

Increasing Efficiency through Accounting: Examining Factors Influencing Uses of the Internal Service Fund Among County Governments

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ABSTRACT. Previous studies involving internal service fund (ISF) use over the past thirty years point to a decline due to limited usefulness and the ability for local governments to reallocate costs to various departments. In order to determine if this trend is continuing, a thorough analysis was conducted of North Carolina County Comprehensive Annual Financial Reports (CAFRs). Initial findings indicate that there has been a slight increase in ISF use with the province still among larger governments, but the number of services utilized through an ISF continues to decline. Additional survey data suggest less experienced finance officers, a lower number of staff accountants, and a larger budgeted employee base result in a higher probability of using an internal service fund.

Continual changes in service demands have forced local governments to examine various implementation alternatives. Cost allocation becomes problematic if service provision occurs outside of traditional departmental responsibilities. The option of subcontracting becomes viable in cases when the service is temporary. However, many indirect costs continue to remain with the primary unit. The assigning of these indirect costs usually occurs through an internal service fund (ISF). Service providers are usually within the government unit itself and can affect multiple departments. The number of ISFs usually depends on personnel and service needs with some larger governments employing substantially more ISFs.

Previous research has suggested that there has been a decline in ISF use among local governments, especially among smaller governments, for a variety of reasons including limited use or knowledge of the ISF. In an effort to further examine this change, this article reexamines ISF use and how indirect costs are being allocated. This study takes place within ten years of the previous study (Modlin 2011) and specifies county governments which previously utilized them with the most frequency. In this case, that would be North Carolina county governments. Findings now suggest an increase in the use of the ISF, but in more limited areas. Less experienced finance officers, less staff accountants, and higher levels of county government personnel all contribute to a higher use of the ISF.

This study makes several contributions to the public finance literature. First, it evaluates a fund accounting component which has not been the subject of substantial study and is critical for the isolation of indirect costs not to mention elevated transparency. Second, it captures significant changes within a specific fund that cannot be discovered through traditional time series analysis. Third, it demonstrates the changing nature of costs and in some cases, how departmental funding evolves.

INTERNAL SERVICE FUND DESIGN AND PURPOSES

ISFs are designed to provide efficiency in the acquisition, distribution, service provision, and the accounting of goods and services within the primary governmental unit. Ives, Razek, and Hosch (2004) suggest that the primary reasons for establishing ISFs are to (1) implement cost effectiveness in obtaining goods and services; and (2) improved efficiency in the distribution of goods and services within the governmental unit. Internal Service Funds are one of two forms of proprietary funds utilized by local governments.

Funds are classified as ISF versus enterprise if the primary participant or customer is the reporting government (GASB 1300.110). Thus, the business-type activities of ISFs are usually not rendered for public use (Holder, 2004). However, there are cases in which the public can purchase services or goods from an ISF providing department directly. For departments within the reporting unit, the ISF charges on a cost reimbursement basis (Granof and Wardlow 2003). In essence, these departments become a receivable for the fund. Activities that normally provide services associated with an ISF are information systems (formerly data processing), city and county garages or motor pools, procurement, and capital asset leasing. However, uses of the ISF have extended to account for activities in which necessary comprehensive employee coverage is necessitated such as health insurance and workers' compensation.

Often, initial funding from the general fund is the primary source of revenue for the ISF. Generally, the fund does not record its budget in accounts or have encumbrances (Engstrom and Copley 2004). Nearly all expenses incurred by departments are usually billed through the general fund. Likewise, the ISF receives payment through this same method and with equivalent funding since the service is provided on a cost reimbursement basis. At times, this limited customer base can create a higher service cost to the receiving entity not to mention incomplete costs to the ISF if trying to use traditional market mechanisms (Gianakis 1995). Separate account codes act as identifiers for the activities associated with each corresponding unit.

Proprietary funds use the total economic resources measurement focus since it is important to measure all costs associated with fund activity. ISF costs are full cost funds suggesting the billing rate reflects all operating costs, including depreciation, debt or capital service costs, along with other indirect costs. The full accrual basis of accounting is traditionally used for identifying revenues and expenses. The revenues are therefore recognized when earned and expenses when incurred (Ives, Patton, and Patton 2013). This creates the opportunity for the government unit to monitor the full cost of providing a good or service, especially as the fiscal year ends, with little anticipation for change. At times, services rendered by the ISF can be substandard compared to external providers due to the 'captive market' that has evolved within the unit (Davis 1991). Previous research has suggested that there is not enough transparency concerning the ISF (Gianakis 1995). This situation has improved with financial statements for ISFs inclusive of (1) the statement of net position; (2) statement of revenues, expenses, and change in fund net position; and (3) the statement of cash flows.

PREVIOUS FINDINGS RELATED TO ISF USE

Most of the research surrounding the use of ISFs by local governments is rather limited. The studies have mainly included case studies demonstrating anomalies among

ISF uses. The most comprehensive study of ISF use was conducted by Coe and O’Sullivan (1993). In an examination of all U.S. cities with populations of more than 25K, findings indicated that the ISF was more prominent in professionally administered governments (council-manager form) compared to governments with the elected chief executive. This was an expected finding since council-manager governments have been found to outperform other forms of local governments on many levels of financial and accounting reporting including transparency (Giroux and McLelland 2003; Ingram and DeJong 1987).

The findings of Coe and O’Sullivan also suggested that more than 70 percent of cities did implement an ISF and with additional accounting methods used to provide some indication of additional overhead service costs. The primary use of the ISF of responding cities was through the use of fleet maintenance. Costs associated with the operation of a motor fleet are extenuating not to mention the arduous task of obtaining optimal resale value (Modlin 2016A). Finance officers also responded that insurance was an additional use of the ISF. Cities that did not utilize ISFs cited reasons ranging from inadequate information associated with implementation to lack of necessity.

Modlin (2011) examined county government ISF use in North Carolina, South Carolina, and Tennessee to determine how the practice has evolved and how cost allocation has changed. Findings indicated that there was indeed a decline of ISF use as compared to the Coe and O’Sullivan study. Only 26% of the sampled county governments responded that they employed internal service funds as a method of determining costs of an activity. Of that number, an overwhelming majority of those were from North Carolina. Larger governments, counties that used the commission-manager or council-manager forms of government were most likely to employ ISFs. Interestingly enough, counties that did not utilize a cost allocation plan for indirect costs also were most likely to use the ISF.

The dramatic decrease in the internal service fund based on the latest findings has created a prompt to investigate this continual change. With the ever-evolving size of governments and accounting standards, more in-depth research can determine whether higher service costs are accounted through the internal service fund or are costs placed under normal departmental expenses. For county governments which are administrative arms of the state with increasing responsibilities surrounding service delivery, these contributions are vital. Previous findings also suggested that the council-manager form of government and especially those in North Carolina were the primary users of the ISF, thus the rationale for the reexamination of those counties. In addition, more information is needed concerning smaller governments with budget sizes of less than \$50M due to potential temporary service demands.

FACTORS INFLUENCING ISF USE

The findings of previous research have led to the examination of professionally administered county governments in North Carolina to determine the factors which contribute to the implementation of the ISF. In most cases and especially among smaller governments, the accounting functions have been found to be located within the finance department placing the accounting and auditing responsibilities under the finance officer (Modlin 2016B). The typical finance office in North Carolina is usually responsible for nearly all cash management responsibilities including budget formulation, organization,

investments, and accounting (Modlin 2012). In larger county governments, there is at times a separation of finance and accounting offices and in some cases, even separate budget offices, therefore this study examines the number of staff accountants within the unit (**ACCOUNTANTS**) and how this influences indirect costing issues. Finance officer experience managing hidden costs associated with service delivery will also be tested and is expected to be a factor (**EXPERIENCE**) along with the frequency of request to perform cost analysis outside of normal job responsibilities (**COSTANA**). Furthermore, the continual complexities surrounding local government finance practices including information submitted during the audit process has been a cue for government staff to have even more expertise in governmental accounting (McCue 2001). As a result, in recent years, the number of finance officers with accounting backgrounds (**FIELD**) has increased slightly (Modlin 2012; Modlin 2016B). Local government units with larger budgets were found to utilize the ISF more compared to smaller governments in a previous study. Other findings within that same study suggested that workers' compensation and health insurance were primary areas for ISF use (Modlin 2011). Therefore, this study will further the research with a more in-depth examination of the relationship between budgeted county government personnel (**EMP**) and ISF use.

External factors are also expected to contribute to ISF use. North Carolina has a very extensive oversight process which includes three levels of review. The first level of review is obvious financial problems while the second level of review examines problems and inconsistencies within comprehensive annual financial report exhibits including government-wide statements, fund statements, note disclosures, etc. When problems arise in this section, the unit is sent a 'white letter' by the state Local Government Commission detailing the issue which will require correction with a resubmittal (**STATEWHT**). The third level of review consists of more serious issues such as fund balance below 9%, a less than 90% property tax collection rate, a low quick ratio for enterprise funds, etc. (Coe 2007). While some of this can be attributed to the importance of financial accountability, some can be attributed to the complexities of solving reconciliation issues identified by state oversight organizations (Modlin 2012; Modlin and Stewart 2014); therefore, finance officer potential expectations of state citation as a result of various accounting activities is expected to influence ISF use.

The complexities surrounding the accounting of the ISF due to the involvement of various departments and basic personnel issues can make the audit process slightly more challenging as well as expensive. Some findings have suggested that local government audit fees have been attributed to additional time used in the audit process (Johnson 1998; Johnson, Freeman, and Davies 2003). Therefore, this study examines the impact of audit fees (**FEES**) on ISF use. The clarity associated with the indirect spending of the ISF can create the expectation of receiving the Government Finance Officers (**GFOA**) award for comprehensive annual financial report (CAFR). For example, some CAFRs consolidate all proprietary funds under the statement of revenues, expenses, and changes in fund net position while others provide additional clarity with the specifics for all enterprise and internal service funds. Problems that can result from additional clarity and receiving the award include audit delay that has been linked to higher fees due to the increased time and resources used in those audits (Johnson 1998).

DATA and METHODS

For this study, data was retrieved from alternate sources. County government ISF use was obtained from comprehensive annual financial reports while EMP information was obtained from both CAFRs and the University of North Carolina School of Government (2015). Audit fee information was obtained from the office of North Carolina Department of State Treasurer Local Government Commission (2016). The GFOA was the source for Comprehensive Annual Financial Report (CAFR) award information, and the remaining information was the result of survey data which was distributed in the Fall of 2017. All variables are discrete except for FIELD and GFOA which are dummy variables. The primary dependent variable, the use of the ISF, is also a dummy variable.

Survey information was solicited concerning characteristics of the finance officer, the finance office, and interpretations of specific occupational influences. A cover letter explaining the purpose of the survey and the instrument itself were sent electronically to the finance director in all 100 counties in North Carolina in the Fall of 2017. After several rounds of dissemination, 42% of surveys were returned. Information received from both finance officers and the North Carolina Local Government Commission provided information for many of the independent variables in addition to CAFRs which provided information for ISF use.

This study has attempted to find as many factors as possible, especially among personnel attributes, which would influence the implementation of the internal service fund. Since the ISF is essentially an accounting concept, accounting characteristics associated with staff and the local government entity itself are expected to be influential in ISF use. The variables used for the study and descriptions appear in Table 1. Since logistic regression models will be used in the analysis, Table 1 presents the highest value for each predictor.

**TABLE 1
Definitions of Variables for Measurement**

Variable	Measurement
ISF (Dependent)	Dichotomous variable for internal service fund use
EXPERIENCE	Discrete measure for finance officer experience 5 = More than 20 years; 4 = 15 to 20 years; 3 = 10 to 15 years; 2 = 5 to 10 years, 1 = less than 5 years
FIELD	Dummy variable for finance officer specialization area 1 = Accounting
ACCOUNTANTS	The number of a staff accountant(s); 5 = Five or More; 4 = 4; 3 = 3; 2 = 2; 1 = 1
COSTANA	The frequency of cost analysis outside of traditional job responsibilities 5 = Very Often; 4 = Often; 3 = Somewhat Often; 2 = Not Very Often; 1 = Not at All
STATEWHITE	The level of concern finance officers have with potential citations from state oversight organization over budget and financing activities; 5 = Very Concerned; 4 = Concerned; 3 = Somewhat Concerned, etc.

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FEES	The total cost for the previous audit 5 = More than 100K; 4 = 75K to 100K; 3 = 50K to 75K; 2 = 25K to 50K; 1 = Up to 25K
GFOA	Dummy variable for reception of GFOA award for Comprehensive Financial Report Presentation for the prior fiscal year; 1 = GFOA award
EMP	The number of budgeted county employees; 5 = More than 1,000; 4 = 750 to 1000; 3 = 500 to 750; 2 = 250 to 500; 1 = Up to 250

One initial ISF model was estimated based on the variable descriptions in Table 1. Since logistic regression will be used in the analyses, the probability of ISF use is determined. Unlike previous studies, there is a focus on the process and the influence of county officials within that process.

$$ISF = \beta_0 + \beta_1 EXPERIENCE + \beta_2 FIELD + \beta_3 ACCOUNTANTS + \beta_4 COSTANA + \beta_5 STATEWHITE + \beta_6 FEES + \beta_7 GFOA + \beta_8 EMP$$

The predictors will also be tested against ISF frequency. The use of an ordered dependent variable necessitates the need for a model that can compensate for the elevated number of responses resulting from predictor changes as well as changes within the actual number of ISFs. Challenges emerge with the effort to obtain a precise measurement for the number of ISFs using ordered logistic regression. In the model below, Y^* represents the underlying latent variable that is relatively unobservable while Z is a calculation of the coefficients multiplied to the predictors at the nominal value. The argument could be made that Y^* is a condensed version of the dependent variable (Menard 2002). For instance, the random disturbance term (ϵ_i) which is added to the exogenous variable (Z), has a logistic distribution suggesting that multiple ISF use could easily fall somewhere between any two categorical outcomes versus having a precise measurement. The formula below represents the calculation of the underlying latent variable for the model testing for multiple ISF use.

$$Y^*_i = \sum_{K=1}^K \beta_K X_{ki} + \epsilon_i = Z_i + \epsilon_i$$

There will also be a discussion of what type of activities are used with the ISF and how this has changed compared to the previous studies and if it can be determined how additional indirect costs are transferred. The personnel characteristics of government employees can also be a determining factor in the decision to implement this type of accounting mechanism.

FINDINGS

A preliminary analysis of counties in surrounding states indicated very limited ISF use compared to North Carolina, thus were not included in the sample. Furthermore, significant predictor data from additional states was not available which may have been critical in the analysis.

Descriptive statistics for all independent variables appear in Table 2. From the data below, finance officers have a relatively high level of experience at just over 12 years. There also appears to be a moderate level of concern that fund implementation or

change could lead to white letter issuance (STATEWHT). The elevated number of staff accountants could provide some explanation for this finding as well as the considerable amount of non-routine cost analysis. Costs (FEES) for audits averaged just slightly over \$75K which was significantly more compared to previous findings (Modlin 2012). Among all counties in the state, audit costs averaged approximately \$63K.

TABLE 2: Descriptive Statistics: Overall Sample (N=42)

<i>Variable</i>	<i>Mean</i>	<i>Standard Deviation</i>	<i>Range</i>
EXPERIENCE	3.55	1.555	1-5
FIELD	.74	.445	0-1
ACCOUNTANTS	2.619	1.324	1-5
COSTANA	3.10	.958	1-5
STATEWHT	2.762	1.226	1-5
FEES	3.190	1.534	1-5
GFOA	.452	.504	0-1
EMP	2.571	1.328	1-5

The number of ISFs utilized by county governments in North Carolina is presented in Figure 1. Approximately thirty-eight counties use at least one ISF. Compared to recent studies, the number of services financed through the ISF has decreased rather substantially (Coe and O’Sullivan 1993; Modlin 2011). In both studies, an ISF was used to finance approximately ten service categories by at least five different government forms. In this study, only three service areas were financed with the ISF by a number of governments. For the most part, accounting, information systems, legal, and buildings/grounds are now functioning departments. However, one recent finding points to fleet financing becoming a departmental expense and depending on the county, a capital investment (Modlin 2018).

Health insurance costs appear to be the only category in which there has been a substantial increase in ISF use with 35 counties utilizing the fund compared to 18 in the previous finding when North Carolina counties were isolated. In addition, the number of workers’ compensation and county fleet ISFs were approximately the same (Modlin 2011). Presently, more counties as a percentage are using the ISF for employee health insurance with more than one-third of all counties utilizing the ISF to account for these expenses. For health insurance, all county employees usually contribute to the fund in some manner although use of the insurance by employees is not nearly as equitable. Aside from the primary uses, risk and property insurance were used in a more limited capacity along with unemployment insurance, employee clinics, and a cafeteria plan were represented as well.

TABLE 3: Internal Service Fund Use by Budget Size and Activity

<i>Total (n=38)</i>	County Fleet	Workers’ Comp.	Health Insurance	Other
<i>Budget Size</i>				
>25M (n=3)	1	0	2	0
25-50M (n=9)	0	0	8	1
50M-75M (n=8)	1	3	8	3
75M-100M (n=6)	1	5	6	3
< 100M (n=12)	6	6	11	4

The examination of internal service fund activity within the CAFRs, more notably the Statement of Revenues, Expenditures and Changes in Fund Net position for Proprietary Funds within the financial reports, provided much information concerning the changes among funds during the course of the fiscal year. Since initial funding for the ISF begins with the general fund, the expectation was that original net position would be rather modest, but this was not the case (Table 4). Many county governments had rather substantial initial net positions with two of the budget groups having lower ending net positions. Three counties had both a beginning and ending negative net position. Guilford County, which is located in the central part of the state, had the most assets dedicated to ISFs. The county had a beginning and ending net position of more than \$29M.

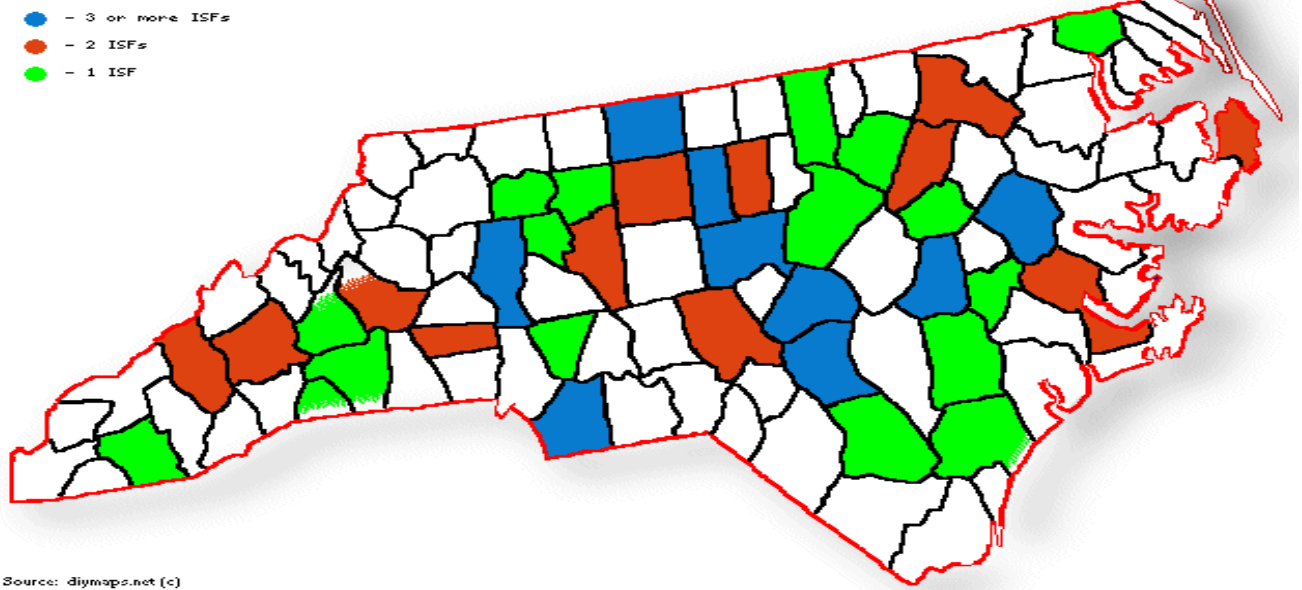
The total expenditures column provides an opportunity to examine the costs of services during the fiscal year in relation to the beginning net position. It can be concluded that counties with lower ending net positions had higher service costs. It also appears that counties with budget sizes of less than 25M used the ISF in a more traditional manner with nearly all costs occurring during the fiscal year with little need for additional funding during the next budget cycle. For the most part, insurance claims were by far the largest expense for governments that used the ISF. Again, Guilford County had the highest amount of costs during the fiscal year with more than \$40M.

TABLE 4: End of Year Average Net Position for Internal Service Fund by Budget Size

<i>Total (n=38)</i>	Net Position Beginning FY	Net Position Ending FY	Total Expenditures for FY
<i>Budget Size</i>			
>25M (n=3)	152,666	217,374	1,230,091
25-50M (n=9)	468,904	675,707	2,814,247
50M-75M (n=8)	1,471,554	1,149,840	8,009,473
75M-100M (n=6)	3,307,068	3,230,206	8,169,288
< 100M (n=12)	7,378,134	7,744,555	18,699,269

Figure 1 provides a geographical interpretation of ISF use. It appears that counties in the central part of the state were the most likely to have more than one ISF for cost allocation purposes. Of course, many of the counties that have multiple ISFs (shaded in blue) have both large populations as well as larger budgets that are needed due to the elevated number of personnel. There is also evidence that each county finance office determines the appropriate number of ISFs to implement without deferring to activities statewide. North Carolina county governments have a substantial number of internal service funds compared to county governments in surrounding states; however, most county governments in the state do not utilize an internal service fund (Modlin 2011).

Figure 1: Number of Internal Service Funds by County



To determine what factors contribute to the use of ISFs, Table 5 presents a model with ISF use as a dummy variable in this case, but also as the dependent variable. In this model, finance officers with less experience in addition to finance officers with less staff accountants were more likely to use the ISF as a method for indirect cost reallocation. In addition, the use of the ISF decreases by 2.2498 points if the finance officer is asked to perform some form of unanticipated cost analysis given all of the other variables are held constant. However, the most compelling finding is that of EMP. The odds of using the ISF increases by more than nine times with each employee size category.

TABLE 5: Regression Analysis of Model to Determine ISF Use by County Governments

<i>Variable</i>	<i>Coefficient</i>	<i>Odds Ratio</i>
EXPERIENCE	-.8335*	.4345
FIELD	2.8913	18.0178
ACCOUNTANTS	-1.2643**	.2824
COSTANA	-2.2498 **	.1054
STATEWHT	-.8949	.4086
FEES	.9303	2.5354
GFOA	.0552	1.0567
EMP	2.2246**	9.2503
<i>N</i>	42	42
Log Lik.	-14.2883	
LR Chi-squared (8)	28.11**	
McFadden's Pseudo- R^2	.4959	

Notes: Cell entries are unstandardized parameter estimates; ** $p \leq .05$; * $p \leq .10$ (two-tailed test).

More than half of the sample utilized the ISF for more than one category. The number of ISFs used ranged from one to six. Based on these findings, an ordered logistic regression was used to test the predictors against using multiple internal service funds

with a dependent variable scale based on use frequency. Although the findings had similarities to the previous model, FIELD has taken on significance within this model (Table 6). Finance officers with accounting backgrounds had a much higher probability of utilizing multiple internal service funds compared to finance officers with other backgrounds. The odds of multiple internal service fund use increases by more than 13 times if finance officers have accounting backgrounds. The thresholds provide a way to differentiate between the differing levels of ISF use. Threshold 1 has a latent variable score of 2.48 indicating the use of approximately one ISF as compared to other categorical uses when all predictors are evaluated at the lowest level. Therefore, when $Y = 1$, the Y^* is ≤ 2.4751 . For two ISFs, the Y^* is between 2.4751 and 4.1338.

It is also important to test the model to ensure that the combined effect of all the variables that are used as predictors is not zero. The null model is an intercept-only model at zero iterations. As the full model evolves, the iteration process continues until the difference in log likelihood decreases to its lowest point as a result of continual successive iterations (-35.9800). Thus, the model for all eight factors associated with internal service fund use was significant after being tested against a constant-only model $X^2(8, N=42) = 28.11, p \leq .005$, indicating that the predictors, as a set, are reliable for predicting multiple use of the ISF.

TABLE 6: Regression Analysis of Model to Determine Multiple ISF Use

<i>Variable</i>	<i>Coefficient</i>	<i>Odds Ratio</i>
EXPERIENCE	-.2103	.8103
FIELD	2.6273*	13.8377
ACCOUNTANTS	-.6443*	.5250
COSTANA	-.6552	.5194
STATEWHT	-.3211	.7253
FEES	.4555	1.5770
GFOA	.2957	1.3441
EMP	1.5095**	4.5247
Threshold 1	2.4751	2.4751
Threshold 2	4.1338	4.1338
Threshold 3	5.5688	5.5688
Threshold 4	6.9168	6.9168
<i>N</i>	42	42
Log Lik.	-35.9800	
LR Chi-squared (8)	22.64**	
McFadden's Pseudo- R^2	.2393	

Notes: Cell entries are unstandardized parameter estimates; ** $p \leq .05$; * $p \leq .10$ (two-tailed test).

The overall findings appeared to indicate that there was a substantial increase in just one ISF category. Health insurance was overwhelmingly used as an ISF, especially among larger counties. This finding provides much of the explanation for the EMP findings in both models. Costs associated with claims have forced counties to examine isolating the costs in order to determine proper policy remediation. In most cases, many of these costs are transferred to the employee. A McFadden's Pseudo- R^2 between .2-.4, as is the case with this model, is considered a very good fit (McFadden 1979; Hensher and Johnson 1981).

The research has demonstrated the importance of personnel characteristics in the development and use of the internal service fund, especially as it relates to burgeoning

indirect costs. While the previous studies suggest a decrease in the overall use of the fund, the types of activities appear to be much more isolated consisting primarily of health insurance. The need to control costs provides some explanation for these findings. The continual increase in health care premiums would advocate the need to isolate the indirect costs since nearly all full-time employees are covered no matter the department. The stability in ISF use for workers' compensation and county garages points to a possible trend that will require isolating indirect costs due to increasing work safety issues as well as the increasing size of fleets. In the case of the county garage, costs are minimized with auto resale values and the ability to minimize costs by moving older vehicles to departments with less of a travel requirement (Modlin 2016A). Moving services to individual departments can be advantageous since capacity issues can occur if specific services are required in an expeditious manner (Davis 1991).

Caution has to be exercised when trying to generalize these findings across other local governments. First, the study was based on a recent study in which the majority of responses were from professionally administered county governments. Of course, the reason behind this was that ISF use was significantly higher in that form versus others (Modlin 2011). There is not sufficient information to determine the indirect costs processes of other forms of county governments, but it is conceivable that it could be higher in some service areas, but not widespread. Second, finance officer experience and field of study may provide as much information concerning utilization as form of government. In this study, less experienced finance officers were more likely to use the ISF. This finding could be generalized among other states with alternate forms of local governments with officials of different backgrounds.

CONCLUSION

This study has attempted to examine factors that influence internal service fund use among North Carolina counties. The findings indicate finance officer experience, fewer staff accountants, and less unanticipated cost analysis led to an elevated probability of ISF use. The primary consistency with all models is the significance of budgeted employees on ISF use. Findings also suggest the propensity for larger governments to utilize more ISFs, especially in the areas of health insurance and workers' compensation. Overall, use of the fund has decreased, but three service areas continue to experience consistent if not elevated use: workers compensation, county garages, and employee health insurance. Compared to the previous findings, there has been quite a contrast. The Coe and O'Sullivan (1993) study found high use in numerous service areas while the most recent study found a substantial decline (Modlin 2011). This study has also illustrated substantial ISF funding remains at the end of the fiscal year due to immediate liabilities that will be incurred.

There are also many implications associated with the findings. First, the continual decline of the internal service fund among service activities suggests an even stronger movement toward more 'in-house' development of services and higher departmental budgets. The ability for managers and elected officials alike to question departmental funding is severely limited due to the line-item account code classifications associated with these services. For the most part, elected officials see themselves as very involved in the budget process, although the amount of time they spend on intimate accounting

details is very limited and extremely rare (Modlin 2008; Modlin and Stewart 2014). Second, the health insurance finding does provide some information concerning the continual need to allocate certain indirect costs. For smaller governments that are interested in obtaining new services, this finding illustrates that until a particular service can be fully developed, the ISF can provide a method for tracking costs. Third, the findings indicate that that some general fund balance use is limited since so many governments allow revenue within the ISFs to carry over to the next fiscal year in anticipation of immediate liabilities in the upcoming fiscal year. Finally, the findings demonstrate that it is very important to prepare students with the best training possible prior to public sector financial endeavors, especially in the area of governmental accounting. Many texts do not cover many of the accounting facets necessary to develop strong cost finding skills (Modlin 2016B).

It appears that finance officers in larger governments are utilizing the ISF in these few areas because other alternatives to reallocate costs, especially in the area of health insurance, cannot provide sufficient transparency or budgeting equity among departments. As demonstrated by this study, indirect costing continues to be an important function within local government daily financial activities. The ISF can still be a very useful tool and a tremendous accounting asset for finance officers to combat service areas that have problems associated with cost effectiveness.

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