
Journal of Public and Nonprofit Affairs

Vol. 11, No. 2

The Impact of Personnel Actions on Official Bonding Activities: An Examination of County Governments

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The protection of government assets is often a public policy feature that can easily be overlooked. Proper bonding of public officials with asset responsibilities provides an assurance of resource protection and public trust. This study examines the level of impact that internal and external county characteristics have on the incremental bonding practices of appointed and elected government officials in North Carolina. Preliminary findings indicate more standardized bonding practices for appointed officials while bonding for elected officials is more discretionary to a point. Traditional finance office staff and audit findings influenced bond amount increases for both appointed and elected officials with specific importance placed on the accounts payable position. Implications of the study include the importance of well-trained finance personnel that can limit unnecessary risks and additional bonding increases.

Keywords: official bonding, risk management, local government management, local government finance, internal controls

Providing government service delivery with the highest level of efficiency is an ongoing objective among governments at all levels. Part of this process is to ensure the protection of all government owned assets to avoid uninterrupted public policy implementation. Local government accountability remains despite the unintended consequences of natural disasters, external business impacts, accidents with public property, or even the misuse of assets by public officials. Loss of property due to employee misconduct at the local level occurs frequently but receives less attention than practices at other levels of government due to the localized nature of the act, whether or not an elected official was involved, and rapid news cycle changes. However, the misconduct can take place at multiple levels of the administration with losses of more than \$1M, and in some cases, the appointed manager may have engaged in these practices for many years and at multiple levels (U.S.D.O.J., 2018). For these reasons, a comprehensive risk management plan is essential to sustain normal operations with a central focus on the bonding of specific personnel as well as public officials that have positions of responsibility related to the temporary possession of key assets, especially funds (Coe, 2007). The goal of this exploratory study is to determine if specific local government organizational characteristics are related to the incremental bonding amounts implemented by county governments. One presumption is that adequate personnel are a product of formalized policy statements and sustained

recordkeeping leading to a reduction of liability and lower bond coverage. Overall findings point to a link between specific accounting positions and bonding practices with elected and appointed positions among North Carolina county governments. Relationships have also been established between elected office bonding and specific financial audit findings.

Additional transparency in all phases of government operations is the motivation for the study. The Governmental Accounting Standards Board (GASB) continues to introduce standards that increase clarity, especially as it relates to audit presentation (GASB, 2019; GASB, 2021). Statement proposals provide critical information for stakeholders, but especially for those that have a substantial financial interest. Audit information is even more critical for units that are engaging in an initial bond solicitation. The note disclosures or *Notes to the Financial Statements* provide more specified information concerning the basis for financial statement presentation along with assets that affect current and future personnel activities (Modlin, 2016). In this case, bonding information for selected officials is available demonstrating adherence to asset protection policy with all counties in this study stating some amount of specific official coverage.

The study advances the literature in several ways. First, there is a gap in the literature concerning risk management policies among local governments (Bullock, Greer, & O'Toole Jr., 2018), especially as it relates to official bonding practices. Second, the findings illuminate the need and sometimes ongoing struggle to employ qualified staff with accounting responsibilities capable of implementing generally accepted accounting principles (GAAP) that identify potential discrepancies with transactions (Modlin, 2024B). This could eliminate overall necessary bond coverage. The study also identifies a key area within the budgeting process that is often overlooked or expended annually on a repetitive basis without evaluation of coverage change. Major emphases are usually placed on salary and benefit changes along with capital investment leaving some critical mundane aspects with very little attention. Counties with risk managers can easily assist with these updates and changes. Finally, the study illustrates how local government policy is driven by a heavy state oversight process. Local government autonomy, especially as it relates to finances, varies considerably from state to state (Cahill & James, 1992; Coe, 2008; Honadle, 2003; Kloha, Weissert, & Kleine, 2005).

The study is organized accordingly. The next section consists of state legislation that provides bonding parameters for types and amounts. The following section includes the literature review and hypotheses development. The research design will be introduced with an overall model that lists the factors that are expected to influence the level of county government official bonding amounts. Multivariate models will also be presented that provide further analyses along with robust model testing. Finally, there will be an evaluation of the findings with a discussion of the overall impact and implications of the study.

Literature Review

A gap exists within the extant literature concerning the changes and amounts of bond coverages. Thus far, the literature consists primarily of risk management practices encompassing emergency preparedness management and some form of corruption associated with public official practices. Most studies examined the impact of alternate levels of political corruption and ensuing organizational perception (Cailler, 2018; Graycar & Villa, 2011; Lee & Liu, 2021; Liu & Mikesell, 2014; Meier & Holbrook, 1992; Thompson, 2014). From an institutional standpoint, increased preparedness was necessary for government officials with responsibilities for disaster mitigation (Donahue, Eckel & Wilson, 2014; Lee, 2020; Meyer, Solomon, & Wolf, 1984;

Soloman, 1986). No previous study examined whether there was some type of active organizational plan of risk management with clearly identified goals and objectives that are considered necessary for increased efficiency as well as loss prevention (Stanton & Webster, 2014).

Organization factors and especially bureaucratic activities can be primary factors in determining bonding activities which are an essential part of risk management policy. For the purposes of this study, there will be a heavy emphasis on personnel and additional contributing factors that have some impact on unit financial activity and financial statement accuracy. Cuny, Mehta, and Kim (2020) found less accountability with the implementation and reporting of intergovernmental fund usage by local governments located within the districts of influential Congress members as defined by vote share. However, an additional study found that quality audit firm presence and some voter oversight mechanism increased initial financial statement accuracy and lessened the chance of a more costly debt service issuance (Baber, et al., 2013). During the budget preparation process, variations in expectation levels between elected officials and staff can significantly alter the process and increase the likelihood of an internal control problem (Modlin, 2019).

State Legislation Driving the Process

The official bonding process for specific local government officials has origins dating back to 2005 and is driven by North Carolina General Statute (N.C.G.S.) 159-29. Each official, employee, or agent that is in possession of at least \$100 of the unit's funds at any given time including accessibility to unit inventories or public authorities (secondary units) is required to give a faithful performance bond with sufficient sureties payable to the local government entity. All bonds are approved by the governing board and are deposited by the clerk to the board. Officials, no matter whether they are elected or appointed, cannot fulfill the associated occupational obligations until bonding requirements are fulfilled. Finance officers specifically are required to provide a true accounting and performance bond with sureties in an amount that would be determined by the governing board. Bond premiums are to be paid by the unit, and the finance officer cannot be appointed until bonding securement. In this study, most finance officers have a performance bond through a commercial surety bond. The legislation also states that bonded amounts cannot be less than the greater of \$50,000 or an amount equivalent to 10% of the unit's annually budgeted funds up to \$1M. Costs for \$1M bond coverage for finance officers in North Carolina have ranged from \$1,500 to \$6,000 (Crews, 2022). It is not uncommon for the finance officer to be bonded through a separate insurance company with an occurrence limit exceeding other offices.

It is not unusual for numerous employees within a unit to have occupational responsibilities that require some type of transfer of sums greater than \$100 or management of inventory that exceeds the statutory threshold. In these cases, the legislation provides a method of blanket protection that covers these positions without the need for specific position bonding. The blanket bonds provide a base coverage primarily for line and staff employees that manage assets on a daily basis, but that are not usually in management positions. Individually bonded employees such as the finance officer and tax collector can also be covered under the blanket bond if the individual bond does not protect against risks identified in the individual bond (N.C.G.S. 159 2022-53 9(a)). The Register of Deeds (ROD), the elected official that will be evaluated in the study, has bonding statutory requirements as well. Bonding requirements for the ROD cannot be less than \$10,000 or more than \$50,000. Statutory requirements also include commissioner approval; however, the bonding amounts are payable to the state versus the clerk as with the beforementioned personnel (N.C.G.S. 161-4).

The North Carolina Association of County Commissioners (NCACC) provides assistance with basic insurance coverages through two self-funded risk financing pools: workers compensation and liability and property. Approximately 75% of counties participate in the liability and property pool which is the primary pool that would be affected with many of the bonding policies. The pool was created to assist counties mitigate budgetary impacts of a continually changing insurance market (NCACC, 2024) collaborative risk management. Through any one of the pools, counties can obtain property coverage equal to the replacement cost value or up to a specified limit, usually in the millions. Most counties had general liability coverage of \$2M per occurrence with many including a reinsured policy with a multi-state public captive with much higher occurrence limits.

Theoretical Application and Hypotheses Development

Bonding coverage implementation takes place through the actions of multiple actors. The beforementioned state statutes are the initial policy drivers; however, specific formulation and implementation occurs at the local level. Commission-manager forms of county governments are the research subjects; therefore, the Dichotomy-Duality Model developed by James Svara (1985) provides a comprehensive overview of policy implementation by multiple official actors, specifically designed for the commission-manager form of government. Four distinct spheres divide service responsibilities between the elected commission or council and the appointed manager: overall mission, policy directives, administration, and management. The overall mission of the unit, level and extent of service provision including budget ratification are the responsibilities of elected officials. Policy development responsibilities within the model are shared between the manager and elected officials although level of influence can vary tremendously depending on overall board objectives (Benton, 2002).

The model has a diminishing elected official role with the matriculation of the initial policy directive into the administration and management spheres. For instance, during the budget formulation and implementation process, executives and staff have the primary responsibility for budget formulation (Sokolow and Honadle, 1984). For governments in North Carolina, the manager will usually make the budget presentation well in advance of ratification due to potential elected official suggestions and change requests. The ratified budget carries the process into the management and administration phases and subsequently execution is almost the exclusive province of staff. An increase in the role of administrative staff increases at this point as the role of the manager devolves to that of supervision. Previous research has substantiated this portion of the model with findings that suggests that managers have minimal involvement in specific accounting practices including audit preparation (Modlin and Stewart, 2014). For the purposes of this study, the elected representatives, the commissioners, approve the bonded amount as recommended by a member of the staff or the manager with finance staff executing payment.

Previous studies have provided a foundation of the need for literature extension that can assist with bonding explanation. Studies have thus far demonstrated some impact of official or employee activity involving the use of public funds; therefore, the following hypotheses have been developed to provide an initial examination between county government characteristics and the set bonding amounts for local government officials. There are no preconceived expectations concerning hypotheses direction predictors.

Hypothesis 1: Local government official bonding amounts are associated with type and experience of key personnel.

Under North Carolina law, each county is required to appoint a designated finance officer (N.C.G.S. 159). Bonding amount for this position is critical due to the numerous responsibilities required including budget preparation, implementation, the monitoring of all transactions, and the oversight of the audit process. The establishment of internal controls within financial transactions is one of responsibilities of the position as well. Previous research suggests that fewer irregularities take place under more experienced finance officers (EXPERIENCE) (Modlin, 2012; Modlin, 2017; Rich & Zhang, 2016). Additional positions within the finance office also assist with the mitigation of internal controls. The separation of revenue collections and disbursements is critical deterrent for a material weakness finding. However, one recent study has found an increase in significant deficiency findings for governments with additional accounts payable positions (PAYABLETECH) (Modlin, 2024B). However, findings have determined that with the addition of each staff accountant (ACCOUNTANT), there can be an expectation of less material weakness audit findings (Modlin, 2024B). Although no previous research exists surrounding this position, the payroll technician (PAYROLLTECH) has the challenging responsibility of ensuring proper employee disbursements in a timely manner and in many cases, has the additional responsibility of ensuring any type of pay schedule changes, types of alternate payments such as holiday, sick leave, etc. as well as actual employment changes in some cases. Governments with larger full-time equivalencies (FTE) have a higher likelihood of an internal control finding due to the numerous transactions associated with workforce size (EMPLOYEE). However, capacity issues can exist due to personnel availability (Lofton & Ivonchik, 2022; Shybalkina, 2024). Smaller counties however generally have the problem of employees that are not familiar with generally accepted accounting principles (GAAP). The hiring of personnel with the proper education and training of these positions falls under the responsibilities of the finance officer.

Hypothesis 2: Local government official bonding amounts are associated with county organizational characteristics.

The second hypothesis examines the relationships between county characteristics and the amount designated for official bonds. Changes among the financial position of the organizations can substantially determine levels of risk. In the case of net position change (NETPOSITION), significant deviations can be the result of major capital infrastructure activities such as debt service issuance or retirement. Among county audits, county net position is a primary focus within the Management Discussion & Analysis (MD&A) along with levels of fund balance (Modlin, 2024A). Debt issuance among county governments is primarily associated with public school construction projects; therefore, it is not unusual for educational spending (EDUCATION), as a functional classification area, to have the largest expenditure sum compared to other areas. Local government assets (ASSETS) among all governmental funds provide a portion of overall fund balance which is a major predictor of bond ratings; however, the amount of discretionary funds within overall fund balance totals is usually significantly less. More overall assets within government funds could provide further information concerning bonding activities.

Hypothesis 3: Local Government Official Bonding Amounts are associated with audit findings and classifications.

Audit findings provide insight into many personnel actions associated with financial transactions. If statement presentations include many inaccuracies, it is difficult to assess the proper standing of the unit. The audit can also determine actions that have created the inaccuracies such as problems with internal controls over compliance. The most serious of these is a material weakness finding inclusive of findings among financial management activities

among statements (FINSTATEMENTMW), material weaknesses in federal award distributions as well as awards from or transferred through the state or from state agencies (FEDERALAWARDMW, STATEAWARDMW). With this finding, the activity of noncompliance can occur with only a remote chance of detection, prevention, or correction on a timely basis. This finding requires the immediate attention of management (AICPA, 2007). Bonding requirements could easily increase with these findings since a material weakness finding can reveal financial issues related to excessive waste and inefficiency, fraudulent employment practices, and statement inaccuracy (GAO, 2011). Prolonged essential position vacancies, unqualified personnel performing accounting responsibilities, and lack of proper supervision or oversight are the more customary sources of material weaknesses. Some type of questioned cost (QUESTIONEDCOST) is usually a prompt for an internal control finding. For county governments in North Carolina, subsequent material weakness probabilities can easily increase due to the elevated level of vehicles purchased with cash (Modlin, 2016). One study found links between different types of material weakness findings and questioned costs (Modlin, 2024B). However, the higher likelihood of questioned costs exists with larger governments (Edmonds, et al., 2023). Overall, organization size has previously had an impact on internal control findings (Baber, et al., 1987; Copley, 1989; Rubin 1988).

Additional internal control information provided by the author include whether any findings are repeat (REPEAT) findings compared to the previous fiscal year (FY) and to state whether the county classification is 'low' or 'high' risk based on based on the standards found in 2 CFR 200.520 (RISK). To obtain a 'low' risk designation, the auditee was required to have financial statements prepared under GAAP principles with a clean audit for the last two audit cycles. Personnel capabilities have found to be influential with the classification as links have been found between 'low' risk auditee classifications and organizations that contract with large CPA firms (Keating, et al., 2005). Moreover, smaller governments with less staff capability were also found less likely to get the 'low' risk designation (Lopez & Peters, 2010; Modlin, 2024B).

Research Design

All 100 county governments in the state of North Carolina are under analysis for this study. Uniformity among subjects is easily obtained since all counties operate under the commission-manager form of government and are under a state oversight process that determines a vast amount of policy directives concerning financial activities. In this case, the examination has a focus on the bonding practices of government officials both appointed and elected. A majority of the data for the study came from 2023 or earlier annual comprehensive financial reports (ACFRs) depending on availability. Information from previous audits (approximately 10%) correlated with comparable units with very similar bonding practices. Audits from fiscal year 2023 provide an opportunity to examine more traditional operations outside of the pandemic associated anomalies of extenuating intergovernmental funding and policies. Information from predictors demonstrate the varying levels of government service provision and priorities.

The predictors used for the study examine the impact of specific personnel, certain county characteristics, and audit findings on official bond amounts. Along with ACFRs, other additional sources provided information for the predictors. Information for the personnel variables was obtained from the UNC School of Government and included finance officer experiences (FINEXP), the number of staff accountants (ACCOUNTANT), the number of accounts payable technicians (PAYABLETECH), and payroll technicians (PAYROLLTECH). Additional finance officer experience information was obtained through county contact.

The underlying base model developed utilized the most available predictors that could impact bond rating amounts. The exploratory nature of the study precludes any previous predictor use and eliminates any preconceived predictor direction. The model below tests more specified predictors for policy use compared to traditional studies with the utilization of *BONDING* as a proxy for all dependent variables that will be tested against the predictors.

$$BONDING = \beta_0 + \beta_1 EXPERIENCE + \beta_2 ACCOUNTANT + \beta_3 PAYABLETECH + \beta_4 PAYROLLTECH + \beta_5 EDUCATION + \beta_6 EMPLOYEE + \beta_7 ASSETS + \beta_8 NETPOSITION + \beta_9 FINSTATEMENTMW + \beta_{10} FEDERALAWARDMW + \beta_{11} STATEAWARDMW + \beta_{12} RISK + \beta_{13} QUESTIONEDCOST + \beta_{14} REPEAT$$

Variable measurements for the study can be found in Table 1. The study will examine the bonding amounts of two appointed officials (finance officer and tax administrator) and one elected official (Register of Deeds). The dependent variables in the study are binary with the most utilized bonding amount coded as one (See Table 1). High levels of consistency among bonding amounts set by counties provided a basis for the chosen method of measurement. The multivariate analyses will provide a more comprehensive investigation of the relationships between the predictors and official bonding practices. Directional hypotheses for the predictors are limited for the multivariate analyses.

The presumption taken with this study is that proper staffing and subsequent actions of employees are a contributing factor to internal control occurrence findings and potential liability therefore possibly acting as a catalyst for bonding increases. Finance officer experience (*EXPERIENCE*) is expected to have some type of association with bonding amounts due to the daily position responsibilities and requirements which include the monitoring of transactions and ensuring GAAP standards are followed, oversight of the budget and audit process as well as ensuring service provision. Previous research has suggested that internal control findings could be the result of responsibility delegation (Modlin, 2024B). Additional finance office staff members, especially well-trained staff accountants (*ACCOUNTANT*) not only ensure the proper coding and entry of transactions, but can provide efficiency throughout the entire budgetary process. The accounts payable technician (*PAYABLETECH*) and payroll technician (*PAYROLLTECH*) both ensure the timeliness of disbursements demonstrating financial solvency of the unit and face increased challenges with elevated numbers of employee transactions.

Several county internal factors associated with the current financial status will be examined as well. Increased demand for services usually has an equivalent full-time (FTE) equivalency increase, especially if the request is from the elected officials. At times, associated outcomes of these changes include an increase in temporary employees and multitasking for current employees. All of which can reduce proper internal controls; therefore, the number of full-time employees will be used as a predictor (*EMPLOYEE*). All positions are coded according to actual FTE as a percentage of county residents with a percentage of two or more equal to three. In conjunction with the statutory finance officer requirements stated previously, the total amount of county assets among all funds (*ASSETS*) will be analyzed in addition to the largest amounts of FY expenditures that occurred within a service area (*EDUCATION*). In this case, public education will be used due to the intergovernmental transactions and debt service impact on county net position (*NETPOSITION*).

Specific audit findings related to internal control issues and more specifically material weaknesses will be examined (*FINSTATEMENTMW*, *FEDERALAWARDMW*, *STATEAWARDMW*). If there are enough material weakness findings with a subsequent *adverse*

finding and bonding downgrade, debt issuance can greatly increase due to the related investor risk (Edmonds, et al., 2023; Park, Matkin, & Marlowe, 2017; Gore, Henderson, & Ji, 2016). Findings have also suggested that questioned costs (QUESTIONEDCOST) are related to material weaknesses (Modlin, 2024B); therefore, this will predictor be examined as well. Other variables associated with audit findings that will be examined is if the county is a ‘high’ or ‘low’ risk (RISK) and if there was some type of repeat finding (REPEAT) compared to the previous FY. All variables related to audit findings are dichotomous.

Table 1. Variables for Measurement

Finance Officer (DV)	Total Finance Officer Bonded Amount; 1 = \$1M or Greater Source: ACFR
Tax Administrator (DV)	Total Tax Administrator/Official Bonded Amount; 1 = \$100K or Greater Source: ACFR
Register of Deeds (DV)	Total Register of Deeds Bonded Amount; 1 = \$50K or Greater Source: ACFR
EXPERIENCE	Finance Officer Experience; 5 = More than 20 Years Source: UNC School of Government County Salary Study, ACFR
ACCOUNTANT	Number of Staff Accountants; 5 = Five or More Source: UNC School of Government County Salary Study
PAYABLETECH	Number of Accounts Payable Technicians on Staff; 5 = Five or More Source: UNC School of Government County Salary Study
PAYROLLTECH	Number of Payroll Technicians on Staff; 5 = Five or More Source: UNC School of Government County Salary Study
EDUCATION	Functional Classified Area with Highest Level of County Expenditures; 1 = Education Source: ACFR
EMPLOYEE	Number of County Employees as a Percent of County Population; 3 = More than 2% Source: ACFR
ASSETS	Total accumulated assets in all governmental funds; 5 = More than \$200M
NETPOSITION	Net Position Change from Previous Year; 3 = Increase by More Than 10% Source: ACFR
FINSTATEMENTMW	Auditor Finding of a Material Weakness among Financial Statements; 1 = Yes Source: ACFR
FEDERALAWARDMW	Auditor Findings of a Material Weakness among Federal Awards; 1 = Yes Source: ACFR
STATEAWARDMW	Auditor Finding of a Material Weakness among State Awards; 1 = Yes Source: ACFR
RISK	County Government Designated High Risk by Audit Firm; 1 = Yes Source: ACFR
QUESTIONEDCOST	Auditor Finding of a Questioned Cost among Service Distribution; 1 = Yes Source: ACFR
REPEAT	Auditor discovery of a repeat finding from the previous FY; 1 = Yes Source: ACFR

Summary Statistics and Preliminary Results

All descriptive statistics for the entire sample are found in Table 2. Among all 100 counties, finance officer bonding practices had the most diversity, especially according to centile values.

Finance officer bonding amounts averaged approximately \$570K for the entire sample. The mode was \$1M and became the new statutory requirement during the 2023FY. Approximately half of the counties within the state will have to adjust these coverages. Tax administrator coverages exceeded just over \$160K with quarterly centiles remaining constant at \$100K. Register of Deeds coverage had a quarterly centile of \$50K. More information concerning bond averages by county budget size is on Table 4.

The personnel quarterly centiles illustrate many of the staffing differences based on population size. Finance officer experience is much higher in quartile 3 as well as more staffing including the presence of additional staff accountants. Also, among larger counties, educational spending is the primary functional classification expenditure due to the availability of additional asset funds and debt service capability. Nearly all 100 counties had an increase in net position with more than half having an increase of more than 10%. Unfortunately, repeat findings related to audit findings primarily took place among counties with populations less than 100K. Material weakness findings were quite limited overall; however, some of the smaller counties had multiple findings.

Table 2. Descriptive Statistics, Full Sample (N=100)

Variable	Mean	Median	Standard Deviation	Q1	Q3
FINANCE OFFICER	0.51	1	0.50	0	1
TAX ADMIN.	0.55	1	0.50	0	1
REGISTER/DEEDS	0.33	0	0.47	0	1
ACCTOUNTANT	0.92	1	1.24	0	1
PAYABLETECH	1.75	1	1.53	1	2
PAYROLLTECH	0.88	1	0.88	.5	1
EDUCATION	0.27	0	0.44	0	1
EMPLOYEE	1.46	1	0.54	1	2
ASSETS	2.63	2	1.57	1	4
NETPOSITION	2.43	2	0.87	2	3
FINSTATEMENTMW	0.29	0	0.46	0	1
FEDERALAWARDMW	0.15	0	0.36	0	0
STATEAWARDMW	0.07	0	0.26	0	0
RISK	0.54	1	0.50	0	1
QUESTIONEDCOST	0.13	0	0.34	0	0
REPEAT	0.35	1	0.48	0	1

Table 3 categorizes bonding amounts and the predictors based on differences between the most recurrent county bonding amount by office and discretionary bonding. The table also tests for significance among predictor variances. The findings demonstrate that organizational characteristics and audit findings, especially among the appointed positions, do impact bonded amounts. The first two panels consist of predictor relationships for the appointed officials. One overall conclusion is that counties with more customary bonding amounts have additional personnel, more experienced finance officers, stronger positions financially, and less internal control problems. Both of the initial panels had significant findings for the total number of employees as a percent of county population and total assets suggesting that counties with benchmark bonding amounts for these two positions have more assets, but less employees as a percent of the population. The mean value for net position is also slightly higher in the Finance Officer Model for counties with the standardized bonding amount (differences in NETPOSITION at $p < .05$). Both models also had significant relationships with audit findings, but with different predictors. The Finance Officer Model had significant relationships among

financial statement material weaknesses and state award material weaknesses, whereas federal award material weaknesses was significant with the Tax Administrator Model. Counties with standardized bonding amounts for the Tax Administrator had fewer internal control findings concerning intergovernmental transfers (0.07) in contrast to counties with more incremental practices. Interestingly, STATEAWARDSMW was significant in the Finance Officer Model even though the mean values suggest more findings with counties with the premium bond amounts.

Table 3. Descriptive Statistics Based on Bonding amount Differences

Panel A. Finance Officer

Variable	BOND \$1M = 1 (N = 51)			BOND < \$1M = 0 (N = 49)			Significance
	Mean	Median	Std. Dev	Mean	Median	Std. Dev	
EXPERIENCE	2.58	2	1.54	2.22	1	1.50	
ACCTOUNTANT	0.92	1	1.18	0.92	1	1.30	
PAYABLETECH	1.84	1	1.62	1.65	1	1.47	
PAYROLLTECH	1.04	1	0.72	0.90	1	1.03	
EDUCATION	0.43	0	0.50	0.10	0	0.31	***
EMPLOYEE	1.25	1	0.48	1.67	2	0.52	***
ASSETS	3.10	2	1.62	2.14	2	1.38	**
NETPOSITION	2.47	3	0.84	2.39	3	0.90	**
FINSTATEMENTMW	0.18	0	0.39	0.41	0	0.50	**
FEDERALAWARDMW	0.10	0	0.30	0.20	0	0.41	
STATEAWARDMW	0.11	0	0.33	0.02	0	0.14	**
RISK	0.45	0	0.50	0.63	1	0.49	**
QUESTIONEDCOST	0.09	0	0.30	0.16	0	0.37	
REPEAT	0.25	0	0.44	0.45	0	0.50	**

*** represents significance at the .001 level; ** at the .05 level; *at the .10 level.

Panel B. Tax Administrator

Variable	BOND ≥ \$100K = 1 (N = 55)			BOND < \$100K = 0 (N = 45)			Significance
	Mean	Median	Std. Dev	Mean	Median	Std. Dev.	
EXPERIENCE	2.41	2	1.46	2.40	2	1.62	
ACCTOUNTANT	1.03	1	1.44	0.78	1	0.93	
PAYABLETECH	1.81	1	1.64	1.67	1	1.41	
PAYROLLTECH	1.07	1	0.88	0.84	1	0.88	
EDUCATION	0.29	0	0.46	0.24	0	0.43	
EMPLOYEE	1.38	1	0.53	1.56	2	0.55	*
ASSETS	2.90	2	1.62	2.29	2	1.46	**
NETPOSITION	2.45	3	0.88	2.40	3	0.86	
FINSTATEMENTMW	0.24	0	0.43	0.36	0	0.48	
FEDERALAWARDMW	0.07	0	0.26	0.24	0	0.43	**
STATEAWARDMW	0.03	0	0.19	0.11	0	0.32	
RISK	0.53	1	0.50	0.56	1	0.50	
QUESTIONEDCOST	0.13	0	0.34	0.13	0	0.34	
REPEAT	0.33	0	0.47	0.38	0	0.47	

** represents significance at the .05 level; *at the .10 level.

Panel C. Register of Deeds

Variable	BOND $\geq$ \$50K = 1 (N = 37)			BOND < \$50K = 0 (N = 67)			Significance
	Mean	Median	Std. Dev	Mean	Median	Std. Dev	
EXPERIENCE	2.36	2	1.39	2.43	2	1.60	
ACCTOUNTANT	0.85	1	1.46	0.96	1	1.12	
PAYABLETECH	1.88	2	1.51	1.69	1	1.56	
PAYROLLTECH	1.09	1	1.01	0.91	1	0.81	
EDUCATION	0.21	0	0.42	0.30	0	0.46	
EMPLOYEE	1.45	1	0.51	1.46	1	0.56	
ASSETS	2.36	2	1.41	2.76	2	1.64	
NETPOSITION	2.58	3	0.75	2.36	3	0.92	
FINSTATEMENTMW	0.21	0	0.41	0.33	0	0.47	
FEDERALAWARDMW	0.12	0	0.33	0.16	0	0.37	
STATEAWARDMW	0.03	0	0.17	0.09	0	0.29	
RISK	0.42	0	0.50	0.60	1	0.49	*
QUESTIONEDCOST	0.06	0	0.24	0.16	0	0.37	
REPEAT	0.24	0	0.43	0.40	0	0.49	

*represents significance at the at the .10 level.

Findings among the elected official model had many contrasts. For the Register of Deeds panel, finance officer experience and the number of accountants for counties with standardized bonding amounts was actually lower than with the other models. The mean number of assets was lower as well. It also appears counties with smaller populations prefer this bonding practice. The only significant relationship among the predictors was with the RISK variable. Counties with this designation had lower bond coverages for the Register of Deeds. Based on panel information, it appears that larger counties choose to bond the finance officer and the tax administrator at the largest available threshold while choosing alternative amounts for the Register of Deeds. In many cases, deductible amounts, premium costs, and the blanket coverage with additional occurrence coverage could be explanations as well.

Official bonding averages demonstrate bonding importance depending on the budget group (Table 4). More than half of all counties bond the finance officer for \$1M, which was the limit for any county. For the first two budget categories, the amounts were more staggered with 16 counties bonding for \$5,000 with another 11 requiring a \$10,000 bond. The largest budget group average was slightly lower than the \$150M-\$200M group. This was due to all counties but one bonding the finance officer for \$1M. The \$200M+ group had four with bonds of \$250K. Bonding choices for the tax administrator had many similar patterns. The \$50M-\$100M bond group had more bonding of \$100K compared to the other groups. Smaller governments preferred bond amounts of \$50K for this position. Tax administrators in the largest two groups had some \$1M bond coverages.

Bonding amounts were more consistent with the Register of Deeds except for the largest budget group. Numerous governments covered the position with the blanket bond which would be less costly than the addition of an individual bond for the position. Only seven RODs were individually bonded and more than half of those were for \$10,000 lessening the mean value for the group. Interestingly, among the lowest budget groups, five RODs were bonded for \$100K or more. Numerous counties in the study have bond coverages that exceed the statutory

limitations. This is allowed; however, the surety has to agree to pay the increased premium for the coverage issuing a certificate of the change with a specified date for new coverage authorization.

Table 4. Average Bonding Amounts by County Budget Size

Category	Less than \$50M	\$50M-\$100M	\$100M-\$150M	\$150M-\$200M	More than \$200M	Official Average
Finance Officer	\$379,310	\$527,941	\$656,000	\$911,000	\$727,777	\$570,100
Tax Administrator	\$83,333	\$130,968	\$109,900	\$362,500	\$206,250	\$168,478
Register of Deeds	\$46,000	\$42,045	\$40,714	\$47,000	\$23,571	\$41,475

Multivariate Results

Table 5 presents three logistic regression models that examine the incremental changes in county government official bonding amounts. The analyses provide a method of examining the dependent variables with the interaction of the predictors. Support for the initial hypothesis exists with all three models. Each model now has at least one significant predictor among finance personnel with the Finance Officer Model having two significant predictors. Increased levels of finance officer experience and less accounts payable technicians were significantly related to a probable bond amount of \$1M or more. The accounts payable (PAYABLETECH) position was the only significant variable among personnel factors within both the Tax Administrator Model and as a positive relationship in the ROD model (PAYABLETECH = .3548; Odds Ratio = 1.4259).

The number of findings associated with organizational attributes had similar findings. The Finance Officer Model had again had two significant variables. Counties that designated more spending for education related activities versus other object specification areas were more likely to have bonding amounts for finance officers at \$1M or more (EDUCATION = 2.2218; Odds Ratio = 9.2235). The odds ratio indicates that counties with this type of spending structure are nine time more likely to have a \$1M bonding amount for the finance officer, given the other variables remain constant, compared to counties with elevated spending in another area. Interestingly, this same model suggests that slightly less employees are associated with higher finance officer bonding amounts indicating some type of perceived risk by either internal personnel or sureties. For both the Tax Administrator Model as well as the ROD Model, the number of county assets was significant, but had opposing directions. With the ROD Model, the relationship was negative with a modest odds ratio.

Internal control findings extended across all models and provided support for the third hypothesis. It appears that with these predictors, for the most part, bonding increases occur with divergent findings among internal control findings. Contrasting findings emerged from the Finance Officer Model suggesting that with an internal control finding concerning state awards, the chances of a higher bond rating increases by 71 times given that the other variables are held constant (STATEAWARDSMW = 4.2667; Odds Ratio = 71.3592); however, the model also suggests this is in conjunction with the absence of a federal award finding. The omission of a federal award finding also led to an increased probability of an increase in the tax administrator's bond but was present in Register of Deeds bonding increases as well as the

probability of a clean audit in recent years (REPEAT). In addition to internal control findings within the compliance section of ACFRs, there are corrective action plans that are implemented by the official with departmental responsibility. The combination of these procedures and the state oversight mechanism which includes further audit oversight could negate official and surety concerns over losses leaving coverage amounts based on market changes. One of the models (Finance Officer) was significant at the .05 level while the other two models (Tax Administrator and ROD) were significant at the .10 level after being tested against a constant-only model; therefore, this is an indicator that as a set, the predictors are reliable for determining the varying levels of finance officer and tax administrator bonding practices among county governments.

Table 5. Determinants of Bonding Amounts by Government Position

EXPERIENCE	.2842	(1.3286)*	.0170	(1.0171)	-.2338	(.7915)
ACCTOUNTANT	-.2069	(.8131)	.1559	(1.1687)	-.1547	(.8566)
PAYABLETECH	-.4259	(.6532)**	-.3220	(.7247)*	.3548	(1.4259)*
PAYROLLTECH	.2566	(1.2925)	.4166	(1.5168)	.3536	(1.4242)
EDUCATION	2.2218	(9.2235)**	-.6734	(.5100)	-.0403	(.9605)
EMPLOYEE	-1.3157	(.2683)**	-.4109	(.6631)	.0927	(1.0971)
ASSETS	.2845	(1.3291)	.4943	(1.6393)**	-.5046	(.6037)**
NETPOSITION	.1955	(1.2159)	-.0978	(.9068)	.4404	(1.5533)
FINSTATEMEN	-.9236	(.3971)	-.5276	(.5900)	-.9563	(.3843)
TMW						
FEDERALAWAR	-2.6881	(.0680)**	-2.3664	(.0938)**	1.0166	(2.7638)*
DMW						
STATEAWARD	4.2677	(71.3592)*	-1.2291	(.2926)	-1.2769	(.2789)
MW		*				
RISK	-.4975	(.6081)	.1379	(1.1479)	-.5067	(.6025)
QUESTIONEDC	1.3177	(3.7348)	1.2382	(3.4494)	-.6366	(.5291)
OST						
REPEAT	-.2663	(.7662)	.0184	(1.0185)	-.9631	(.3817)*
Constant	.8523	(2.3450)	.2406	(1.2720)	-.1236	(.8837)
N	100		100		100	
Log. Lik.	-45.9991		-58.3490		-54.4913	
Wald Chi-Squared (14)	35.87**		22.39*		21.09*	
McFadden's Pseudo R-Squared	.3362		.1521		.1408	

Notes: Cell entries are unstandardized parameter estimates; **p < .05; *p < .10 (Two-tailed test) with robust standard errors. Odds ratios in parentheses. The table presents estimates of logistic regression specifications. For the dependent variables, Finance Officer = 1 if bonding amount is \$1 million or greater; Tax Administrator = 1 if bonding amount is \$100K or greater; Register of Deeds = 1 if bonding amount is \$50K or greater.

Model robustness results were tested by the substitution of two predictors (Table 6). The number of staff accountants (ACCOUNTANT) was replaced with the business officer position (BUSINESS). This position is coded as a dichotomous variable since the position is budgeted by choice. This position is usually in departments with high FTE counts and is an intermediary for human resources and finance departments providing assistance for payroll and job

classifications among other responsibilities. Business officers can normally be found in human service, law enforcement, and education departments. The highest level of spending based on functional classification area (EDUCATION) was also replaced with public safety or sheriff department spending (DEPTLAW). Among North Carolina county governments, this area has consistently comprised of the highest level of expenditures and in many cases FTE.

Table 6: Alternative Determinants of Bonding Amounts by Government Position

EXPERIENCE	.2315	(1.2605)	-.0127	(.9873)	-.2355	(.7901)
BUSINESS	-.7398	(.4772)	-.2367	(.7892)	-.5628	(.5696)
PAYABLETECH	-.4577	(.6328)**	-.2679	(.7650)	.3394	(1.4042)*
PAYROLLTECH	.3023	(1.3530)	.4145	(1.5137)	.3372	(1.4010)
DEPTLAW	-1.5350	(.2155)**	.5276	(1.6949)	-.0109	(.9892)
EMPLOYEE	-1.4285	(.2397)**	-.3868	(.6793)	.0901	(1.0943)
ASSETS	.3647	(1.4400)*	.5136	(1.6713)*	-.5164	(.5966)**
NETPOSITION	.1407	(1.1511)	-.0716	(.9309)	.4636	(1.5897)
FINSTATEMEN	-.8870	(.4119)	-.5009	(.6060)	-.8902	(.4106)
TMW						
FEDERALAWA	-2.7616	(.0632)**	-2.1783	(.1132)**	.8822	(2.4161)
RDMW						
STATEAWARD	3.9592	(52.4153)**	-1.3826	(.2509)	-1.2981	(.2731)
MW						
RISK	-.5144	(.5978)	.2006	(1.2222)	-.4050	(.6670)
QUESTIONEDC	1.3637	(3.9104)	1.1508	(3.1608)	-.6086	(.5441)
OST						
REPEAT	-.4618	(.6301)	-.0315	(.9690)	-1.0836	(.3384)
Constant	2.8906	(18.0038)**	-.2757	(.7590)	-.0460	(.9550)*
N	100		100		100	
Log. Lik.	-46.5345		-58.5808		-54.7040	
Wald Chi-	39.27**		21.38*		19.67	
Squared (14)						
McFadden's	.2385		.1487		.1473	
Pseudo R-Squared						

Notes: Cell entries are unstandardized parameter estimates; **p < .05; *p < .10 (Two-tailed test) with standard errors clustered by county. Odds ratios in parentheses. The table presents estimates of logistic regression specifications. For the dependent variables, Finance Officer = 1 if bonding amount is equal to or greater than \$1 million; Tax Administrator = 1 if bonding amount is \$100K or greater; Register of Deeds = 1 if bonding amount is \$50K or greater.

Model findings are still fairly consistent with some new findings. The Finance Officer Model had a substitution among significance with two variables. An increase in bonding for finance officers were higher in this model in counties as asset levels rise. The odds of a finance officer bonding increase remain quite high with an audit finding among state awards which is consistent with the previous model. The Tax Administrator and ROD models were extremely consistent with significance among many of the same predictors and with the same directions. The only real change was the loss of the accounts payable position in the Tax Administrator Model and the audit repeat finding variable in the ROD Model; however, the position still retained significance with the other models. Changing the highest expended functional classification to law enforcement produced a significant, but *negative* outcome in the Finance Officer Model. If counties dedicate the largest amounts of expenditures to some other functional classification area which would most likely include either public education or human services, finance officer bonding increases. The variable had no significance with the other models. Two models retain significance with the predictor changes.

All of the findings thus far provide some support for all hypotheses in some manner. *Initially, were local government bonding amounts influenced by personnel type and finance officer experience?* It can be concluded that some type of staff presence is associated with bonding practices and that the presence of the accounts payable position does have an impact and to a lesser degree, finance officer experience. Proper staffing can easily assist with the prevention of internal control issues. *There was also the question of whether organizational characteristics influenced bonding amounts.* Government asset level provided most of the support for the second hypothesis with the number of employees providing support for finance officer bonding practices. *Hypothesis three questioned whether audit findings and classifications influenced bonding amounts.* All models provided some support for this hypothesis. A very strong relationship exists with finance officer bonding increases and a state award finding, but the relationships were mostly negative with the other models indicating the presumption of risk explaining a probability of a bonding increase among all officials versus actual audit findings concerning internal control findings.

Concluding Discussion

This study has examined the bonding practices of county government officials in North Carolina. Overall findings appear to suggest a two-tier system of bonding with specific personnel and organizational factors correlating with more bonding for appointed officials while the bonding for the Register of Deeds appears to be more autonomous. Counties with more accounts payable technicians and audit findings associated with federal awards were more likely to apply higher bonded amounts for the Register of Deeds. A consensus of the models suggests bond increases at alternate times between the appointed and elected officials, but different catalysts. The first two models suggest that for the larger counties with a more experienced finance officer, budgets and service levels are continuing to increase adding more responsibilities to the finance officer thus leading to higher levels of risk. The accounts payable technician finding suggests that these positions have not been filled or other personnel including the finance officer are possibly performing some of these responsibilities. For end of year purposes in which audit presentation is based on accrual accounting, all amounts are reconciled with eventual internal control resolutions as a result of changed procedures, thus explaining the negative relationships with some audit predictors. For the Register of Deeds, counties are choosing to bond for lower amounts overall even though the data does not pick up all associated information (Table 3 Panel C; Table 4). According to the model, counties only increase bond premiums if an event occurs such as some type of findings that is associated with the department. The repeat finding suggests that the event was an initial occurrence.

The study was exploratory therefore there is no direct relationship to previous studies. However, portions of the study did verify previous findings that suggested capacity issues can exist due to the availability of proper personnel (Lofton & Ivonchyk, 2022; Shybalkina, 2024). The study also verified findings that suggests less overall audit irregularities were associated with more experienced finance officers (Modlin, 2012; Modlin, 2017; Rich & Zhang, 2016). State driven statutes and increased scrutiny of the risk process along with the acquisition of proper bonding was evident among many of the governments as well (Stanton & Webster, 2014).

There are many limitations with the study. First, there is no information concerning the number of claims that can be directly attributed to the study positions. With the exception of the finance officer, any type of occurrence could be a factor for bonding determination. This information would not be readily available in compliance reports due to the high probability of classified

personnel activity that would only be discussed in closed session commissioner board meetings. Second, we do not have all of the relevant information concerning the full complimentary of finance staff members and the related position descriptions. A list of positions responsible for accounts receivable and positions responsible for elected official financial transactions would have provided more significant information. Third, more information concerning the surety and types of available coverages would provide more explanation concerning bonding amounts, especially as it relates to blanket bonding.

The study has illustrated many important factors concerning service delivery and the bonding process for elected officials. Government responsibility is quite apparent as there is statutory language concerning bonding implementation related to the protection of government assets. The importance of skilled positions has also been proven, but proper staffing is important for internal controls therefore reducing unnecessary risks. While the vast majority of finance officers have strong accounting backgrounds and are familiar with GAAP principles, many staff members, especially those within finance departments with cash management responsibilities, may not have received this training and can easily be overlooked in the risk assessment process. These same staff issues are even more apparent in departments that do not have a high level of trained oversight such as those in law enforcement and that handle numerous transactions such as public utilities or deed offices. The challenges are even more pronounced in smaller governments that cannot offer competitive salaries. The study has indeed demonstrated that risk management and bonding practices are an essential part of the overall implementation and evaluation process providing even more transparency among government activities.

Disclosures

The authors declare that there are no conflicts of interest that relate to the research, authorship, or publication of this article.

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