



Dutchess Board of Cooperative Educational Services

Electricity Contract Monitoring and Billing

2023M-45 | September 2023

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Report Highlights

Dutchess Board of Cooperative Educational Services

Audit Objective

Determine whether Dutchess Board of Cooperative Educational Services (BOCES) officials monitored electricity rates to ensure they were at the lowest possible cost and ensured that invoices for electricity usage were accurate.

Key Findings

BOCES officials did not monitor electricity rates to ensure they were at the lowest possible cost or ensure that invoices for electricity usage were accurate. Had officials monitored the electricity rates and ensured the utility bills were accurate, officials may have reduced BOCES electricity supply expenses by almost 50 percent, or approximately \$172,000, during the 28-month audit period. Specifically, BOCES officials:

- Continued using an energy service company (supplier) after contract expiration, resulting in BOCES paying a higher per kilowatt-hour (kWh) rate than if it had contracted with the supplier awarded the new bid through a competitive process or the local utility company (LUC), which could have saved BOCES approximately \$85,000 during July 2021 through October 2022.
- Did not detect billing discrepancies in the invoices for electricity supplied and paid duplicate charges totaling \$86,958.

Key Recommendations

- Monitor the electricity supply contract and seek periodic competition to ensure rates are at the lowest possible cost.
- Conduct a deliberate and thorough audit of electricity supply and delivery invoices prior to payment.

BOCES officials generally agreed with our recommendations and indicated they plan to initiate correction action.

Background

BOCES provides educational services to 13 school districts and is governed by a seven-member Board of Education (Board) elected by the boards of those school districts.

The Board is responsible for the general management and control of financial and educational affairs. The District Superintendent is the chief executive officer, responsible, along with other administrative staff, for the day-to-day management and regional planning and coordination.

The School Business Official is responsible, along with the purchasing agent, for overseeing and monitoring contractual agreements, including electricity contracts. The Board-appointed claims auditor is responsible for ensuring claims are properly supported and accurate.

Quick Facts

2021-22 General Fund Appropriations	\$95.9 million
Electricity Expenditures During Audit Period	
Electric Supply	\$369,582
Electric Delivery	\$144,230

Audit Period

July 1, 2020 – October 27, 2022

Electricity Contract Monitoring and Billing

BOCES procured its electricity supply using a contract awarded through the Municipal Electric and Gas Alliance's (MEGA) competitive bidding process. MEGA is a Local Development Corporation that serves local governments and affiliated entities by group purchasing of electricity, natural gas and other energy products and services. It presently serves more than 30 county governments and more than 250 municipalities, including many school districts.

Specifically, BOCES used the MEGA bid to procure its electricity supply from a supplier. A supplier is an entity eligible to sell electricity using the transmission or distribution system of an LUC. Electricity was delivered to BOCES via the LUC.

Why Should BOCES Officials Monitor an Electricity Contract and Rates?

BOCES officials should monitor their electricity supply contracts to ensure that the electricity supplier performs the requirements of the contract in accordance with the contract's terms, conditions and specifications. Effective contract monitoring also helps to determine potential risks, evaluate and develop strategies that help mitigate unnecessary losses or expenses, enable preemptive action, and encourage the development of proactive cost-reduction strategies such as performing a cost-benefit analysis to see if another provider can provide the same services at a reduced cost.

BOCES officials should monitor the contract, including rates, throughout the contract's duration to ensure that the contract is not expired, is in the best interest of taxpayers and is at the lowest possible cost. As the contract nears the end of the contract period, officials should proactively seek the best terms for the subsequent contract period to ensure rates continue at the lowest possible cost.

BOCES Officials Did Not Adequately Monitor the Electricity Supply Cost

In July 2016, BOCES entered into a contract with an electricity supplier that was set to expire in June 2021. In June 2019, the supplier informed the former Assistant Superintendent for Business (subsequently replaced by the School Business Official) that they would no longer be the supplier for electricity awarded through MEGA's cooperative bid as of October 31, 2020, due to a modification of the awarded contract. However, BOCES continued using the supplier through the remainder of the contract term.

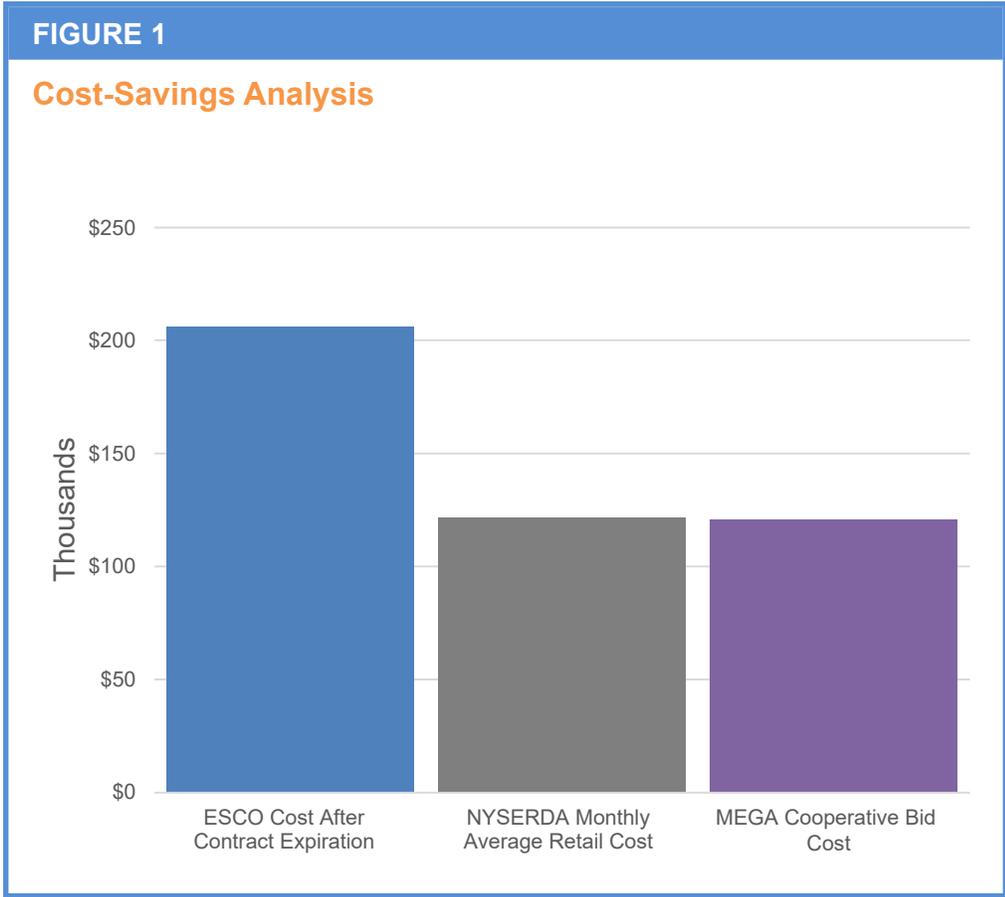
On July 28, 2021, nearly a month after the electricity supply contract expired, the purchasing agent informed the School Business Official that the rates being charged after the contract expired were higher than those being charged by the LUC. The School Business Official told us that he did not take any additional action to ensure that they were receiving the best electricity supply rate upon the contract's expiration and agreed that they needed to implement changes to their contract monitoring procedures.

Although BOCES officials were aware that BOCES' electricity supply contract expired on June 30, 2021, they continued to use the same supplier after the contract expired without comparing the electricity supply rates to other available rates to ensure they were receiving electricity at the lowest possible cost. The purchasing agent told us that she attempted to compare the rates, but it was difficult to obtain historical cost information necessary to complete an adequate analysis. However, we found that historical electricity supply rate information was readily available through the New York State Energy Research and Development Authority (NYSERDA).

BOCES officials also had access to the rate for the new contract awarded to a different supplier through MEGA's cooperative bid. Therefore, we analyzed the rates to determine if BOCES received electricity at the lowest possible cost from July 2021 through October 2022. We found that BOCES could have achieved a cost savings if officials obtained their electric supply at a lower rate through their LUC¹ or another supplier that was awarded the bid (Figure 1).

Although BOCES officials were aware that BOCES' electricity supply contract expired on June 30, 2021, they continued to use the same supplier after the contract expired without comparing the electricity supply rates to other available rates. ...

¹ We analyzed the monthly average retail price according to NYSERDA to estimate the cost of electricity if BOCES obtained electricity supply through their LUC. NYSERDA obtained electricity rate data from the U.S. Department of Energy, Energy Information Administration.



For example, BOCES paid \$0.18 per kilowatt-hour (kWh) for its electricity supply from July 16, 2022, to August 15, 2022, which was more than double the NYSERDA monthly average rate and rate available through a different supplier. If BOCES officials periodically monitored and analyzed electricity supply rates, they could have saved approximately \$85,000 had they received their electricity from a different supplier.

BOCES’ officials failure to seek the best rates for electricity supply once the contract expired, and their willingness to pay two times the benchmark rates, was not in the best interest of taxpayers.

How Should BOCES Officials Ensure that Electricity Invoices and Payments Are Accurate?

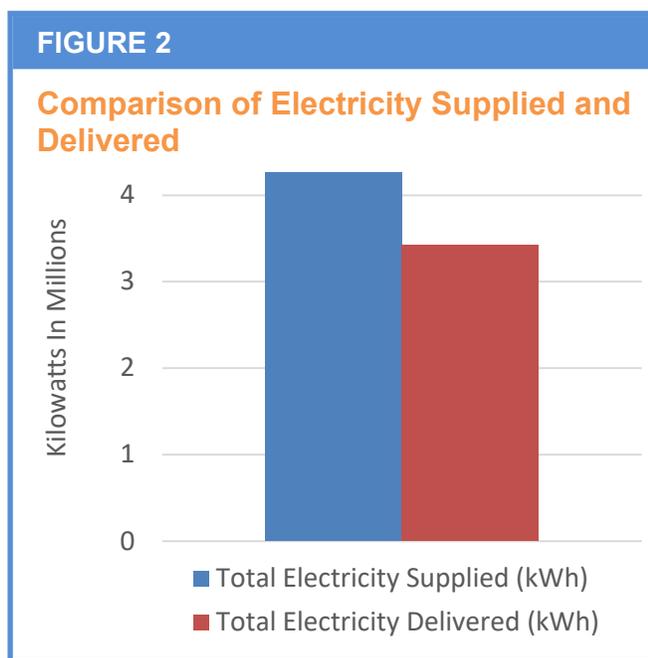
The claims auditor should conduct a deliberate and thorough audit of the electricity invoices prior to payment to ensure that BOCES only pays for electricity used. The kWh of electricity supplied should agree with the kWh of electricity

delivered. The total number of meter readings billed should agree with the number of operable meters located on BOCES property. Invoices should be compared to ensure that no duplicate charges are paid, and officials should follow up on any discrepancies.

Invoices for Electricity Contained Billing Discrepancies that Were Not Detected by BOCES Officials

During our audit period, the electricity supplier billed BOCES \$422,332 for electricity and the LUC billed BOCES \$156,301 for electricity delivered. To

determine if the supplier and LUC billed BOCES accurately, we compared the kWh of electricity supplied on the supplier's invoices to the kilowatts of electricity delivered on LUC invoices for each billing period. The supplier billed BOCES for approximately 4.3 million kWh of electricity supplied, whereas the LUC billed BOCES for approximately 3.4 million kWh of electricity delivered during the same period (Figure 2), resulting in 837,631 kWh of electricity supply that was billed for without evidence of delivery by the LUC.



Also, the total number of meter readings that were billed by the supplier and LUC did not agree. Because the LUC performs meter readings, the meter readings billed by the supplier should agree to the meter readings billed by the LUC. However, the supplier billed BOCES 23 times for 56 meter readings and the LUC billed BOCES 45 times for 45 meter readings (Figure 3).

We attribute many of the billing discrepancies to a combination of inoperable meters and/or incorrect meter numbers and readings, caused by the LUC's new billing system as well as the weaknesses in BOCES' claims processing, which resulted in duplicate charges totaling \$86,958 that were paid and went undetected. These include:

Inoperable Meters and Incorrect Meter Numbers –

We found that the supplier and LUC invoices showed BOCES being billed based on readings from four meters. We found three meters located on BOCES property (Figure 4) and one meter located on a property leased by BOCES. We did not find any discrepancies with the billing for the meter on the leased property; however, we found that the three meters located

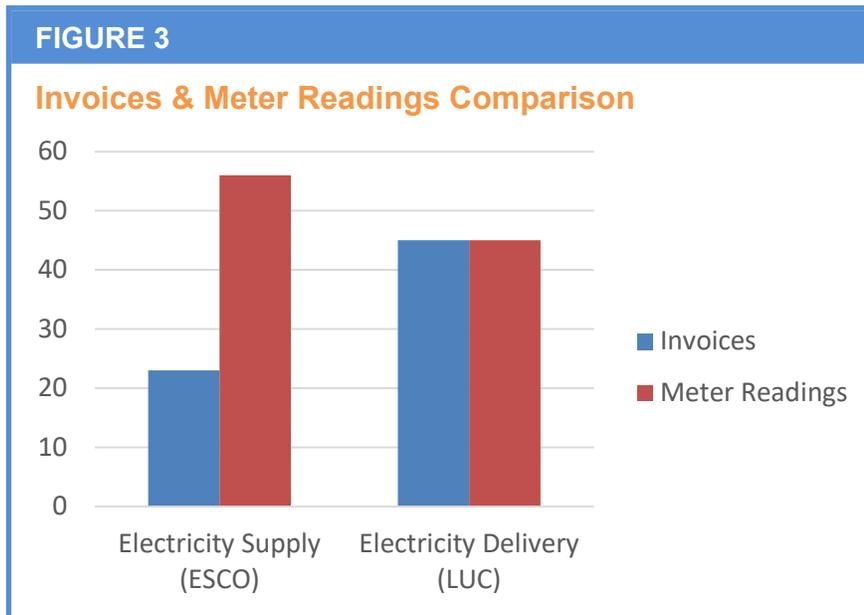
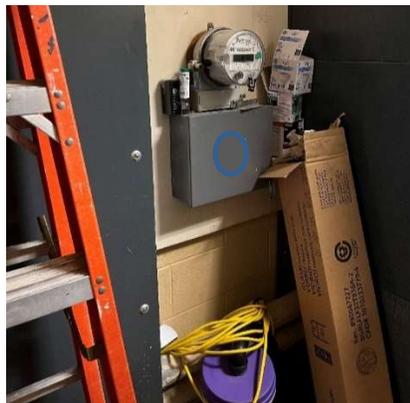


FIGURE 4

Electric Meters Located on BOCES Property

Meter A – Administrative Building



Meter B – Basement Boiler Room



Meter C – Utility Pole



These photos were taken by Office of the State Comptroller auditors with permission of BOCES on 09/27/22 for Meter A and 10/21/22 for Meters B and C.

on BOCES property were either inoperable or had incorrect meter numbers and inaccurate readings:

- Meter A: BOCES officials were unaware this meter existed until the audit team inquired about meter locations. Although the LUC told BOCES officials that the meter was installed in 2001 and was currently inoperable, we found that usage associated with its meter number appeared on supplier and LUC invoices. The LUC also told BOCES officials that this meter would have required a physical reading to obtain the kWh usage in order to be billed and that the invoices were incorrect because of an error with the LUC's newly upgraded billing system.
- Meter B: BOCES officials stated that the LUC representative told them that this meter was associated with two different meters and numbers. In September 2020, the first meter was replaced with a different meter and a new meter number was assigned as part of a change to the main meter for the entire BOCES campus; however, BOCES officials were unable to provide us with any documentation from the LUC to verify this change occurred. Therefore, the billings containing electricity usage associated with these meter numbers may not be accurate.
- Meter C: BOCES officials stated they were told by the LUC that this meter was installed in April 2022 to serve as BOCES' new "main meter" to replace the old "main meter" installed in September 2020. However, the meter number associated with this meter was never updated or changed in the LUC new billing system and, therefore, it still appeared on the BOCES bill as the same meter number as the meter we were told was replaced in September 2020. The LUC confirmed with BOCES officials that this was also an error caused by the LUC's new billing system and the LUC was working to correct the discrepancy.

Although some of these meters were no longer operational, we found that the supplier continued to bill BOCES for electricity usage associated with these meters through October 2022. Additionally, the LUC did not update its invoices to include the correct meter numbers.

Duplicate Charges – During our review, we found seven invoices in which the supplier billed duplicate charges for usage across different meters. BOCES officials approved and paid the duplicate charges, totaling \$86,958. For example, the supplier billed 185,013 kWh for electricity supplied from March 16, 2022 to April 15, 2022 for meter A while also billing BOCES for the exact same charges pertaining to meter B, overbilling BOCES by \$20,146 (Figure 5).

FIGURE 5

May 13, 2022 Invoice Details with Duplicate Charges

Invoice # 221330049066982
Account # [REDACTED]
Invoice Date 05/13/22
Due Date 05/30/22
Page 3

YOUR SERVICE CHARGES

EDC.# [REDACTED] Store Number :
PO #: [REDACTED]

Electric Service

Meter#		
Service Period March 16, 2022 to April 15, 2022 Actual-Total	144.48 kW ICAP	
Meter Multiplier of 1		
Meter# [REDACTED]		
Service Period March 16, 2022 to April 15, 2022 Actual-Total	426 kW	
Meter Multiplier of 1		
Service Period March 16, 2022 to April 15, 2022 Actual-Total	185,012.52 kWh	
Meter Multiplier of 1		
Meter# [REDACTED]		
Service Period March 16, 2022 to April 15, 2022 Actual-Total	426 kW	
Meter Multiplier of 1		
Service Period March 16, 2022 to April 15, 2022 Actual-Total	185,012.52 kWh	
Meter Multiplier of 1		
<u>March 16, 2022 to April 15, 2022</u>		
Market-Based Rate - 370,025.04 kWh Total @ \$0.108885/kWh	\$40,290.04	
Current Actual Charges		\$40,290.04

TOTAL CHARGES FOR EDC.# [REDACTED] \$40,290.04

After we informed BOCES officials of the duplicate billings, they contacted the supplier who told BOCES officials that their bills are based off the meter readings received from the LUC through an electronic data interchange as part of the LUC billing system. BOCES officials were unable to obtain an explanation from the LUC regarding how these discrepancies were able to occur, even after multiple attempts were made.

Although BOCES was billed incorrectly and its payment approval process required that the departmental head and claims auditor review the invoice to ensure the accuracy and validity prior to approving it for payment, BOCES

officials did not detect these discrepancies because they did not compare the supplier's invoices and LUC invoices prior to payment.

The claims auditor also told us that he did not compare the invoices to ensure the amounts supplied matched the amounts delivered and that the supplier often sent invoices months after the invoices were received from the LUC.

We subsequently reviewed all 56 supplier meter readings and found that the average number of days between when the electricity was supplied and when the invoice was received was approximately 66 days. While BOCES officials and the claims auditor may not have been able to perform timely invoice reconciliations, they should have, at a minimum, detected and not paid the seven duplicate charges totaling \$86,958.

After we informed BOCES officials of the billing discrepancies, they obtained a \$54,513 refund and were continuing to work to resolve the remaining billing discrepancies.

What Do We Recommend?

The School Business Official should:

1. Monitor the electricity supply contract and work with the Board to seek periodic competition to ensure rates are at the lowest possible cost.
2. Periodically analyze electricity rates to ensure BOCES receives electricity at the lowest possible cost.

The claims auditor should:

3. Conduct a deliberate and thorough audit of the electric supply and delivery invoices prior to payment to ensure:
 - a. Meter readings (usage) are only for electric meters that are in operation.
 - b. Duplicate charges are not incurred.
 - c. The amount (kWh) of electricity delivered matches the amount of electricity supplied.

...[T]he average number of days between when the electricity was supplied and when the invoice was received was approximately 66 days.

Appendix A: Response From BOCES Officials



Jason B. Schetelick
District Superintendent

Matthew Metzger
School Business Official
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E-mail: matthew.metzger@dcboces.org

August 23, 2023

Ms. Dara Disko-McCagg, Chief of Municipal Audits
Newburgh Regional Office
Local Government and School Accountability
33 Airport Center Drive, Suite 102
New Windsor, New York 12553-4725

Ms. Disko-McCagg,

Dutchess BOCES acknowledges the findings in the Report of Examination 2023M-45, "Electricity Contract Monitoring and Billing." The agency is thankful for the work of the comptroller's office in discovering the duplicate payment, and most importantly, that we recovered these funds.

The review period by your office of July 2020 through October 2022 was an unprecedented transitional period for Dutchess BOCES. This timeframe included, but was not limited to:

- Newly appointed superintendent and business official
- First major capital project in over 50 years
- Ongoing energy performance contract
- Local Utility Company (LUC) replacement of utility meters

The above factors all occurred during the height of the COVID-19 pandemic and had an underlying impact on the BOCES School Business Official deferring a new bid for energy supply while construction was underway on our new 65,000 square foot addition to our 110,000 square foot existing Career and Technical Building.

The New York Public Service Commission passed a competitive Opportunities Case Legislation in 1996, which deregulated and opened up the market for selecting which retailers users could purchase energy from. Although there appears to be an opportunity for savings by using such suppliers, as is clearly noted in the report, there is difficulty in reconciling the meters, the usage, and the electronic data interchange from the LUC to the supplier. This electronic data interchange of information appears to be the root of the duplicate billing. While BOCES will consider bidding the supply again in the future, largely for this reason, Dutchess BOCES has returned to purchasing energy directly through the LUC in the current school year. As a result, the supply and delivery of energy will be reflected on one invoice, which should eliminate the risk of duplicate billing and other errors by the supplier.

Sincerely,

Matthew Metzger

Dutchess County Board of Cooperative Educational Services
Administrative Offices: 845.486.4800
www.dcboces.org

Participating Districts: Arlington | Beacon | Dover | Hyde Park | Millbrook | Pawling | Pine Plains | Poughkeepsie | Red Hook | Rhinebeck | Spackenkill | Wappingers | Webutuck
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Appendix B: Audit Methodology and Standards

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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed BOCES Board members, officials, employees and consultants, and reviewed relevant documentation to gain an understanding of controls over electricity contract monitoring and payments for electricity supply and delivery. We also evaluated whether BOCES officials adequately monitored the electricity supply contract.
- To determine whether BOCES received the most favorable electricity rates from July 2021 through October 2022, we compared the rate charged by the supplier to the NYSEERDA monthly average retail prices and prices for the most recently awarded supplier bid through MEGA.
- We reviewed all 68 supplier and LUC invoices totaling \$578,633 and subsequent payment documentation to determine if they were reviewed and approved by the facilities director, accounts payable clerk and claims auditor. We also reviewed each invoice to determine if they were supported and accurate. Our review included a comparison of the kWh billed by the supplier and LUC to determine if the electricity and supply within the audit period reconciled.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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. The CAP should be posted to BOCES' website for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/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.state.ny.us/local-government/required-reporting

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/academy

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