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February 2019

Matthew Bystrak, Superintendent of Schools
Members of the Board of Education
West Seneca Central School District
675 Potters Road
West Seneca, NY 14224

Report Number: S9-18-24

Dear Superintendent Bystrak and Members of the Board of Education:

We conducted an audit of five local governments (three counties, one city and one town) and two school districts throughout New York State (NYS). The objective of our audit was to assess whether local governments and school districts that utilize aggregators¹ for energy purchases are ensuring they are procuring electricity and natural gas at the lowest prices. We included West Seneca Central School District (District) in this audit. Within the scope of this audit, we examined the District's utility purchases for the period January 1, 2016 through May 31, 2017. We extended our audit scope back to February 2015 to review agreements and July 2015 to review Board minutes. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the NYS General Municipal Law (GML).

This draft report of examination letter contains our findings specific to the District. We discussed the findings with District officials and considered their comments, which appear in Appendix B, in preparing this report. District officials generally agreed with our findings. At the completion of our audit of the five local governments and two school districts, we prepared a global report that summarizes the significant issues we identified at all of the local governments and school districts audited.

Summary of Findings

District officials regularly monitor and compare their electricity costs to their local utility company's costs, the benchmark the aggregator identified for comparison. Between January 1, 2016 through May 31, 2017, the District spent approximately \$370,000 for electricity and paid

¹ For purposes of this report, the term "aggregator" is considered any organization or individual that brings customers together as a group with the objective of obtaining better prices, services or other benefits, such as energy or related services. The legal propriety of a local government or school district utilizing an "aggregator" is outside the scope of this audit.

rates that were slightly higher than potential benchmark rates. As a result, the District may have spent approximately \$9,000 (3 percent) more for electricity than other procurement options. The District paid aggregator rates and terms stipulated in the agreement.

Background and Methodology

The District serves the Towns of West Seneca, Orchard Park, Hamburg and Cheektowaga, in Erie County (Western New York Region). The District, which operates nine schools with approximately 6,400 students, is governed by an elected seven-member Board of Education (Board). The Board is responsible for the general management and control of the District's financial and educational affairs and for safeguarding its resources. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Board is responsible for the approval and execution of contracts. The District's 2017-18 budgeted expenditures totaled approximately \$116.8 million.

In the 1990s, electric and natural gas industries in NYS were opened to competition. An Energy Service Company (ESCO) is an entity eligible to sell electricity and/or natural gas using the transmission or distribution system of a local utility company (LUC). The LUC may also continue to provide electricity and natural gas. Utility rates are regulated by the NYS Public Service Commission and are generally based on service classifications, such as high usage and whether the customer is commercial or industrial.

An aggregator may be described as an organization or individual that brings customers together as a group with the objective of obtaining better prices, services or other benefits, such as energy or related services. The District uses an aggregator to cooperatively purchase electricity² to aggregate and coordinate consumption, and to jointly share costs and benefits of purchasing, delivery, billing and review and audit of bills on a cooperative basis. We were told the Erie 1 Board of Cooperative Educational Services (BOCES) serves as the lead administrator for the aggregator. BOCES contracts with a consultant to provide energy forecasts and review and evaluate procurement options.

We examined the District's procurement of electricity during the period January 1, 2016 through May 31, 2017. We reviewed the LUC's electricity rates to assess whether the costs were similar.³ We also reviewed and compared invoices to the terms (rates, fees, surcharges and timeframes) in the District's contracts and analyzed cost comparison reports that BOCES provided to the District.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). More information on the standards and the methodology used in performing this audit are included in Appendix C of this report.

² The District did not procure natural gas by an aggregator; therefore, the purchases of natural gas are outside the scope of this audit.

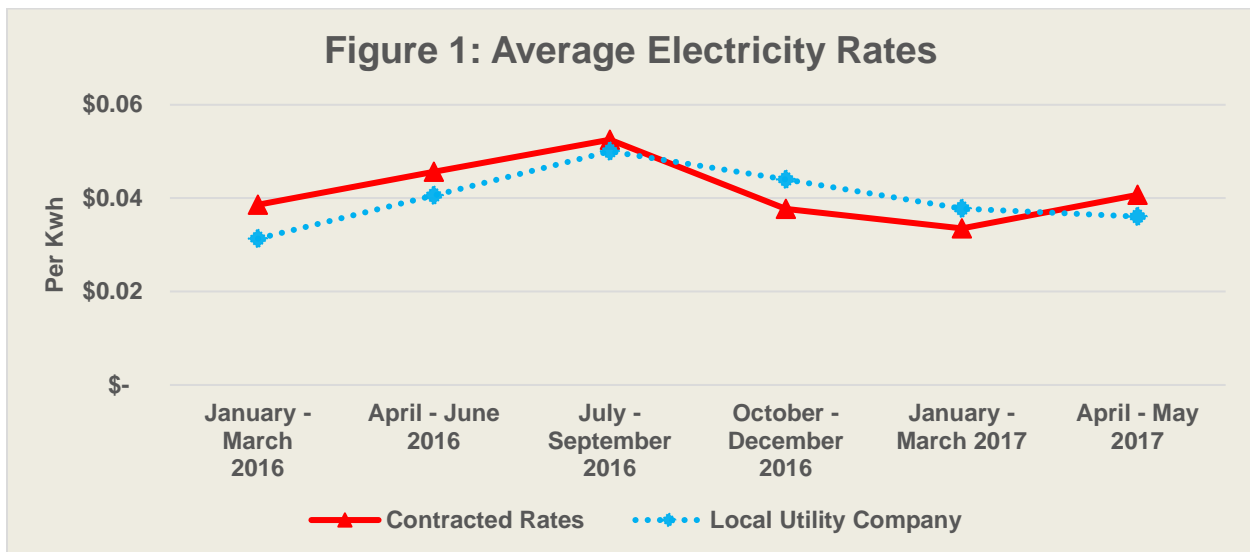
³ We included the LUC rates in the report for potential benchmark purposes only. District officials can use the LUC rates to help assess the reasonableness of the utility contract the District is considering.

Audit Results

Evaluating Procurement Options – District officials have a responsibility to ensure that they use taxpayers’ resources as prudently as possible. Officials should fulfill this responsibility, in part, by fully evaluating procurement options and comparable benchmark rates before committing resources. The more significant the resources that are to be expended, the more effort officials should put into the decision making process to help ensure the District’s funds are used efficiently. The LUC rates can provide benchmarks to assist in assessing the reasonableness of the contract rates and terms being considered.

The Board authorized⁴ the District to use the aggregator for the cooperative purchasing of electricity. The aggregator’s energy consultant, at monthly meetings, provides participants with energy price forecasts and monitors the District’s energy budgets. In addition, the consultant provides the District with monthly summary reports showing a comparison of the District’s invoice costs to the LUC’s costs, along with budget tracking reports. We reviewed the reports’ comparison costs and found them to be reasonable. As a result, the ongoing evaluation and monitoring process provides assurance that officials are expending significant resources prudently and in the best interests of taxpayers.

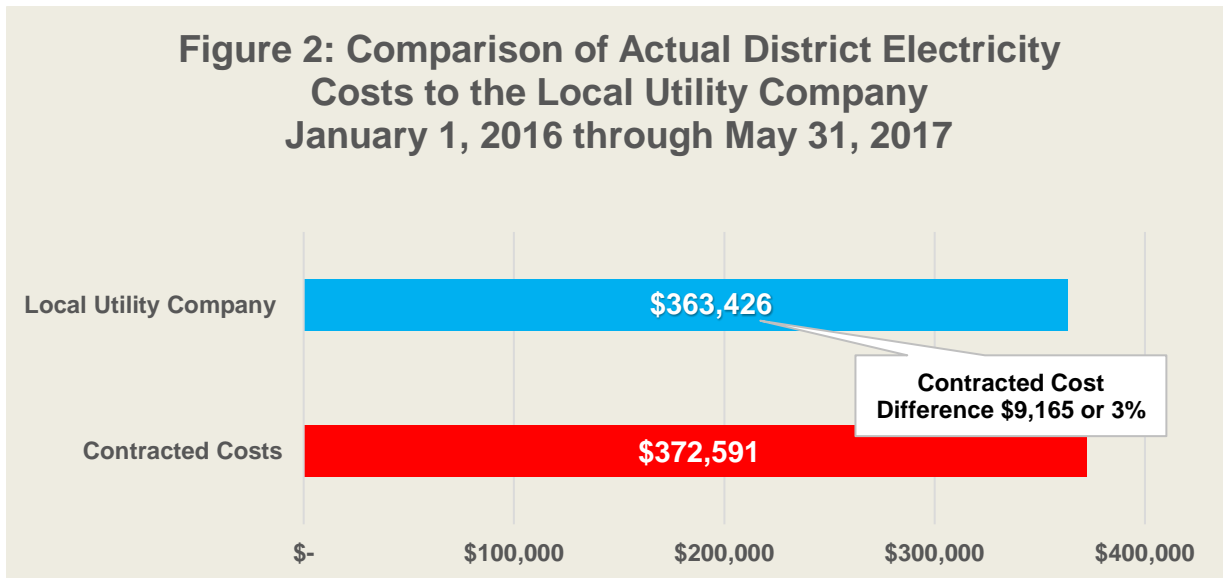
Potential Benchmark Comparisons – We calculated average electricity rates paid for three-month periods from January 1, 2016 through March 31, 2017, and for the period April 1, 2017 through May 31, 2017. We compared the rates paid to LUC rates averaged for the same time periods. We found that the District’s average electricity rates were slightly higher than the average benchmark rates, by approximately 3 percent (Figure 1). For example, the District’s kwh⁵ electricity rates averaged \$0.0408 while the LUC’s rates averaged \$0.0398. (Appendix A).



⁴ According to the Membership Agreement, on February 3, 2015, the Board authorized participation. In addition, during annual reorganization meetings held on July 6, 2015 and July 11, 2016, the Board authorized the aggregator to provide electricity purchasing services and for the agreement’s renewal.

⁵ Kwh (Kilowatt-Hour) is a unit of measurement used to measure electricity consumption.

We also analyzed the District’s electricity purchases and compared the actual costs paid to the costs charged by the LUC⁶ from January 1, 2016 through May 31, 2017 (17 months). We found that the District paid slightly higher costs for electricity as compared to the LUC’s costs. For example, the District paid approximately \$9,000 (3 percent) more for electricity (Figure 2).



Because officials evaluated and monitored their utility procurement options, there is an increased assurance that the District is spending money for electricity prudently.

Contract Terms – When obtaining goods or services from an awarded contract, it is imperative that officials obtain pertinent details, such as the awarded rates and contract terms, prior to entering into their own contracts with the vendor. Officials should then ensure that the terms of their contracts with the vendor(s) mirror what was awarded through the aggregator to help safeguard against paying more than required.

BOCES, with the consultant’s assistance, is responsible for the electricity billings and for providing detailed reports to the District. District officials told us that, although they review the monthly reports periodically for large month-to-month changes in costs, they rely on the aggregator and the consultant to ensure the District is paying the correct rates and terms. It appears the District paid for electricity according to its agreement.

We thank the officials and staff of the District for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller

⁶ Variable rates will fluctuate based on the wholesale market prices.

APPENDIX A

Figure 3: Electricity Usage and Cost Comparison January 1, 2016 through May 31, 2017			
Building	Supply Usage (kwh)	ESCO Supplier (Actual Cost)	<u>Potential</u> Benchmark Costs Local Utility Company
Allendale and West Elementary	1,599,724	\$65,069	\$60,123
Clinton Elementary	420,840	\$17,454	\$16,438
Northwood Elementary	528,240	\$22,385	\$20,924
Winchester Elementary	399,440	\$16,592	\$15,620
East Middle	1,190,003	\$47,901	\$49,102
West Middle	868,000	\$36,437	\$34,293
East Senior	1,479,867	\$60,234	\$62,130
West Senior	1,651,439	\$64,151	\$65,232
Buildings and Grounds	605,720	\$26,204	\$24,322
District Office	375,120	\$15,878	\$14,878
Transportation	8,422	\$286	\$364
Total	9,126,815	\$372,591	\$363,426
Supplier Difference to Other Sources			\$9,165
% Difference			3%
Cost per Kwh			\$0.0398

APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response can be found on the following page.



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Matthew J. Bystrak
Superintendent of Schools

October 4, 2018

Ms. Ann C. Singer, Chief Examiner
Statewide Audit
State Office Building, Suite 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Ms. Singer:

The following constitutes the West Seneca Central School District's response to Report No. S9-18-24 relating to your examination of our usage of a utility aggregator for the purchase of electricity. The Report of Examination covers the District's utility purchase for the period January 1, 2016 through May 31, 2017. The District's Board of Education and Administration remains committed to ensuring that the District's financial operations are conducted with the highest level of integrity and that the interests of the District's taxpayers are properly protected. We were pleased that the audit showed that by using a utility aggregator [REDACTED] and regularly monitoring and comparing our electricity costs to local utility company's costs, we are ensuring that the District is procuring its electricity at the lowest price. We will continue to evaluate and monitor our procurement options, meeting our fiduciary responsibility to the District's taxpayers.

We would like to express our appreciation for the professional and courteous manner in which your staff conducted its audit responsibilities.

Sincerely,

Matthew J. Bystrak
Superintendent

Carol A. Jarczyk
President, Board of Education

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to assess whether local governments and school districts that utilize aggregators are ensuring they are procuring electricity and natural gas at the lowest prices for the period January 1, 2016 through May 31, 2017. To accomplish the objective, our audit procedures included the following:

- We interviewed District officials and employees to gain an understanding of the electricity procurement process.
- We reviewed policies, procedures and Board minutes related to the procurement of electricity.
- We reviewed contracts between the District and ESCO to assess whether the District paid the contract rates, fees and surcharges. We judgmentally sampled three (every fifth account and last account) of 14 electricity accounts for May 2016, with no expectation of greater or lesser results.
- We reviewed all electricity invoices to evaluate total supply usage, service classifications and rates paid.
- We obtained rates, based on service classifications, from the LUC and compared the District's electricity costs (usage and service classifications) to the LUC costs to assess whether there was a cost variance.
- We reviewed the consultant's comparison for the District's electricity purchase to the LUC costs for May 2016. We judgmentally selected May 2016 with no expectations for greater or lesser results.

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