



# Town of LaGrange

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## Financial Management

2023M-139 | March 2024

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# Report Highlights

## Audit Objective

Determine whether the Town of LaGrange (Town) Board (Board) developed a multiyear financial plan and effectively managed the Town’s general fund balance.

## Key Findings

The Board did not develop a multiyear financial plan or manage general fund balance in accordance with Town policy. As of December 31, 2022, the general unassigned fund balance was \$3.3 million, or 51 percent of the ensuing year’s budgeted appropriations, which exceeded the Town’s fund balance policy limit by more than \$725,000.

As a result, it is difficult for the Board to assess alternative approaches to financial needs without a multiyear financial plan and more taxes may have been levied than necessary.

## Key Recommendations

- Comply with the Town’s fund balance policy and develop a plan to reduce unassigned fund balance.
- Develop, adopt and periodically update a comprehensive written multiyear financial plan.

Town officials generally agreed with our recommendations and indicated they will take corrective action.

## Audit Period

January 1, 2018 – December 31, 2022

## Background

The Town, located in Dutchess County, is governed by an elected five-member Board, composed of the Town Supervisor (Supervisor) and four Board members. The Board is responsible for the general management of the Town’s operations and finances.

The Board is also responsible for making financial decisions that are in the best interest of the Town, its taxpayers and residents. This includes setting long-term financial priorities and goals.

The Supervisor is the chief executive and chief fiscal officer. A Town Comptroller (Comptroller) is appointed to oversee daily financial activities, including accounting and financial reporting.

### Quick Facts

<b>2022 Budgeted Appropriations</b>	\$6 million
<b>Cumulative Operating Surplus 2018 through 2022</b>	\$1.3 million

# Fund Balance Management and Multiyear Planning

## What Is Effective Fund Balance Management?

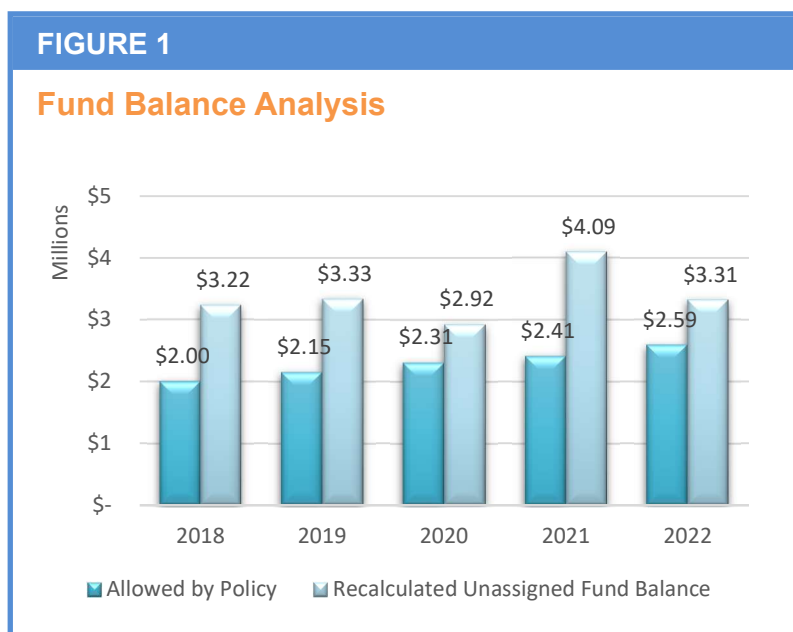
Effective fund balance (the difference between revenues and expenditures accumulated over time) management requires officials to develop and adopt realistic and structurally balanced budgets. In addition, the board should adopt and adhere to a fund balance policy that includes levels on how much fund balance should be retained in the operating funds.

Budgets should be based on historical data or known trends in which recurring revenues finance recurring expenditures. A town board may appropriate a portion of fund balance as a financing source in the yearly budget to reduce the tax levy. The estimation of fund balance is an integral part of the budget process because the board is responsible for retaining enough fund balance at year-end to provide a reasonable financial cushion for unexpected events and cash flow in the next year. However, a board should not exceed a reasonable amount of fund balance consistent with prudent budgeting practices to ensure sufficient cash flow.

The Board established a fund balance policy in 2015 that limited the amount of unassigned fund balance that the Town can retain to no more than 40 percent of the total adopted budgeted expenditures of the general fund. The fund balance policy also requires the Comptroller to annually calculate and verify the Board's compliance with the fund balance policy and for the Supervisor to report annually to the Board the results of the Comptroller's calculation. The Supervisor also is required to make recommendations for the use of funds in the event of a surplus or replenishment of funds in the event of a deficit.

## The Board Exceeded Their Fund Balance Policy Limit

We reviewed the year-end general fund balance levels for the last five completed years (2018-2022) and determined that the general unassigned fund balance exceeded the limit allowed by the Board's fund balance policy. Specifically, the Town's reported general unassigned fund balance for these five years ranged from 50.6 percent to 67.9 percent of the ensuing year's budgeted appropriations, exceeding the fund balance policy's 40 percent limit by an average of 19 percent (Figure 1). For example, in 2022



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the unassigned fund balance was \$3.3 million or 51 percent of the ensuing year's budgeted appropriations which exceeded the fund balance policy limit by more than \$725,000 or 11 percent. The Town's unassigned fund balance increased in three of the five years reviewed due to annual operating surpluses. Although the Board appropriated fund balance each year and thus planned to realize operating deficits each year, the revenue and expenditure estimates were not reasonable. For the last five completed years (2018 to 2022) the Town realized more revenues than budgeted for and, therefore, did not use all the appropriated fund balance. Additionally, the Town underestimated expenditures in all the five completed years, but the underestimation of the revenue exceeded the underestimated expenditures for all five completed years. The repeated operating surpluses increased the unassigned fund balance by \$87,422 from 2018 to 2022 instead of reducing it to a level within the Town's fund balance policy limit.

Due to the reoccurring operating surpluses, the Town's fund balance exceeded the acceptable amount of unassigned fund balance each year by an average of \$1.1 million.

The Board underestimated revenues in the general fund each year from 2018 through 2022, which generated operating surpluses totaling \$1.3 million. For example, the Board budgeted \$5.7 million in the 2022 adopted budget. However, the average actual revenues received from 2018 through 2021 was more than \$6.2 million and reached more than \$7 million in 2020 and 2021. Furthermore, the total actual revenues received for 2022 exceeded the budget by \$848,652. This included the non-property tax (sales tax) distribution by the County, which was underbudgeted by \$457,776. According to the Supervisor, the non-property tax distribution was underbudgeted because these revenues are unpredictable. Although the Town repeatedly underestimated revenues for the last five years, the unassigned fund balance actually decreased in 2022 due to higher than anticipated expenses, but it still exceeded the amount outlined in the Town's fund balance policy.

The Supervisor stated that they will use the unassigned fund balance to fund operations going forward, which should decrease the fund balance level. However, as a result of the Town's budgeting practices and fund balance levels, the Town may have levied more taxes than necessary.

The Board members stated they did not receive adequate monthly reports to keep them well informed of the Town's financial status from the Supervisor and Comptroller, which limited their ability to effectively manage fund balance. Board members also stated they only received budget versus actual reports for revenue and expenditure accounts quarterly and were not provided with information on cash balances by fund or bank reconciliations and bank statements. In addition, the Comptroller did not prepare the annual recalculation of unassigned fund balance for the Supervisor to report to the Board as required by their fund balance

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policy. The Comptroller did not provide a reason for why she does not perform the calculation. She stated that the Board receives all the budget information and they are aware that the Town is over the limit established by the policy. Board members also stated that although reports are not provided monthly, they do receive reports when requested from the Comptroller. However, these reports are only provided to the Board member who made the request. The Supervisor told us that the Board is provided with detailed reports quarterly, as his understanding was to report to the Board regularly, not monthly. In addition, the Comptroller said she provides the Board with financial information when requested. Without adequate monthly financial reports, the Board's ability to exercise appropriate financial oversight, including managing fund balance, is diminished.

### **Why Should the Board Establish a Multiyear Plan?**

The board should create a multiyear financial plan to aid in long-term financial planning. Planning on a multiyear basis allows town officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budgeting decisions on future years. It also allows officials to assess the impact and merits of alternative approaches to address financial needs, such as the use of fund balance to finance operations. The board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by current information.

### **The Board Did Not Establish a Multiyear Plan**

The Board members, the Supervisor and the Comptroller informed us they do not have an official multiyear plan but they are aware that the Town should have one. The Supervisor and Comptroller told us they have not dedicated the time needed to develop a comprehensive written plan but have components of a multiyear plan and have separate long-term planning documents for purchasing equipment for individual departments. However, the documents provided to us only identified planned equipment purchases for the highway department over the next six years and did not indicate how officials intended to finance these purchases.

Without an adopted multiyear plan, the Town has no formal guidance on how to address long-term financial objectives and there is a lack of transparency regarding how projects will be funded. In addition, it is difficult for the Board to assess alternative approaches to financial needs, such as accumulating fund balance or using surplus funds to finance annual operations. Further, without multiyear plans, the Board is not fully aware of its long-term capital needs, including potential costs and funding sources to properly plan and monitor the Town's finances.

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## What Do We Recommend?

The Board should:

1. Comply with the Town's fund balance policy and develop a plan to reduce unassigned fund balance policy. Unassigned funds can be used for:
  - Funding one-time expenditures,
  - Funding needed reserves,
  - Paying off debt, and
  - Reducing Town property taxes.
2. Use realistic estimates of revenues when adopting the annual budget and monitor and amend the budget, as needed.
3. Develop, adopt and periodically update a comprehensive written multiyear financial plan to be used in conjunction with the annual budget process.
4. Ensure it receives sufficient and adequate financial reports to help make financial decisions that are in the best interest of Town taxpayers.

The Supervisor should:

5. Provide monthly reports to the Board, including a detailed statement of all money received and disbursed, along with reconciled cash balances for each fund and bank reconciliations accompanied by bank statements.
6. Ensure an annual analysis of the fund balance is completed, as required by the Town's fund balance policy, and provide this analysis to the Board timely.

The Comptroller should:

7. Annually calculate and verify the Board's compliance with the Town's fund balance policy.



# Appendix A: Response From Town Officials

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***Town of LaGrange***  
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## **TOWN OF LAGRANGE, RESPONSE TO NY STATE COMPTROLLERS OFFICE REPORT**

The town respectfully responds to the New York State Comptroller's report with the following:

1. With respect to the town exceeding the fund balance policy limits, the report indicates that town exceeded its budget surplus policy, with a fund balance at the close of 2022 of 51% of the annual budget for 2023, higher than the 40% threshold. The town had significant unanticipated revenue increases in the few years prior to the audit. Mortgage tax revenue, after ranging from roughly \$420,000 to \$480,000 between 2015 and 2018, grew to \$955,000 by 2021. During the same period, sales tax revenue grew from \$880,000 in 2017 to \$1,500,000 in 2021. Building permits revenues grew from roughly \$200,000 to more than \$400,000 as well. During this period, the town did appropriate significant funds for capital projects, including the highway salt shed, to reduce debt obligations which would otherwise been incurred. However, the town did not believe that these income streams could be assumed to continue at the elevated rates over a long term. In addition, our fund balance policy specifically says that when funds are in excess that they shall be used for debt service or debt avoidance, not for use in the general budget or for tax relief, specifically because of the inherently unpredictable nature of variable revenue streams. Consequently, the town appropriated roughly \$2.5 million in years 2022 and 2023, including \$750,000 paving operations for each year, and an additional \$700,000 for highway equipment. Paving operations and highway equipment has traditionally been funded by the town by borrowing, so these appropriations were consistent with town policy to reduce fund balance by avoiding debt. These payments will result in avoidance of approximately \$200,000 of debt payments over the course of each of the next 15 years. We anticipate that as a result of these actions, the town's fund balance at the close of 2023 will be within the fund balance guidelines expressed in town policy. In addition, the tax rate for residents was reduced in two of the past three years (years 2022 and 2024 budgets).
2. As indicated in your report, it has been the practice of the town to provide regular financial reporting to the Town Board quarterly. We intend to begin reporting that information monthly as recommended in the report.
3. While the town has produced long term financial analysis and reporting documents related to some types of activities (e.g. replacement of highway vehicles, water and sewer projects), these data have not been consolidated into an overall, single, multiyear financial plan. The town will create this plan for future ongoing use and amendments.

Alan Bell, Town of LaGrange Supervisor



## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Town officials, including Board members, the Supervisor and the Comptroller, and reviewed policies, Board meeting minutes, adopted budgets and financial records and reports to gain an understanding of the Town's financial operations.
- We reviewed monthly Board meeting packets to determine what financial information the Supervisor provided to the Board.
- We analyzed and summarized historical financial trends in the general fund for 2018 through 2022.
- For fiscal year 2022, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the general fund to determine which individual revenue and appropriation estimates had the largest variances. We then interviewed officials to determine the cause of significant or unusual variances.
- We reviewed budget requests used by the Supervisor, Comptroller, and department heads to determine if budgeted amounts exceeded the departmental requests.
- We reviewed the 2022 adopted budget to determine whether it was balanced and adequately developed using accurate and current data.
- We calculated the general fund's unassigned fund balance for 2018 through 2022 as a percentage of the next year's appropriations to assess whether Town officials complied with the fund balance policy.
- We reviewed the fund balance appropriated for 2018 through 2022, determined whether the Town had an operating surplus or deficit and calculated how much appropriated fund balance was used.
- We recalculated unassigned fund balance as a percentage of the next year's appropriations by adding back unused appropriated fund balance from the ensuing year for 2018 through 2022 and compared these amounts to the fund balance policy limits.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective.

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We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the Town Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf](http://www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf)

**Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.ny.gov/local-government/fiscal-monitoring](http://www.osc.ny.gov/local-government/fiscal-monitoring)

**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.ny.gov/local-government/resources/planning-resources](http://www.osc.ny.gov/local-government/resources/planning-resources)

**Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf)

**Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.ny.gov/local-government/required-reporting](http://www.osc.ny.gov/local-government/required-reporting)

**Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.ny.gov/local-government/academy](http://www.osc.ny.gov/local-government/academy)

## Contact

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<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

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