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# Modernizing government operating spend

Why preventive controls are becoming
a public sector imperative

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# What's inside

# Executive summary

Across government agencies at the federal, state and local levels, operating expenditures — fuel, fleet, field operations, maintenance, procurement and routine supplies — represent a substantial portion of public spending. These transactions occur in real time, across distributed locations, and often involve staff whose primary duties are operational rather than administrative. As a result, they are among the hardest categories of public spending to control, attribute and audit accurately.

Government oversight bodies have repeatedly shown that the majority of spend leakage is not driven by fraud, but by structural process breakdowns such as misallocation, missing documentation and insufficient preventive controls at the point of purchase. In FY 2023 alone, federal agencies reported approximately $236 billion in improper payments, continuing a trend in which improper payments have exceeded $2.8 trillion since 2003. State and local governments face similar challenges, often with fewer resources and less system automation.

To modernize financial management and enhance accountability, agencies are increasingly looking to preventative control models — approaches that enforce policy, attribution and documentation requirements at the time a transaction occurs. This shift reflects a broader modernization trend across government financial operations: moving away from after-the-fact reconciliation toward real-time, data-rich and audit-ready payments infrastructure.

This paper outlines the drivers behind this shift, the limitations of traditional payment models and the characteristics of modernized, government grade operating spend systems.

Approximately

# $236B

in improper payments reported by federal agencies for FY 2023 (GAO).

More than

# $2.8T

in improper payments across federal programs since FY 2003.

# The structural realities of government operating spend

Government operating spend differs meaningfully from private sector commercial spending. Across jurisdictions, agencies consistently operate within several constraints:

**01**    ### Distributed execution, centralized accountability

Drivers, field technicians, deputies, inspectors and operations staff make purchases daily — while budget ownership remains centralized in finance or program management. This disconnect creates recurring attribution challenges.

**02**    ### High-frequency, low-dollar transactions with limited context

Fueling events, maintenance purchases, routine supplies, tolls and travel expenses are highly operational and occur across shifting locations. Most transactions enter financial systems stripped of departmental or program identifiers.

**03**    ### Shared assets and cross-functional responsibilities

Vehicles, mobile equipment and field resources are often shared across departments or funding streams. A single card or asset may support multiple programs.

**04**    ### Reliance on manual reconciliation and back billing

Many agencies still depend on spreadsheet-driven processes to assign spend to the correct accounts well after the fact — creating data inconsistencies, audit exposure and months-long reclassification efforts.

**05**    ### Procurement and compliance obligations unique to government

Unlike private-sector organizations, public agencies must adhere to statutory procurement requirements, tax exemption rules, grant reporting standards, and oversight mandates that demand traceable, standardized and defensible records.

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Structural realities create conditions where accuracy problems are systemic, not episodic, and where preventive controls — rather than detective reviews — represent the most effective route to raising integrity.

# The scale and persistence of improper payments

Improper payments are frequently misunderstood as primarily fraud-driven. In reality, oversight bodies have shown that most improper payments arise from unintentional process failures, including:

- Charges assigned to incorrect departments or programs
- Missing or incomplete documentation
- Incorrect tax treatment
- Errors introduced during manual reconciliation
- Lack of real-time validation at the moment funds are spent

## Federal data illustrates the scale of the issue:

- **$236 billion** in improper payments reported for FY 2023 (GAO).
- **Over $2.8 trillion** in improper payments across federal programs since FY 2003.
- **11 of 24** CFO Act agencies were noncompliant with at least one Payment Integrity Information Act (PIIA) requirement in FY 2023.
- State and local governments face equivalent risks, often with fewer automated systems and finance teams that must stretch across multiple responsibilities.

The persistence of these errors demonstrates that improper payments are not primarily a fraud problem — but also a process integrity problem. Traditional models that rely on exceptions, audits and retroactive fixes are not adequate to manage the volume and complexity of modern operating spend.

Most improper payments arise from unintentional process failures.

# Why traditional payment models fall short

Government payment programs generally fall into two categories. Both have strengths, but also structural limitations that impair their effectiveness at scale.

## 01 — Category specific programs (e.g., legacy fuel cards)

Category-specific programs offer narrow controls — typically restricting spend to a predefined merchant or category type. While useful for limiting out-of-category spend, these cards often introduce complications:

- Restricted acceptance limits agency flexibility
- Fragmented reporting creates disconnected spend data
- Limited integration with ERP, fleet and financial systems
- Department attribution remains manual, especially where vehicles or assets are shared

Because these programs centralize billing by card or asset, attribution still must be applied manually. For departments handling thousands of transactions monthly, this becomes a significant administrative burden.

## 02 — General-purpose purchase and corporate cards

General-purpose cards maximize acceptance but typically lack the contextual and policy-enforced controls required for regulated government spend. Challenges include:

- Transactions are approved with minimal enforcement of policy
- No program or department attribution is embedded at purchase
- Review occurs after spending, often weeks later
- Policy violations may persist across multiple accounting periods
- Manual detective controls drive significant finance workload

Oversight bodies consistently note that post-payment reviews are less efficient and less effective than preventive risk measures. Once funds have moved, cost recovery becomes administratively expensive and inconsistently successful.

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# The case for preventive controls

A growing body of government guidance reinforces a clear insight: The most significant potential gains in spend integrity can come from shifting controls upstream.

## What "preventive" means in practice

Preventive controls operationalize policy and attribution before or at the moment of authorization. Examples include:

- Verifying spend category eligibility
- Confirming appropriate department or program assignment
- Checking compliance with budget thresholds
- Applying fleet, asset or vehicle rules
- Enforcing tax exemption requirements
- Blocking or flagging attempted misuse in real time

By embedding these checks into the transaction flow, agencies significantly reduce downstream variance and eliminate many of the reasons improper payments occur.

## Why this matters for government agencies:

### Reduced administrative burden

Weeks-long back-billing cycles are replaced with accurate allocation at the moment of purchase.

### Stronger audit readiness

When each transaction is fully attributed and documented at origin, audit preparation becomes substantially simpler.

### Improved accountability and internal transparency

Departments gain clear visibility into spend behavior, and finance teams gain confidence that transactions entering their systems are valid and allocated correctly.

### Better stewardship of public funds

Preventive controls support the core mission of responsible financial management with minimal friction to frontline staff.

# Integration: the foundation of modern spend governance

Government operating spend does not exist in a vacuum. It intersects with ERP, accounting systems, fleet management platforms, telematics, grants management systems and reporting workflows.

Modernized spend infrastructure increasingly focuses on interoperability, enabling key data — such as department attribution, asset identifiers, program codes, tax status and policy metadata — to flow consistently across systems.

## Key outcomes from integrated operating-spend data include:

### Closer alignment with budgeting and grant workflows

Structured data supports funding-source restrictions, program reporting, and documentation obligations tied to grants or appropriations.

### Faster, more accurate reconciliation

When transaction data arrives pre-attributed and standardized, manual spreadsheet manipulation becomes unnecessary.

### Better operational insight

Linking spend to vehicles, drivers, asset utilization and operational activity enables agencies to understand the cost structure of programs with far greater granularity.

### Stronger compliance posture

Integrated records provide an audit trail that is complete, traceable and defensible.

This integration focus reflects a broader modernization trend across public-sector finance: connecting operational execution to financial governance in real time.

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# What government-grade modern payments infrastructure looks like

Across jurisdictions, several themes consistently emerge in conversations about the future of government spend governance.

**01** ### Real-time, policy-aware authorization

Controls are applied before purchases occur, minimizing reliance on detective reviews.

**02** ### Transaction-level attribution at the point of spend

Program, department, asset or vehicle identifiers travel with the transaction — reducing downstream reclassification.

**03** ### Audit-ready documentation by design

Each purchase carries all relevant metadata, enabling compliance without manual effort.

**04** ### Seamless procurement pathways

Solutions that align with cooperative purchasing, grant requirements, and public procurement frameworks reduce friction and accelerate modernization.

**05** ### Integrated financial ecosystems

Modern card-based platforms connect with ERP, fleet management, operational systems and reporting tools without manual handoffs.

**06** ### Embedded tax treatment and compliance logic

Tax exemption, fuel tax rules, and other regulatory requirements are applied automatically.

These characteristics reflect a vision of government operating spend that is accurate, accountable and efficient by default.

# Conclusion

Government agencies today face growing expectations for financial transparency, operational efficiency and responsible stewardship of public dollars. Yet many still rely on legacy payment models and manual reconciliation processes that were not designed to handle the complexity or volume of modern operating spend.

Evidence from federal oversight bodies makes clear that the most significant integrity risks arise not from intentional fraud, but from misallocation, missing context and manual processes that occur long after transactions have taken place. To address these challenges, agencies are increasingly looking toward payment models built on preventive controls, integrated data, and real-time enforcement at the point of spend.

As government finance, procurement and operational leaders chart modernization paths, the opportunity is clear: Adopt infrastructure that aligns day-to-day spending with the financial governance expectations of public accountability. By shifting control upstream and integrating spend data across systems, agencies can reduce administrative burden, strengthen audit readiness and improve overall confidence in the integrity of their operating spend.

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