EY federal trends report

The modernization and efficiency era

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Objectives: The EY Center for Government Modernization commissioned a survey of federal government decision-makers in finance, IT and HR/workforce, including C-suite level and programming division heads.

This research uncovers how federal agencies are addressing the strategic imperative to streamline operations and optimize resources. The focus is on how technology and data can be leveraged to achieve these goals and to better understand the federal government's modernization and efficiency priorities for fiscal year 2026.

What's inside

Respondents saw the following definitions:

- **Modernization:** refers to the process of updating operations, technology and management to meet modern needs. This can include streamlining processes, replacing outdated systems with new technologies, and improving data management and analysis.

- **AI governance frameworks:** refers to the policies and processes agencies use to guide the responsible and ethical development, deployment and monitoring of AI systems.

- **Efficiencies, efficiency or efficiency gains:** refers to achieving greater output with the same or fewer inputs, or the same output with fewer inputs. This can include using new technology, streamlining processes or optimizing resource allocation.

- **Agentic AI:** refers to artificial intelligence (AI) systems capable of making decisions and taking actions to complete complex goals autonomously. These systems are designed to understand contexts and can operate with minimal or no human intervention and supervision. Key characteristics of agentic AI include:

  - **Autonomy:** It can work on its own without constant human command. You give it a goal, and it figures out how to get there.

  - **Goal oriented:** It's focused on achieving a specific outcome effectively.

  - **Proactive:** It takes initiative rather than just responding to direct questions. It anticipates needs and acts on them.

- **FY26:** the fiscal year that started October 1, 2025, and goes through September 30, 2026.

Throughout the document, "federal government decision-makers in finance, IT and HR/workforce" may also be referred to as "federal DMs", "federal agency leaders" or "federal leaders"; the terms are used interchangeably.

01

Overview of top findings

1. Federal DMs' overconfidence outpaces IT modernization reality.

A significant confidence gap exists where federal DMs' assessments of their agencies are highly optimistic despite the pace of actual, realized transformation. While federal DMs give their agencies top marks for performance in critical areas, in reality, many IT systems are still in the preparation or legacy phases. This disconnect suggests that federal DMs may be overconfident in their (agencies') abilities, potentially ignoring or bypassing the foundational overhaul needed for systemic modernization.

- Eight-in-ten federal DMs give their agencies "A (excellent)" or "B (good)" grades for performance in critical areas, such as updating legacy IT systems (81%).

- Despite this high self-grading, only 22% of federal DMs say their agencies' IT systems are in the post-transformation phase of the modernization journey today, while 52% admit that their agencies IT systems are in the planning (15%) or mid-transformation (37%) stage of the IT modernization journey.

- To further highlight the disconnect between overconfidence and reality, 26% of federal DMs admit that their IT systems are, in fact, still in the legacy/premodern stage of the IT modernization process.

81% of federal DMs give their agencies "A (excellent)" or "B (good)" grades for performance in updating legacy IT systems.

Only **22%** of federal DMs say their agencies' IT systems are in the post-transformation phase of the modernization journey today.

2. While federal DMs have high expectations of efficiency initiatives, systemic barriers may stall progress.

Federal DMs overwhelmingly believe their efficiency initiatives will have a positive impact on their agencies across a variety of areas, including increasing innovation and employee productivity. However, DMs at federal agencies admit that change takes time and that they face numerous systemic roadblocks, including budget and funding limitations, outdated infrastructure, and bureaucracy.

- All federal DMs say efficiency initiatives will impact their agencies in some way, specifically:
  - Increasing innovation (50%)
  - Improving regulation compliance (47%)
  - Enhancing data accuracy/quality (46%)
  - Increasing employee productivity (44%), among other impacts

- And yet, half (48%) of federal DMs acknowledge that moving an IT program from the pilot phase to full-scale deployment typically takes a year or longer.

- Additionally, 89% of federal DMs say their agencies face barriers to achieving federal efficiency. Some of the top barriers are:
  - Financial: budget constraints (34%), insufficient funding (26%) and lack of investment in new technologies (24%)
  - Data and tech: lack of data integrity/quality (34%) and outdated technological infrastructure (32%)
  - Organizational: resistance to change from leadership (33%), lack of skilled personnel (27%), and outdated processes and bureaucratic hurdles (26%)

89%
of federal DMs say their agencies face barriers to achieving federal efficiency.

3. The hope for AI is high, but implementation is often still in its early stages, with many federal agencies still exploring how to best use the technology.

Federal DMs overwhelmingly view AI as a powerful and needed tool to drive modernization and efficiency efforts. However, the AI adoption curve is shallow, as half of all AI initiatives are still in pilot or planning stages, and many agencies have yet to identify specific use cases for the technology. Federal DMs report there are barriers to effectively scaling AI agency-wide, with one of the primary obstacles being difficulty integrating with legacy IT systems.

- An overwhelming majority of federal DMs view AI as a critical tool for driving modernization (88%) and improving efficiency (92%) within federal agencies.

- In fact, 50% of federal DMs say their agencies have multiple fully deployed AI initiatives.
  - Two-fifths (38%) of federal DMs say their agencies are running pilot programs (i.e., initial implementation and testing before full deployment), and 11% say their agencies are still in the early stages of exploring AI and have not yet determined their approach.

- Roughly half (46%) of federal DMs say their agencies are still identifying AI for specific, well-defined use cases, and only a third (36%) are actually implementing AI for specific, well-defined use cases.

- Eighty-six percent of federal DMs say there are barriers to effectively scaling AI into agency-wide solutions, with difficulty integrating new AI solutions with legacy IT systems (48%) cited as one of the top barriers.

4. Workforce skill gaps may hinder agencies' transformation journeys, but investments in the workforce and interagency collaboration are underway.

One of the most critical bottlenecks to federal goals for modernization, efficiency and scaling AI is not a technological gap but a human capital gap. Workforce skill gaps are among the top barriers despite a near-universal focus on upskilling, as leaders are trying to close the gap between the skills agencies have and the deep expertise they need to move federal agencies along in their transformation journeys. One potential approach is to collaborate with other federal agencies to advance progress on modernization initiatives.

- About two-fifths (44%) of federal DMs cite workforce skill gaps as a barrier for their agencies to achieve their modernization goals, ahead of slow procurement processes (32%), escalating cybersecurity threats (32%), regulatory requirements (30%), inadequate data storage (30%), among others.

- And workforce skill gaps also extend to efficiency initiatives and scaling AI into agency-wide solutions:

  - A third (31%) of federal DMs say lack of skilled personnel is a barrier to achieving efficiency within their agencies.

  - Forty-four percent of federal DMs say a shortage of workforce skills and training in AI is one of the biggest barriers to effectively scaling AI into agency-wide solutions.

- Seventy-six percent of federal DMs give their agencies an "A (excellent)" or a "B (good)" grade in their performance in talent and workforce transformation (e.g., upskilling, new hiring models).

- Although most federal DMs say their agencies are focused on upskilling and training employees to foster innovation (92%) and modernization (95%), 92% agree that their agencies need more skilled personnel to effectively implement modernization initiatives.

- One potential strategy is in play: A vast majority of federal DMs (91%) say their agencies actively collaborate with other federal agencies on modernization initiatives.

5. Cyber threats are a barrier to tech modernization, and a cyber overhaul is needed to protect agencies in the future. Despite these worries, federal DMs are optimistic about their agencies' cybersecurity abilities.

Many federal agencies view cybersecurity threats as an obstacle to achieving their modernization goals. Thus, to drive efficiency and modernization efforts, federal DMs recognize the importance of enhancing cyber infrastructure and resilience and also see the benefit of AI to drive immediate efficiencies for cybersecurity. Despite worries about cyber threats, federal DMs rate their agencies highly on cybersecurity and resilience enhancements, signaling that federal DMs feel set up for future success.

- Thirty-two percent of federal DMs say escalating cybersecurity threats are a barrier for their agencies to achieve their modernization goals.

- As such, about half (56%) of federal DMs agree that cybersecurity and resilience enhancements are among their agencies' top modernization priorities for FY26, with 44% also saying that their agencies are undertaking efficiency initiatives to enhance cybersecurity infrastructure in FY26.

- Fifty-five percent of federal DMs see one of the biggest benefits of their agencies using AI is to drive immediate efficiencies in cybersecurity.

- Eighty-five percent of federal DMs give their agencies "A (excellent)" or "B (good)" grades for performance in cybersecurity and resilience enhancements.
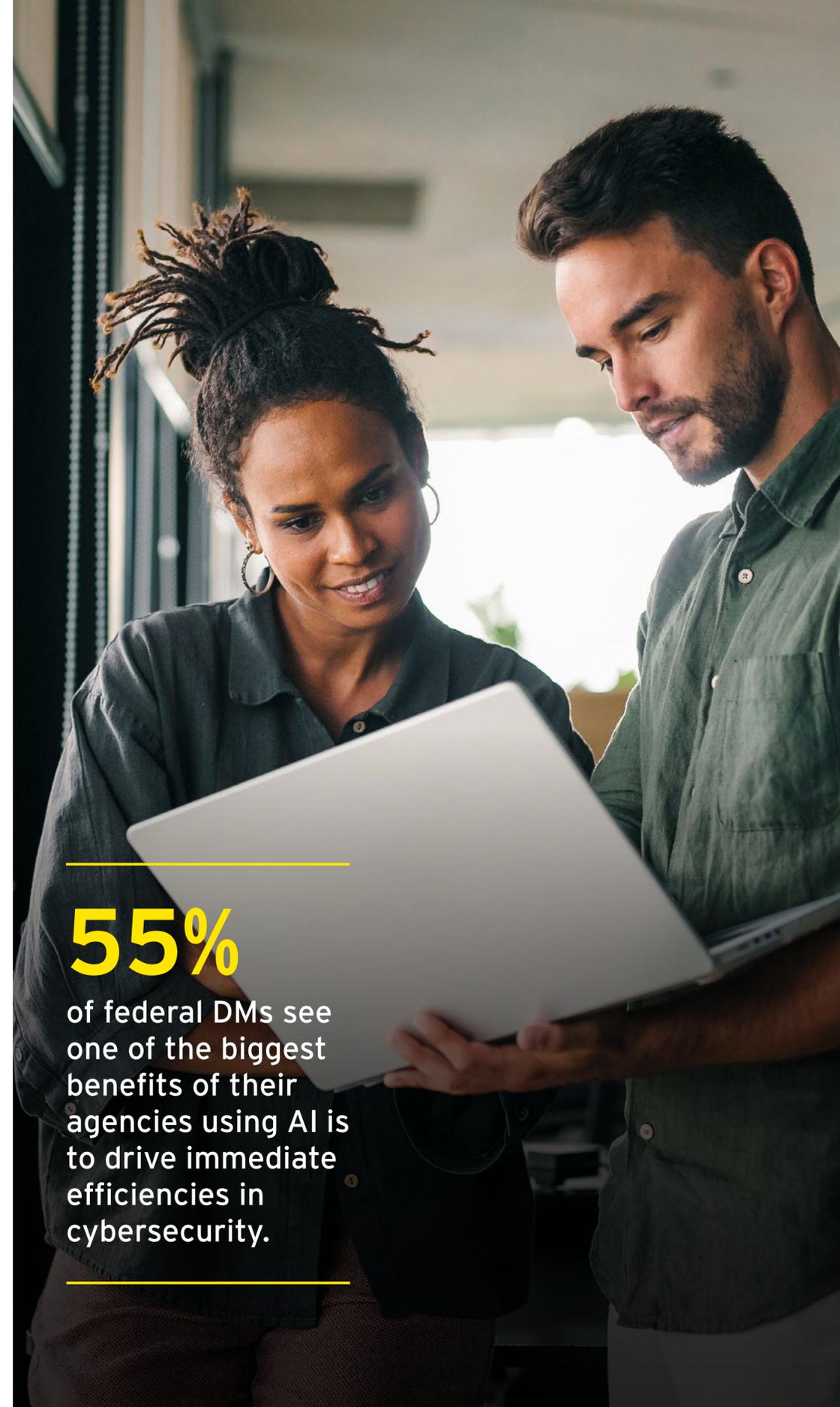
55%

of federal DMs see one of the biggest benefits of their agencies using AI is to drive immediate efficiencies in cybersecurity.

02

Findings in more detail

Modernization efforts

### 1. The illusion of progress: federal confidence vs. modernization reality

While transformation and modernization confidence is high, a peek behind the curtain suggests a less rosy reality: Federal DMs optimistically paint a picture of high-performing agencies ...

- Eight-in-ten federal DMs give their agencies "A (excellent)" or "B (good)" grades for performance in critical areas, such as:

  - Cybersecurity and resilience enhancements (85%)

  - Enhancing data utilization and analytics (e.g., AI/machine learning (ML) implementation, secure data sharing) (82%)

  - Updating legacy IT systems (e.g., cloud migration, infrastructure overhaul) (81%)

... while, in reality, federal DMs also admit that most IT systems are in a "transformation limbo."

- Only 22% of federal DMs say their agencies' IT systems (i.e., hardware, software and applications) are in the post-transformation phase (i.e., new systems/processes are operational, focusing on optimization) of the modernization journey today.

- In fact, about half (52%) of federal DMs say their IT systems (i.e., hardware, software and applications) are in the planning or mid-transformation stage of the modernization journey.

  - Thirty-seven percent of federal DMs say their agencies' IT systems are in the mid-transformation stage (i.e., actively migrating, deploying new systems/processes) of the modernization journey.

- And 15% of federal DMs say their agencies' IT systems are in the planning/assessment phase (i.e., developing roadmaps, conducting audits) of the modernization journey.

- What's more, a concerning quarter (26%) of federal DMs admit that their systems are in the legacy/premodern stage (i.e., still operating largely on outdated tech/processes) of the IT modernization journey.
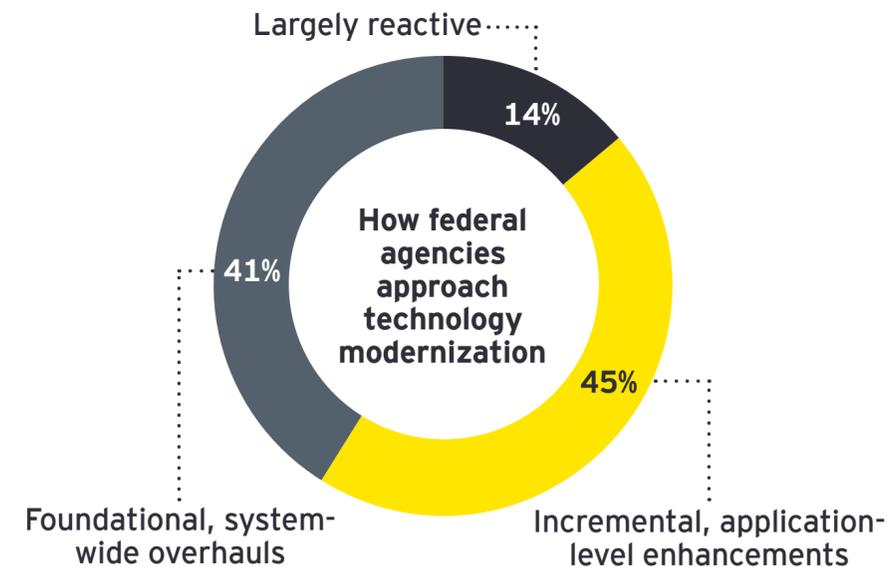
Post-transformation — 22%

Legacy/premodern — 26%

Stage of majority of IT systems in the modernization journey

Mid-transformation — 37%

Planning/assessment — 15%
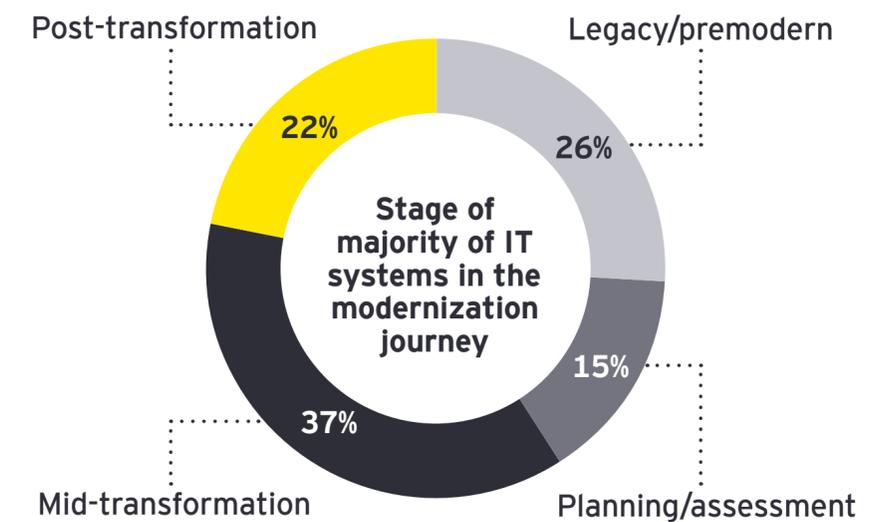
2. The real barriers to modernization

The road to modernization is fractured, as federal agencies lack a uniform approach.

- Forty-five percent of federal DMs say their agencies' technology modernization approach is primarily focused on incremental, application-level enhancements (i.e., modifications to software applications through new features, bug fixes or performance optimizations).

- In contrast, another 41% say their agencies' technology modernization approach is primarily focused on foundational, system-wide overhauls (i.e.,new software applications, etc.), even if it takes longer to see results.

- The good news: only 14% of federal DMs say their agencies' approach to tech modernization is largely reactive (i.e., addressing whichever system or application is most in need).

The most significant modernization barrier cited by federal DMs is not technological, but human capital – which may be undermining technology implementation.

- While barriers for achieving modernization goals are plenty, such as slow procurement processes (32%) and a lack of clear direction (24%), the top barrier for agencies to achieve their modernization goals is workforce skill gaps (44%).

- An overwhelming 92% of federal DMs agree that their agencies need more skilled personnel to effectively implement modernization initiatives.

- And federal DMs aren't losing any time to close the gap between the skills agencies have and the expertise they need: 95% say their agencies are focused on upskilling and training employees to foster modernization.

Largely reactive ┈┈┈┈

How federal agencies approach technology modernization

14%

41%

45%

Foundational, system-wide overhauls

Incremental, application-level enhancements

High-quality data and data storage are only minor hurdles for most federal agencies.

- Only 30% of federal DMs say inadequate data storage is a barrier to their agencies achieving their modernization goals.

- Only a quarter (27%) of federal DMs say inadequate data quality is a barrier to their agencies achieving their modernization goals, suggesting that data quality as a barrier to modernization goals is not as widespread as other issues.

Internal barriers, external worries: modernization challenges are coming not only from inside agencies but also from external sources.

- Agencies are also contending with powerful outside forces, as federal DMs say escalating cybersecurity threats (32%) and regulatory requirements (30%) are barriers to their agencies' efforts to achieve modernization goals.

- Federal DMs also point to limited external support as a barrier to achieve modernization goals, with a quarter of federal DMs pointing to limited vendor options (27%).

3. The way forward for federal modernization

Focusing on streamlining internal processes, including updates to foundational cybersecurity and legacy IT systems, is a more crucial strategic modernization goal for this fiscal year than implementing new tech.

- An overwhelming 96% of federal DMs want their agencies to focus on streamlining existing internal processes before implementing new technologies.

- As such, unsurprisingly, cybersecurity and resilience enhancements (56%) and updating legacy IT systems (e.g., cloud migration, infrastructure overhaul) (54%) are some of the top modernization priorities for FY26.

- Other modernization priorities for FY26 include:
  - Enhancing data utilization and analytics (e.g., AI/ML implementation, secure data sharing) (48%)
  - Consolidation of systems (e.g., merging multiple information systems into a more integrated system) (39%)
  - Business process re-engineering (e.g., streamlining workflows, removing red tape) (37%)
  - Critical infrastructure protection (36%)
  - Supply chain resiliency (35%)
  - Improving public-facing service delivery (e.g., citizen experience) (33%)
  - Talent and workforce transformation (e.g., upskilling, new hiring models) (31%)
  - Streamlining the procurement process (27%)
  - Expanding domestic production (26%)

Efficiency

4. The current state of federal efficiency: priorities and expectations

Efficiency is federal agencies' north star for FY26, as virtually every agency is undertaking efficiency initiatives; investment in technology and cybersecurity and upskilling employees accordingly are among the top priorities.

- Enhancing cybersecurity infrastructure (44%), investing in emerging technologies (e.g., AI, ML and robotic process automation (RPA)) (43%) and implementing new data systems (40%) are among the top efficiency initiatives.

  - In line with introducing new and/or enhancing existing tech and infrastructure, to improve efficiency in FY26, federal DMs also plan to prioritize upskilling personnel on new technologies (37%).

- Other efficiency initiatives federal DMs say their agencies are undertaking in FY26 include:

  - Collaborating with external partners/vendors for specialized solutions (34%)

  - Developing comprehensive AI governance strategies (34%)

  - Increasing budget allocation (32%)

  - Streamlining internal processes (31%)

  - Procurement reform (31%)

  - Program consolidation/portfolio optimization (30%)

  - Creating new AI-centric roles (27%)

  - Collaborating with other agencies to share leading practices (24%)

  - Contract reform (20%)

- Only 16% of federal government DMs say workforce reduction is an efficiency initiative in FY26.

Efficiency expectations are high as federal DMs believe the impact from these initiatives will help with innovation, employee productivity and improved services.

- Federal DMs have clear expectations for how efficiency initiatives will impact their agencies, as they expect them to:

  - Increase innovation (50%)

  - Improve regulation compliance (47%)

  - Enhance data accuracy/quality (46%)

  - Increase employee productivity (44%)

  - Accelerate project timelines (44%)

  - Improve resource allocation (39%)

  - Accelerate decision-making (39%)

  - Reduce operational costs (35%)

  - Improve citizen-facing services (34%)

Combating the skill gap crisis through collaboration: nine-in-ten federal DMs report interagency collaboration on modernization initiatives.

- Nine-in-ten (92%) federal DMs state that their agencies need more skilled personnel to effectively implement modernization initiatives.

- One potential approach is in play: A vast majority of federal DMs (91%) say their agencies actively collaborate with other federal agencies on modernization initiatives.

No quick fixes: essential modernization milestones require significant time investment.

- Federal DMs acknowledge that essential modernization milestones often require a year or more to:

  - Move an IT program from pilot phase to full-scale deployment (48%)

  - Establish an AI governance framework for new AI projects/tools (45%)

  - Data cleaning and preparation for mission-critical data before AI solutions can be fully deployed (40%)

5. The systemic barriers undermining federal efficiency

Despite big plans and high hopes, barriers to efficiency persist: Budget constraints, human capital and outdated tech are key hurdles for federal agencies striving for efficiency.

- Nine-in-ten (89%) federal DMs say their agencies face barriers to achieving federal efficiency.
- Some of the top barriers include:
  - Financial resources: budget constraints (34%), insufficient funding (26%) and lack of investment in new technologies (24%)
  - Data and tech: lack of data integrity/quality (34%) and outdated technological infrastructure (32%)
  - Human capital: lack of skilled personnel (31%)

Organizational obstacles, such as poor change leadership, procedural delays and regulation compliance, further complicate efficiency difficulties for federal agencies.

- Federal DMs point to resistance to change from leadership (33%) and personnel (27%) as barriers to achieving efficiency within their agencies.
- Three-in-ten (29%) federal DMs cite the complex regulatory environment as a barrier to their agencies achieving efficiency.
- A quarter (26%) of federal DMs say outdated processes and bureaucratic hurdles are a barrier to achieving efficiency within their agencies.

6. Gaps in measuring and defining success

Data-driven modernization and efficiency strategy or guesswork: only half of federal agencies are measuring all modernization efforts, and less are measuring all efficiency efforts.
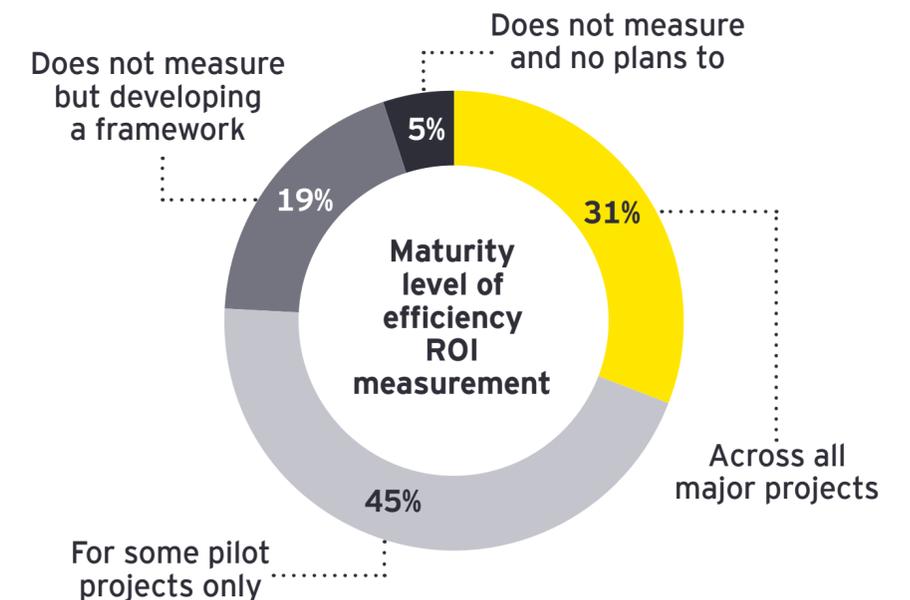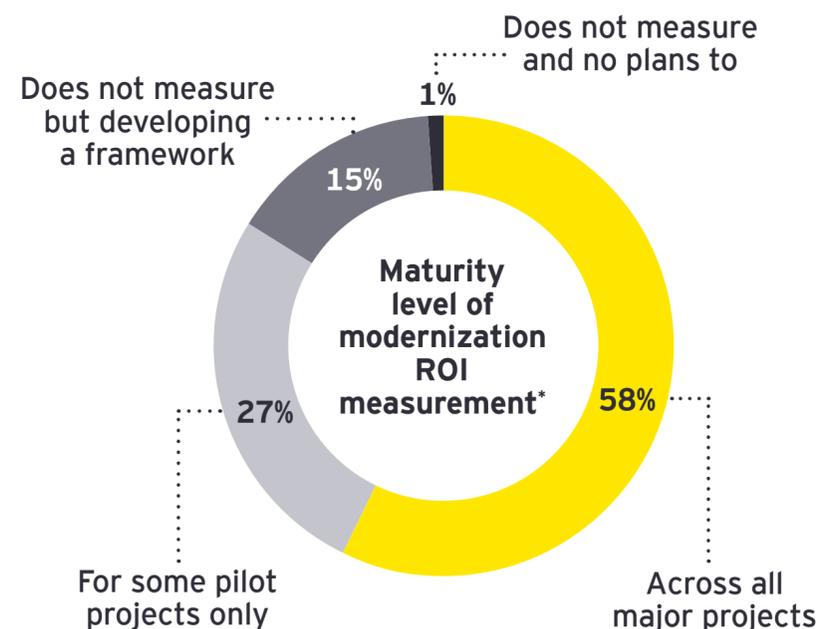
- The good news: most federal DMs measure at least some of their agencies' modernization (85%) and efficiency (76%) ROI. Peeling back the layers, however, reveals that significantly fewer measure all major projects.
- In fact, only 58% of federal DMs measure modernization ROI across all major projects. What's more, only about half as many (31%) measure all major projects' efficiency ROI.

- The good news: only 15% of federal DMs say their agencies do not measure (not measuring but developing a framework/not measuring and no current plans to do so) modernization ROI, and only 24% of federal DMs say their agencies do not measure (not measuring but developing a framework/not measuring and no current plans to do so) efficiency ROI.

For the agencies that do measure efficiency ROI, system health and workforce productivity are among the prioritized metrics.

- Federal DMs whose agencies measure efficiency ROI say system and data improvements are among the top-tracked metrics used to measure efficiency gains:

- Improved system reliability (52%)
- Improved data accuracy (50%)
- Improved data quality (49%)
- Along with workforce and process metrics:
  - Increased employee productivity (49%)
  - Faster processing times (45%)
  - Employee overtime reduction (28%)
  - Backlog reduction rate (24%)
- And financial metrics:
  - Operational cost reduction (39%)
  - Reduction of overhead (30%)
- And citizen interaction metrics:
  - Enhanced citizen satisfaction (32%)
  - Enhanced citizen service quality (32%)

Does not measure but developing a framework — 15%

Does not measure and no plans to — 1%

For some pilot projects only — 27%

Across all major projects — 58%

Maturity level of modernization ROI measurement*

Does not measure but developing a framework — 19%

Does not measure and no plans to — 5%

For some pilot projects only — 45%

Across all major projects — 31%

Maturity level of efficiency ROI measurement

*Due to rounding, totals may not add up to 100%.

7. AI optimism and strategy

Federal DMs are highly optimistic about AI and overwhelmingly view it as the needed, powerful tool to drive modernization and efficiency – but only with a clear strategy in place.

- An overwhelming majority of federal DMs view AI as a critical tool for driving modernization (88%) and improving efficiency (92%) within federal agencies.
- Federal DMs say that without a clear strategy on how AI can help with modernization efforts (89%) or how AI can lead to efficiency gains (89%), implementing AI at their agencies is a waste of resources.

As such, federal DMs report AI strategy development at their agencies and demonstrate a near-unanimous confidence in these plans for both modernization and efficiency gains.

- Nine-in-ten federal DMs say their agencies have a clear strategy on how to use AI for modernization efforts (92%) and efficiency gains (95%).
- And federal DMs have a concrete plan, as 94% say their agencies are adopting AI with a clear mission problem to solve.
- Federal DMs are fully tapped in, as they have a clear understanding of how their agencies use AI to drive modernization (96%) and efficiency (95%).
  - Furthermore, the majority of federal DMs say they have a clear understanding of specific AI use cases to drive modernization (94%) and to drive efficiencies (92%).

Excitement around AI is high, with half of federal DMs reporting that their agencies already have multiple fully deployed AI initiatives.
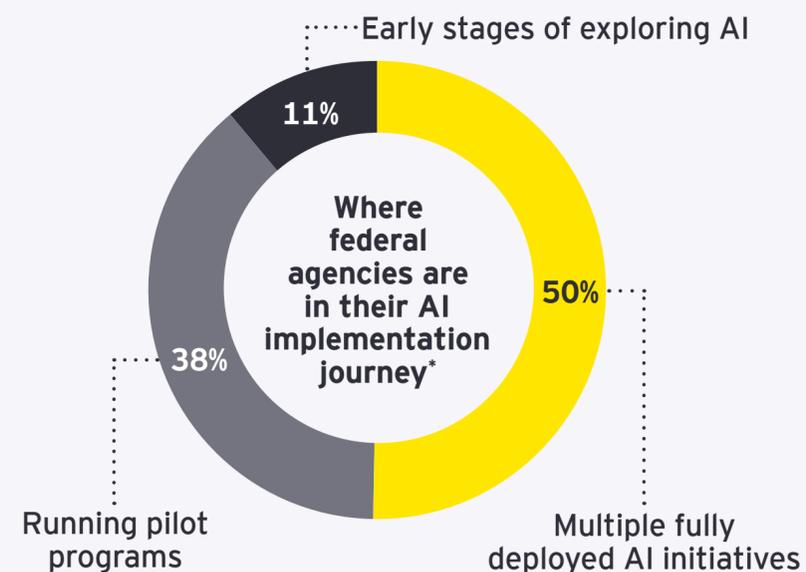
- Half (50%) of federal DMs say their agencies have multiple fully deployed AI initiatives, while two-fifths (38%) of federal DMs say their agencies are running pilot programs (i.e., initial implementation and testing before full deployment).
- Only one-in-ten (11%) federal DMs say their agencies are in the early stages of exploring AI and have not yet determined their approach.

Most federal agencies are still exploring how to implement AI into their workstreams.

- Roughly half (46%) of federal DMs say their agencies are still identifying AI for specific, well-defined use cases, and only a third (36%) are actually implementing AI for specific, well-defined use cases.
- Only one-in-ten federal DMs say their agencies are currently pursuing broad adoption of AI across various functions (11%) and report their agencies' approach varies by department/division (8%).

Challenges to scaling AI agency-wide are plenty. Among the most notable is integrating new AI solutions with legacy IT systems.

- Eighty-six percent of federal DMs say there are barriers to effectively scaling AI into agency-wide solutions, with difficulty integrating new AI solutions with legacy IT systems (48%) cited as one of the top barriers.
- Other top barriers to effectively scaling AI into agency-wide solutions include:

Early stages of exploring AI

Where federal agencies are in their AI implementation journey*

11%

50%

38%

Running pilot programs

Multiple fully deployed AI initiatives

*Due to rounding, totals may not add up to 100%.

- A shortage of workforce skills and training in AI (44%)
- Insufficient funding to support broader deployment (35%)
- Poor data quality (33%)
- Lack of a standardized governance framework for AI implementation (31%)
- Poor data accessibility (29%)
- Poor data infrastructure (28%)

Despite AI implementation limitations and barriers, federal DMs can already envision the benefits: They see the biggest AI benefits for their IT departments and in enhancing cybersecurity and data management.

- Federal DMs say they see the biggest benefits of their agencies using AI to drive immediate efficiencies in:
  - Specific departments: IT department (81%), followed by finance operations (40%) and HR department (27%)
  - Data and cybersecurity: cybersecurity (55%) and data management (50%)
  - Reporting and citizen-facing services: data analysis and reporting for citizen-facing services (33%), data analysis and reporting for internal services (33%), and overall citizen-facing services (22%)

To turn AI optimism into reality, workforce investments are underway.

- Nine-in-ten federal DMs say their agencies are creating new roles to support data initiatives (95%) and AI initiatives (92%).
- Additionally, there is high confidence in senior leadership: A majority of federal DMs say senior leaders at their agencies are providing employees with adequate training for agentic AI (88%) and generative AI (85%).
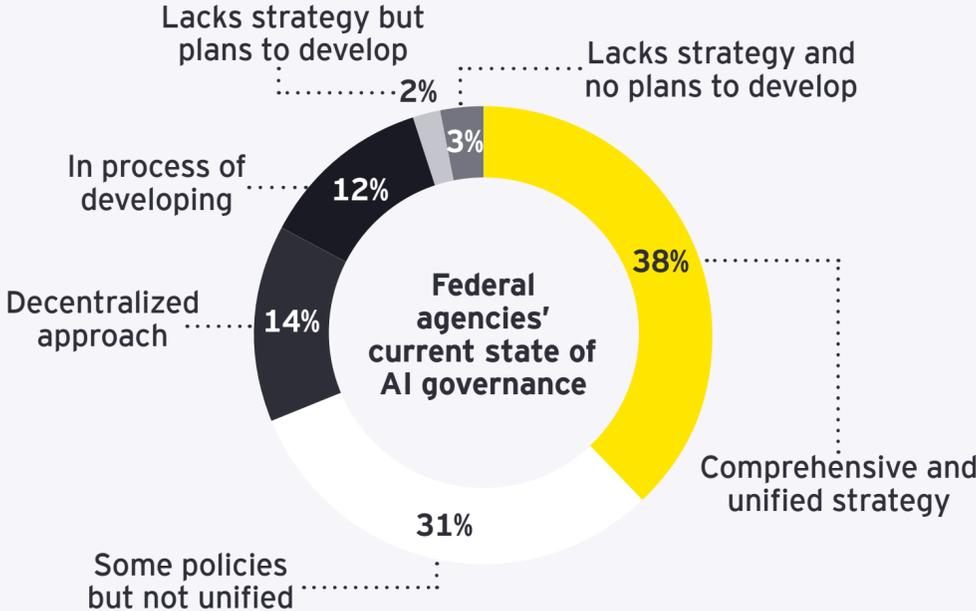
8. The fragmentation of AI governance frameworks

Similar to federal AI implementation, AI governance frameworks are widespread, though only about a third of federal DMs report a unified strategy in place.

- While a vast majority (82%) of federal DMs report having at least some form of an AI governance framework, only 38% say their agencies have a comprehensive and unified AI governance strategy in place.

- This means that for the remaining agencies, the approach is still fragmented: 31% of federal DMs say their agencies have some AI governance policies but they are not fully unified across the agency, and another 14% say their agencies have a decentralized approach where individual departments or teams manage their own AI governance.

- The good news: only 15% of federal DMs say their agencies are still in the process/planning stages of AI governance strategies, and only 3% say their agencies lack a formal AI governance strategy with no plans to establish one.

Senior leaders are providing governance frameworks for AI technologies, but a lack of standardization may hinder efforts to scale AI.

- About nine-in-ten federal DMs say senior leaders at their agencies are providing an agentic AI governance framework (85%) and also a generative AI governance framework (85%) for employees.

- Revealingly, a third (31%) of federal DMs cite the lack of a standardized governance framework as a barrier to effectively scaling AI into agency-wide solutions.

Lacks strategy but plans to develop 2%
Lacks strategy and no plans to develop 3%
In process of developing 12%
Decentralized approach 14%

Federal agencies' current state of AI governance

38% .... Comprehensive and unified strategy
31% .... Some policies but not unified

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