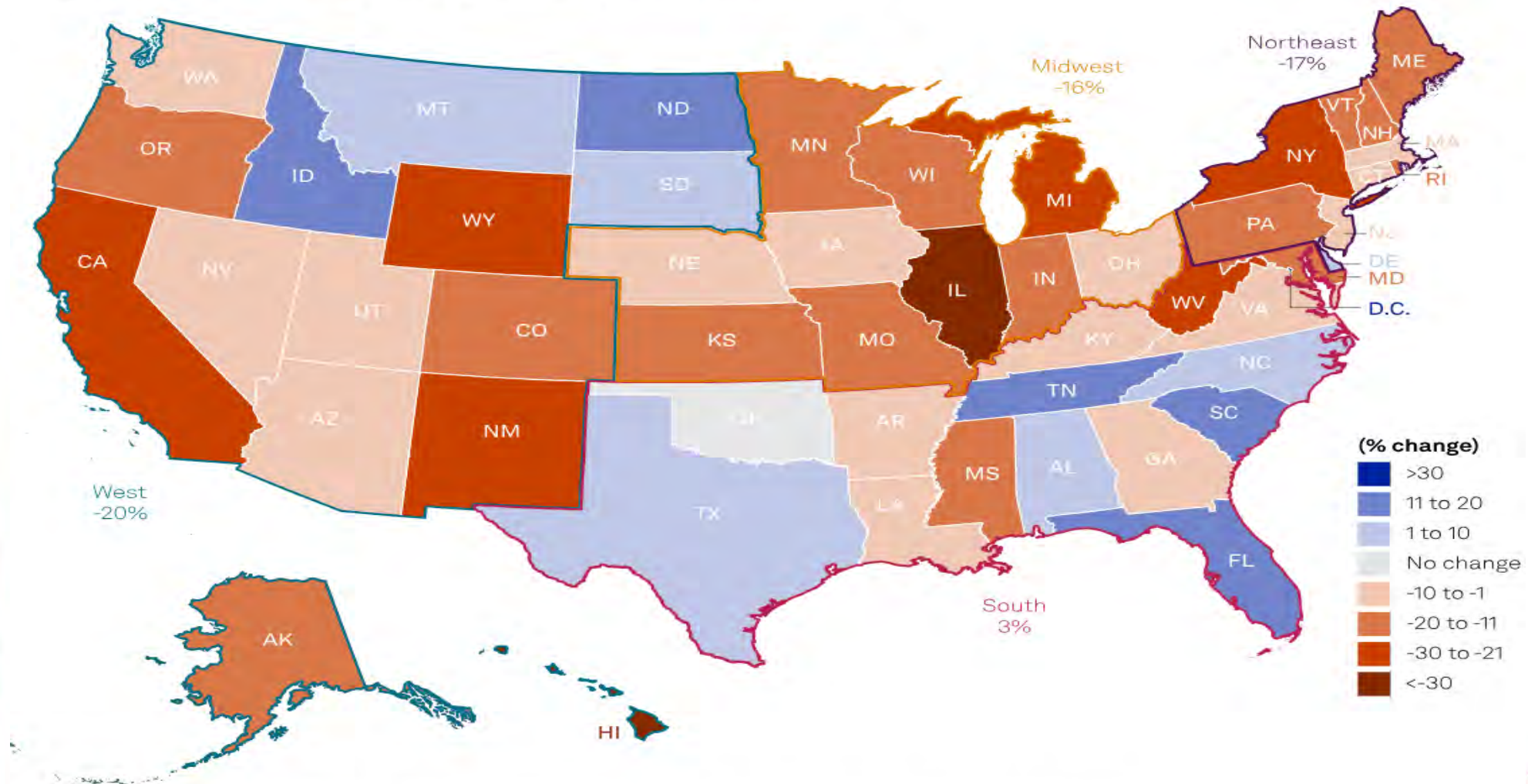
- Budget Pressures: Medicaid and SNAP changes with OBBBA
- **Muni tax exemption – No changes in 2025 reconciliation bill**
- Revenue Pressures: Impact of tax cuts as well as slowing inflation and economic growth on revenues
- General fund revenues closer to projections = less (or no) surplus revenue
- A return to normal(ish), tighter budgets, smaller surpluses
- Depopulation – The real, but uneven, geographic risk
- American population to peak in 2080, we are an outlier



Source: Pew Trusts Population Change by decade 2010-2050
 Range +1.7% (UT) to -0.7% (WV)

Change in High School Graduates (S&P Data)

Projected percent change in high school graduates, 2023 to 2041



Source: U.S. information on birth rates and high school graduation rates. Knocking at the College Door, 11th Edition - WICHE.
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Legislative and Regulatory Issues

OMB Memos

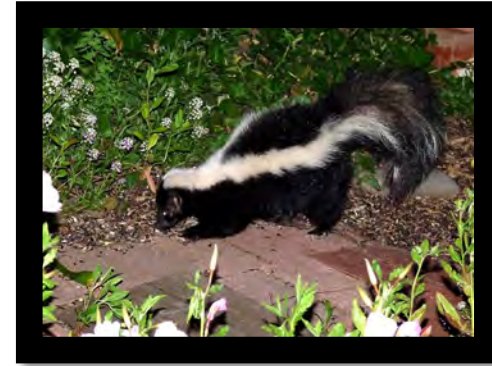
OMB Memorandums

- 1-27-25 OMB issues M-25-13
 - Temporary pause on federal funding beginning 1-28-25 at 5:00 PM ET
 - Direct aid to individuals exempt from the pause
 - Federal agencies must analyze all federal financial assistance and report back
- 1-28-25 OMB issues [clarifying guidance](#)
 - Limits pause to programs, projects, and activities implicated by Executive Orders such as ending DEI, green new deal, and funding certain NGOs
 - Judge grants stay on the order
- 1-29-25 OMB rescinds M-25-13
 - But administration reiterates only the memo has been rescinded, not the funding pause or the assessments by federal agencies
- Now and beyond: Currently held up due to court actions

OMB Memorandums




- 3-26-25 Unleashing American Prosperity
 - 10 for 1 requirement (1 new reg, 10 repealed)
- 6-23-25 M-25-30 Ensuring Accountability...
 - “Federal auditing does not work”
 - “Compliance for compliance sake no longer the goal”
 - What does this mean for Single Audits?
- 8-20-25 M-25-32 Preventing Improper Payments...
 - Waivers of certain requirements to promote more widespread use of Treasury’s Do Not Pay Program



COVID-19: Impact on Single Audits

COVID-19: Compliance Supplement Changes



Audit Year	Single Audits
2019	37,390
2020	40,192
2021	45,844
2022	47,515
2023	45,820
2024	42,622

Source: All years re-checked via Federal
Audit Clearinghouse 10-3-25

Higher Risk Designation – 2025 Compliance Supplement

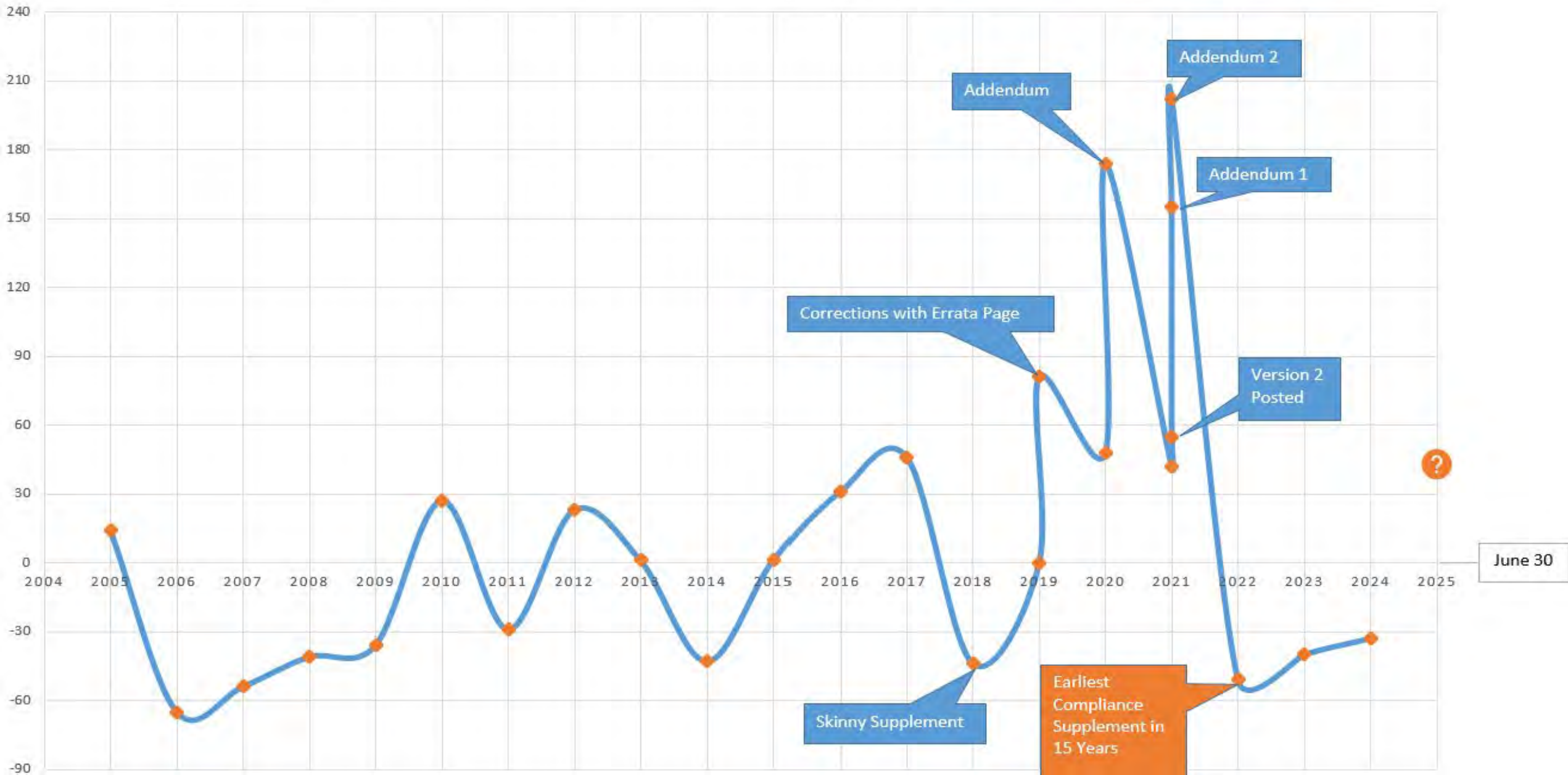
- Appendix IV of Part 8 outlines ‘higher risk’ programs

Agency	ALN	Title
HHS	93.778/93.777/93.775	Medicaid Cluster
Treasury	21.023	Emergency Rental Assistance
Treasury	21.027	Coronavirus State and Local Fiscal Recovery Funds
Interior	15.252	Abandoned Mine Land Reclamation

- **!Not final list, assumed!**
- Reduction from prior years, almost back to normal
- Beware the Type B to Type A wave

Source: George
Strudgeon, VA APA

COMPLIANCE SUPPLEMENT
DIFFERENCE BETWEEN ISSUANCE DATE AND ITS 6/30 EFFECTIVE DATE



OBBBA – Key Provisions for State/Local Government

- [H.R. 1](#) – One Big Beautiful Bill Act
- No tax on tips, overtime (with caveats)
- Cuts Medicaid, Medicare and ACA
- Tightens Medicaid and SNAP work requirements
- Rolls back clean energy incentives
- \$50 billion rural health transformation fund

Infrastructure Investment and Jobs Act (IIJA)

- [H.R. 3684](#) – signed into law on November 15, 2021
 - Provides \$1.2 trillion for transportation and infrastructure spending
 - \$550 billion for new investments and programs
 - \$176 billion for roads, bridges and railways
 - \$1.3 billion for state and local cybersecurity grant program
 - [OMB M-22-12](#) and Fact Sheet (April 29, 2022)
 - [Unleashing American Energy](#) executive order 1-20-25
 - [M-25-11](#) clarifying the applicability is *not* only specific to the “Green New Deal”, but also to objectives that contravene the policies established by EO.

Inflation Reduction Act – Elective Pay

- Provisions for State and Local Governments on elective (or direct) pay
 - *Requires filing of tax forms*
 - Registration information [here](#)
 - Eligible payments effectively “over payments” of taxes and therefore state and local governments are eligible for a refund
 - Clean energy projects (**be aware of Unleashing American Energy guidance**)
 - [List](#) of eligible tax provisions
 - [Additional guidance](#) from IRS for state and local governments
- [Unleashing American Energy](#) executive order 1-20-25
 - [OMB Memo](#) clarifying the applicability is **not** only specific to the “Green New Deal”, but also to objectives that contravene the policies established by EO.

New Federal Audit Clearinghouse

- Some issues remain
 - Single findings which include opinion modifications for only *some* of the referenced federal programs
 - Resubmission process currently shows multiple versions
 - There is a workgroup of federal representatives actively working on Resubmission issue – need record for federal purposes but don't need record for AICPA standards!
 - Inability to delete in progress audits (functionality went live 01-25)
 - Analyzing data in bulk is challenging
 - Data now available in CSV format [here](#) on the FAC website
- You can find the status of current issues or other updates here: [FAC Updates](#)
- You can follow their projects in real time on Github [here](#)

Indirect Cost Battles

- Energy, National Science Foundation, National Institute of Health, others
- All fringe benefits included in Indirect Costs!
- 10-15% cap, significant decrease in indirect cost rates and departure from negotiated rates
- Multiple court cases

Legislative and Regulatory Issues: Financial Management Risk Reduction Act

Financial Management Risk Reduction Act

- [Bill](#) passed December 23, 2024
- Goals
 - Identify recipients who have not received Single Audits
 - Report on recipients who have not received Single Audits
 - Analyze single audit quality government wide
 - Identify processes to identify cross-Governmental risks to Federal Award funds using FAC data
 - Evaluate the processes involved/created for burden/benefit

Transparency Issues

FDTA and GREAT Acts

Financial Data Transparency Act (FDTA)

- What is the FDTA?
 - Requires financial regulatory agencies (including MSRB for government issuers) to adopt and implement uniform and non-proprietary data standards to collect and disseminate information
 - Makes the data machine readable
 - Data standards are to include common legal identifiers for financial products, instruments, and transactions
 - 08-24 Joint Rule Update: *Does not establish what information must be submitted in structured data format – that will be established in the second set of rulemaking.*
 - Awaiting Final Joint Rule, at which point two-year implementation clock will begin ticking

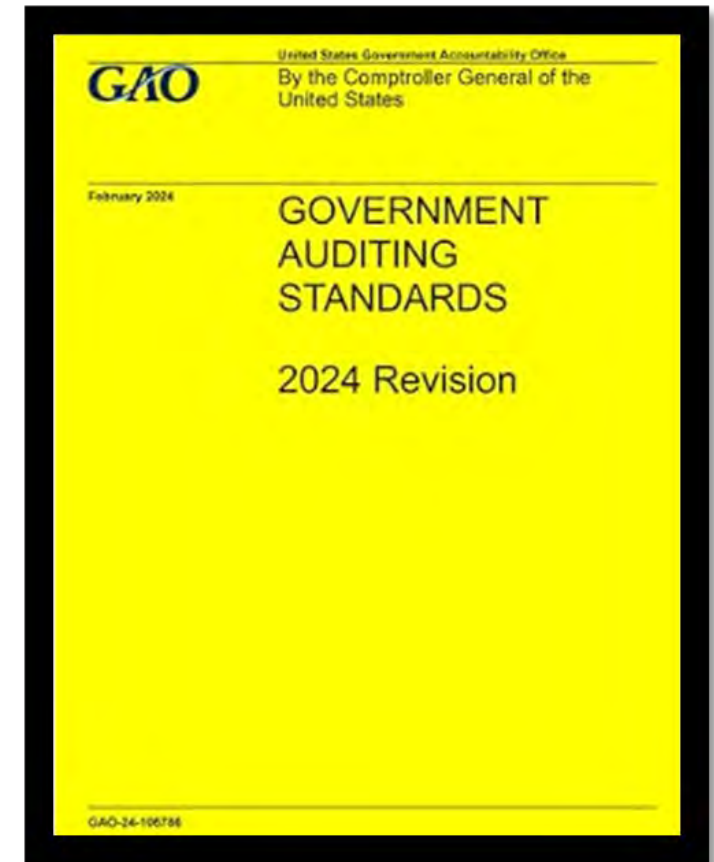
GREAT Act

- *Grant Reporting Efficiency and Agreements Transparency Act of 2019*
 - [H.R. 150](#)
 - Signed by President on December 30, 2019
- Effective Dates
 - Various, many of which are already behind us
- Key requirements
 - Establish government-wide data standards for information related to federal awards reported by recipients of federal awards (12/31/21)
 - Amends the Single Audit Act to provide for grantee audits to be reported in an **electronic format** consistent with the data standards (12/31/22)

Auditing Standards

Where to Find the Yellow Book and Alerts

- The Yellow Book and Audit Alerts are available on GAO's website at:
 - www.gao.gov/yellowbook
 - Now available in [digital format](#)
- For technical assistance, contact yellowbook@gao.gov or (202) 512-9535

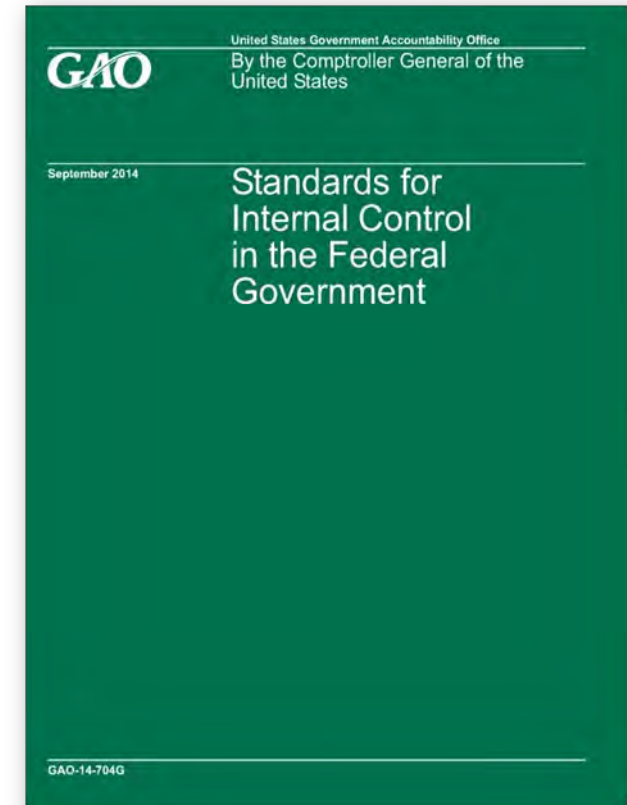


2024 Yellow Book Revision

- Final [version](#) released on February 1, 2024
- Effective Dates
 - Financial audits, attestation engagements, and reviews of financial statements for periods beginning on or after December 15, 2025
 - Performance audits beginning on or after December 15, 2025
 - **System of quality management is required to be designed and implemented by December 15, 2025**
 - An audit organization should complete an evaluation of the system of quality management by December 15, 2026.
- Early adoption is permitted

Green Book Revision

- Timing
 - Last revision was in 2014
 - New revision 2025
- Effective FFY 2026
 - Green Book is available at:
 - www.gao.gov/greenbook
 - For technical assistance, contact GreenBook@gao.gov or (202) 512-9535



Green Book Revision

- Areas of Focus:
 - Preventative Controls
 - Actions to reduce the risk of fraud
 - Broken pay and chase model - must change
 - Fraud Control Enhancement
 - Management's responsibility
 - Emergency Spending Controls
 - IT Security Controls
 - Continued high risks associated with these areas

Current and Upcoming SASs

Implementation Dates - SAS

Standard	Description	Effective Date
SAS 146	Quality Management for Engagements	Periods beginning on or after December 15, 2025
SAS 149	Audits of Group Financial Statements	Periods ending on or after December 15, 2026

External Confirmations (Exposure Draft)

- Proposed implementation date
 - Periods ending no earlier than December 15, 2027
- New requirement to confirm cash/cash equivalents with some exceptions
- Some concerns from NSAA community due to smaller governments not using third party confirmation services or large governments which pool cash across agencies

Auditor's Responsibility in Relation to Fraud... (Exposure Draft)

- Proposed implementation date
 - Periods ending on or after December 15, 2028
- “Documentation” standard
- [Full matrix](#) available showing all changes and a flow chart showing existing requirements and proposed changes
- Enhanced guidance around inquiries of mgt and others
- Reiterating professional skepticism
- Enhanced brainstorming – continuous rather than one time
- Risk of management override/revenue recognition
- Standback provision – overall evaluation

GASB Current Issues

GASB Statements – Effective Dates

June 30: Fiscal Year 2025

- Statement 101 – Compensated Absences
- Statement 102 – Certain Risk Disclosures

June 30: Fiscal Year 2026

- Statement 103* – Financial Reporting Model Improvements (MD&A emphasis)
- Statement 104 – Disclosure of Certain Capital Assets

June 30: Fiscal Year 2027

- TBD

New GASB Statement Impact

Potential Level of Effort for Preparer and Auditor*

Statement and FY Effective		Potential Level of Effort*						
		FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
GASB 99 – Omnibus (multiple effective dates)	Various	Small						
GASB 100 – Accounting Changes and Error Corrections	2024			Small				
GASB 101 – Compensated Absences	2025				MEDIUM			
GASB 102 – Certain Risk Disclosures	2025				Small			
GASB 103 – Financial Reporting Model Improvements	2026					MEDIUM		
GASB 104 – Disclosure of Certain Capital Assets	2026						Small	

*Based on June 30 fiscal years

The Accounting Industry Capacity Challenge

Status of the Profession – Pipeline

Good news?!

- Undergraduate enrollment in accounting programs *increased* 12% in the 2024 fall semester from the prior year!
 - Beat several other fields
- Another 12% increase in Spring 2025 year over year
- GMAC survey: 72% of schools report growth in MSAcc programs

ACFR and Single Audit Timeliness

- NASACT Member ACFR Time to Release
 - Average
 - FY20 (192), FY20 (219), FY21 (228), FY22 (236), FY23 (225), FY24 (200* but 9 still outstanding as of May '25)
 - Median
 - FY19 (173), FY20 (184), FY21 (187), FY22 (184), FY23 (184), FY24 (180*)
 - GFOA Target – 180 days
- NASACT Member Single Audit FY24
 - 15 submitted beyond 9-month UG requirement, down from 27 in the prior year

NSAA Member Data

- CPAs
 - 2000 to 2024
 - 836 decrease in number of CPAs (37%)
 - 2023 to 2024
 - 35 decrease in number of CPAs (only 2% this year, 7% decline prior year)
- Entry Level Salary Pre/Post Pandemic
 - 2019-2024 27% nominal increase in entry level median salary
 - In real terms, immaterial increase

AICPA-NASACT Public Sector CPA Resource Working Group

- Final [report](#) released October 16, 2024
 - Intended to study the pipeline challenges specifically in the government sector
 - Multiple Focus Groups
 - Survey
 - Over 1,000 responses
- Findings
 - Telling a better story
 - Enhancing the employee experience
 - Streamlining and modernizing procurement of CPA services

CPA Competency-Based Experience Pathway

- The first step in addressing the time and cost of education finding from the NPAG report
- NASBA and AICPA approve additional path to CPA licensure May '25
 - bachelors, two years exp, pass CPA
- Substitute competency in professional and technical areas in place of extra education requirement
 - Ethical behavior, effective communication
 - Audit, tax, financial reporting

CPA Competency-Based Experience Pathway

- Beginning of the end for “150-hour rule?”
 - Ohio passed [bill](#) eliminating the requirement 1-8-25
 - Virginia passed [bill](#) providing alternative path 2-17-25
 - Others that have passed legislation in 2025
 - MT, UT, IA, NM, TX, IN, TN, GA, HI
 - Trend is clear...

**These continue to be
interesting times...**

Questions or Comments

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