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San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

November 19, 2021

To: Steve Ritchie, Assistant General Manager, Water Enterprise
Margaret Hannaford, Division Manager, Hetch Hetchy Water/Moccasin
Cheryl Sperry, Administrative Services Manager
Ray Emerald, Assistant Materials Coordinator

Cc: Eric Sandler, Assistant General Manager, Business Services & Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Lawrence Chew, Acting Information Technology Services Director

Subject: Post Fiscal Year End 2020-2021
Inventory Count – Hetch Hetchy Enterprise, Moccasin Warehouse

Dear Mr. Ritchie, Ms. Hannaford, Ms. Sperry, and Mr. Emerald:

The San Francisco Public Utilities Commission (SFPUC) engaged Crowe LLP (Crowe) to perform physical inventory count services for three enterprise funds including the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Enterprise.¹ This report represents results of Crowe's physical count of the Hetch Hetchy Enterprise – Moccasin Warehouse inventory

A. Scope of Inventory Work

The SFPUC requested Crowe to perform an annual physical inventory of these enterprises to test whether significant variances exist between the physical count and the records in the SFPUC's Maximo Inventory Tracking System (Maximo), to determine the cause of variances, and to determine amounts that need to be adjusted in Maximo. The SFPUC requested reporting of the analysis, findings and recommendations consistent with the format requested by SFPUC's Financial Reporting and Analysis (FR&A) group.

B. Warehouse Location(s)

The location for the Hetch Hetchy Enterprise physical inventory was:

Moccasin Warehouse
10390 Moccasin Switchback Road
Moccasin, CA 95347

Crowe performed inventory site visits on August 12 and 13, 2021. The last full inventory count was performed by MGO for FY 2019-2020 on June 25 and June 26, 2020.

¹ Note that some of the enterprises have multiple warehouse locations.

The Moccasin Warehouse has controls in place for security, including a closed warehouse where only authorized personnel are allowed access. In **Table 1** below, we provide key data ² from Crowe’s inventory count as well as the results from full FY2019-2020 physical inventory count conducted by Macias Gini & O’Connell LLP (MGO) and published in its report to the SFPUC dated August 21, 2020.³

Table 1
San Francisco Public Utilities Commission
Hetch Hetchy Moccasin Warehouse Inventory Count
Comparison with Prior Physical Inventory Counts
(As of August 11, 2021)

Description	FY 2020-2021 (Crowe)		FY 2019-2020 (MGO)	
	Items	Value	Items	Value
Count with no Discrepancies	2,308	\$ 430,262	2,329	\$ 396,535
Count Discrepancies	45	496	44	2,050
Total Inventory Counted	2,353	430,758	2,373	398,585
Percentage of Inventory Sampled	100%	100%	100%	100%
Percentage of Discrepancies	1.9%	0.1%	1.9%	0.5%
Total Inventory per Maximo	2,353	\$ 430,758	2,373	\$ 398,585

Results

As indicated in Table 1, discrepancies between Crowe’s results from the sample count and the Maximo system were identified. The two findings that follow explain the discrepancies in counts and difficulty in locating inventory items. Crowe’s recommendations related to those findings are also included. Management responses to each finding were provided by the Hetch Hetchy Moccasin management team on November 11, 2021.

Finding #1 – Physical Inventory Counts Differed from Maximo Report Counts

Condition:

We identified a total of 45 items with a difference between the physical count and the items reported in Maximo. The total variance in the number of items counted was 1.9 percent (45 items divided by 2,353 items). Based on the physical count, and using the average cost in Maximo, we determined that the total value of the Moccasin Warehouse asset inventory variance was \$496, or 0.1 percent, above the total asset value of \$430,758 in Maximo.⁴

We found 19 positive variances (where the physical count exceeded the Maximo inventory count) which totaled \$5,472. We found 26 negative variances (where the physical count fell below the Maximo inventory count) which totaled (\$4,976). In **Table 2** below we provide a summary of variances which shows that most of the variance dollar amount is fuel related.⁵

² Neither Crowe nor MGO performed any procedures related to the assigned value in the Maximo system.

³ Note: Crowe did not perform any procedures on the data presented in this MGO report.

⁴ \$430,758 is the combined asset value of all fuel as of August 12, 2021 and all other items as of August 11, 2021.

⁵ Of the 33 variances not related to fuel, only one variance had an absolute dollar value greater than \$100. It was caused by a vendor who sent an incorrect item and has since been remedied by warehouse staff.

Table 2
San Francisco Public Utilities Commission
Hetch Hetchy Moccasin Warehouse Inventory Count
Summary of Variances

Description	Item Count	Amount
Fuel Variances		
Positive	7	\$ 5,263
Negative	5	(4,482)
<i>Total Fuel Variances</i>	12	781
Other Variances		
Positive	12	209
Negative	21	(494)
<i>Total Other Variances</i>	33	(285)
Total Variances	45	\$ 496

Finally, as shown in **Table 3** below, based on the fuel dip procedures Crowe performed for this physical count, we found the actual quantities of fuel contained in the twelve tanks varied widely from those in the Maximo system.

Table 3
San Francisco Public Utilities Commission
Hetch Hetchy Moccasin Warehouse Inventory Count
Summary of Fuel Count Variances

Item Number	Description	Item Code	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance
1	GASOLINE, UNLEADED, OAKDALE, #7.	091-30-3195	2,129	1,462	-666.8	\$ 3.8299	\$ (2,554)
2	GASOLINE, MOCCASIN , # 4-5 tanks	091-30-3271	2,236	2,086	-149.8	\$ 3.9908	\$ (598)
3	GASOLINE, unlead, EARLY INTAKE, #05	091-30-3212	3,134	2,888	-245.6	\$ 3.4343	\$ (843)
4	GASOLINE, UNLEADED, MOCCASIN, #01.-2	091-30-3270	2,552	2,568	16.1	\$ 3.9483	\$ 64
5	GASOLINE, UNLEADED, O'S, #04	091-30-3180	607	452	-154.6	\$ 3.1389	\$ (485)
6	FUEL, RENEWABLE DIESEL, LOCATION: MOCC, #03	091-40-3148	251	285	33.9	\$ 3.0202	\$ 102
7	FUEL, RENEWABLE DIESEL MOCCASIN - LOCATION	091-40-3171	1,385	1,384	-0.5	\$ 2.5863	\$ (1)
8	GASOLINE, UNLEAD, SOUTH FORK, #09.	091-30-3240	471	477	6.0	\$ 3.7956	\$ 23
9	FUEL, RENEWABLE DIESEL OAKDALE	091-40-3170	864	876	12.5	\$ 3.4081	\$ 43
10	FUEL, RENEWABLE DIESEL, SOUTH FORK, #10	091-40-3150	399	511	112.5	\$ 2.8975	\$ 326
11	GASOLINE, UNLEADED, CHERRY VLY., #11.	091-30-3185	-344	325	668.9	\$ 3.3131	\$ 2,216
12	FUEL, RENEWABLE DIESEL, EARLY INTAKE	091-40-3149	87	825	737.6	\$ 3.3744	\$ 2,489
						Total	\$ 781

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Additionally, Section 6.1 (Policy Guidelines) indicates that inventory system records must be promptly adjusted for any discrepancies identified in the physical counts, Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

Moccasin Warehouse staff indicated several reasons for the differences in this physical count compared to the count in Maximo, including:

- Fuel system communication problems (12 items)
- Issue tags not entered into Maximo by warehouse staff (7 items)
- Incorrect issue unit (3 items)
- Items issued in error (2 items)
- Data entry errors (2 items).⁶

Regarding the significantly overstated fuel volumes observed, we determined that the Moccasin Warehouse uses the automated fuel tracking information system, E.J. Ward, to capture fuel usage and the SFPUC information technology department has developed an interface designed to periodically upload the E.J. Ward fuel usage data to the Maximo system. However, the E.J. Ward fuel system is faulty and unreliable and is reliant on poor network communication systems and infrastructure to record fuel usage in Maximo.⁷ Thus, the physical fuel counts we observed reflected a significant amount of fuel dispensed which was not identified in the Maximo system. We believe that the quantities we observed during our physical count using a manual dip process and a conversion formula were reasonably accurate.

Effect:

The Moccasin Warehouse inventory value in the Maximo system is understated by \$496. Regarding the fuel usage discrepancies, absent periodic monitoring of the fuel levels, the Moccasin Warehouse will have difficulty reconciling future inventories and identifying variances that are the result of missing fuel (e.g., theft, delivery errors, data entry errors, tank leaks, or shrinkage).

Recommendation:

The Moccasin warehouse staff should update the asset inventory counts in Maximo after management approval.⁸ The SFPUC Financial Reporting and Analysis (FR&A) should adjust the General Ledger to reflect the actual cost of inventory on hand.

Regarding the large fuel discrepancies, we recommend that in the short-term, the Moccasin Warehouse develop a procedure to perform periodic manual reconciliations between actual fuel usage (either using manual handwritten logs or via system-generated E.J. Ward reports showing amounts dispensed) with fuel usage amounts reflected in the Maximo system. The Moccasin Warehouse should record fuel usage in cases where the data is not reflected in the Maximo system due to problems with the system interface. Over the longer term the Moccasin Warehouse and the SFPUC information technology division should work toward fixing the fuel usage interface between the E.J. Ward system and the Maximo system such that manual reconciliations are not necessary.

Management Response:

Hetch Hetchy Water concurs with the Auditor's findings and recommendations.

⁶ The remaining 19 variances not categorized in the Cause section of Finding 1 were all non-fuel related and de minimis in aggregate as shown in Table 2.

⁷ We verified that the Moccasin Warehouse frequently records and monitors quantities of fuel received from vendors in the Maximo system.

⁸ Moccasin Warehouse staff have already addressed and corrected 14 variances which were not either fuel-related or de minimis.

Finding #2 – Some Items Identified in the Physical Count Were Not Identified in the Maximo System

Condition:

We identified some items, specified in **Table 4** below, within the bins holding the Moccasin Warehouse inventory where we could not locate the item in the Maximo system. It is unclear whether these items should be captured as inventory in the Maximo system or whether these items are non-stock items.

Table 4
San Francisco Public Utilities Commission
Hetch Hetchy Moccasin Warehouse Inventory Count
List of Items Not in Maximo

Item Number	Description	Item Code	Count	Bin
1	HVAC Air filter 15x20x1		13	M2-3-2
2	HVAC Air filter 15x25x1		5	M2-3-2
3	HVAC Air filter 19.5 x 19.5 x 0.75		2	M2-3-2
4	DuPont Personal Protection Coverall		90	M2-2-1
5	Coupling 3/4" Galv Steel	047-31-8990	2	10-6-3
6	Coupling 1" Galv Steel	047-31-8991	7	10-6-3
7	Napa Air filter	023-81-4849	1	24-5-7
8	Unknown item	023-17-1860	3	24-7-1
9	Unknown item	023-17-1867	1	24-7-1
10	Unknown item	023-75-7974	2	24-11-2
11	Unknown item	059-77-446A	12	24-16-2
12	Unknown item	023-13-1355	1	25-5-2
13	Part No. 830 8000 (2-2649)		4	7-2-5
14	5/8 Plow Nuts		11	M1-18-3
15	Plastic sheet roll, 36" wide		1	M1-18-5
16	Fluorescent bulbs, 8'	62-40-0736	15	M1-Rack
17	Screw, #8 x 2.5"		~500	M1-27-6
18	Drywall Screws, #6 x 1.25"		~3,000	M1-27-6
19	Valley rubber gasket, 60"x60"x1/2" thick		2	M1-T
20	Rubber Hose	023-90-11026	1	MW
21	Belt 4L480		1	MW
22	Belt 28490		2	MW
23	Belt 7324		1	MW
24	Belt 15415		1	MW
25	Belt 4L3380W NJ08		1	MW
26	Brontosaurus belts - possibly related to item 037-45-1120		5	MW
27	Vacuum sealer		1	5-2
28	Vacuum sealer pouches		2	5-2

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant

discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

The Moccasin Warehouse combines some non-stock items with the inventory items. Non-stock items should not be included in the inventory count and represent items that, for example, the Moccasin Warehouse is temporarily holding for another unit or are project related. In some cases, non-stock items were not clearly labeled “non-stock,” and without assistance from the warehouse staff we could not easily determine that these items were non-stock compared to those that are part of the inventory.

Effect:

A third-party cannot easily perform the inventory counts without the assistance of Moccasin Warehouse storekeeper staff. There is also the potential that some non-stock items should instead be captured in inventory or are obsolete and should be salvaged or disposed of.

Recommendation:

The Moccasin Warehouse should investigate the items noted in Table 4 and determine whether these items should be captured in the Maximo system records and the accounting records. Where these items are not inventory items and instead are non-stock items, the Moccasin Warehouse should clearly label these items as non-stock and perhaps consider moving them to another location in the warehouse to reduce the potential for future discrepancies.

Management Response:

The majority of items listed above, are “non-stock” items, not part of Hetch Hetchy Water’s inventory, and therefore should not be included in the inventory audit. Hetch Hetchy Water staff concur with the Auditor’s recommendation to clearly label these items as non-stock and to keep them separated from inventory items.

Other Matters

This Inventory did not constitute an audit, examination, review, or compilation of the historical and prospective financial information conducted in accordance with generally accepted auditing standards or with other standards established by the AICPA. Accordingly, Crowe is unable to express an opinion or any other form of assurance with respect to any of the historical or prospective financial information. Crowe did not perform any procedures to verify the Management Responses and Crowe does not provide any assurance regarding the accuracy or completeness of the responses. Any and all amounts referred to in this letter are preliminary and could change should additional procedures be performed. Additionally, issues that are not mentioned here could develop subsequent to the date of this letter that may have impacted Crowe’s analysis or that Crowe may cite should additional procedures be performed.

The inventory services did not contemplate obtaining the understanding of internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this inventory, the SFPUC agreed to be responsible to: make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The SFPUC has ultimate authority for making changes to inventory reported in its Maximo system and on its financial statements.

Crowe's fees are not dependent upon the outcome of this report.

We appreciate the contribution of SFPUC management and your input and direction on this project. We also thank Moccasin Warehouse management and staff for providing access to the inventory and for timely responses to our requests.

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San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

December 17, 2021

To: Steve Ritchie, Assistant General Manager, Water Enterprise
Ellen Levin, Deputy Assistant General Manager, Water Enterprise
William Teahan, CDD Division Manager
Heather Pohl, Manager, CDD Business Services & Innovation
William Toman, CDD Materials Coordinator

CC: Eric Sandler, Assistant General Manager, Business Services & Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Lawrence Chew, Acting Information Technology Services Director

Subject: Post Fiscal Year End 2020-2021 Inventory Count – Water Enterprise, CDD Main and AWSS Warehouses

Dear Mr. Ritchie, Ms. Levin, Mr. Teahan, Ms. Pohl, and Mr. Toman:

The San Francisco Public Utilities Commission (SFPUC) engaged Crowe LLP (Crowe) to perform physical inventory count services for three enterprise funds including the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Enterprise.¹ This report represents results of Crowe's physical count of the Water Enterprise inventory (CDD Main and AWSS Warehouses).

A. Scope of Inventory Work

The SFPUC requested Crowe to perform an annual physical inventory of these enterprises to test whether significant variances exist between the physical count and the records in the SFPUC's Maximo Inventory Tracking System (Maximo), to determine the cause of variances, and to determine amounts that need to be adjusted in Maximo. The SFPUC requested reporting of the analysis, findings, and recommendations consistent with the format requested by SFPUC's Financial Reporting and Analysis (FR&A) group.

B. Warehouse Location(s)

The locations for the Water Enterprise physical inventory were:

CDD Main
1990 Newcomb Ave
San Francisco, California 94124

AWSS
1980 Oakdale Ave
Twin Peaks Reservoir
San Francisco, California 94124

¹ Note that some of the enterprises have multiple warehouse locations.

Crowe performed inventory site visits on July 20 and 21, 2021 (MAIN storeroom) and August 10, 2021 (AWSS storeroom). The last full inventory count of CDD MAIN storeroom was performed by MGO for FY 2018-2019.

The Water Enterprise has controls in place for security, including a closed parking lot and warehouse where the Water Enterprise allows only authorized personnel access. In **Table 1** below, we provide key data² from Crowe's inventory count as well as the results from the sampled FY 2019-2020 physical inventory count conducted on June 12, 2020 by Macias Gini & O'Connell LLP (MGO) and published in its report to the SFPUC dated August 21, 2020.³

Table 1
San Francisco Public Utilities Commission
Water CDD (MAIN and AWSS storerooms) Inventory Count
Summary of Key Data
(As of July 20, 2021 for MAIN and August 10, 2021 for AWSS)

Description	FY 2020-2021 (Crowe)		FY 2019-2020 (MGO)	
	Items	Value	Items	Value
Count with no Discrepancies	1,129	\$4,754,265	177	\$ 3,111,646
Count Discrepancies	413	161,134	79	86,725
Total Inventory Counted	1,542	4,915,399	256	3,198,371
Percentage of Inventory Sampled	100%	100%	21%	60%
Percentage of Discrepancies	27%	3.3%	31%	3.0%
Total Inventory per Maximo	1,542	4,915,399	1,204	5,316,212

Results

As indicated in Table 1, discrepancies between Crowe's results from the sample count and the Maximo system were identified. The two findings that follow explain the discrepancies in counts, and that Crowe identified items in the physical count that were not identified in the Maximo system. Crowe's recommendations related to those findings are also included. Management responses to each finding were provided by the Water Enterprise management team on December 6, 2021.

Finding #1 – Physical Inventory Counts Differed from Maximo Counts

Condition:

We identified a total of 413 items with a difference between the physical count and the items reported in Maximo. The total variance in the number of items counted was 27 percent (413 items divided by 1,542 items). Based on the physical count, and using the average cost in Maximo, we determined that the total value of the Water Enterprise asset inventory should be \$161,134, or 3.3 percent, below the current total asset value of \$4,951,399 in Maximo.

We found 220 positive variances (where the physical count exceeded the Maximo inventory count) which totaled \$315,793. We found 193 negative variances (where the physical count fell below the Maximo inventory count) which totaled \$476,926. In **Table 2** below we list 39 items with either positive or negative variances above \$5,000. The combination of these 39 items represented \$182,102 (\$116,481 plus \$65,621), or the majority of the total \$161,134 variance (see Value of Discrepancies in **Table 1**).

² Neither Crowe nor MGO performed any procedures related to the assigned value in the Maximo system.

³ Note: Crowe did not perform any procedures on the data presented in this MGO report.

Table 2
San Francisco Public Utilities Commission
Water (CDD and AWSS) Inventory Count
List of Items with Variance Above or Below \$5,000

Item Number	Description	Item Code	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance
1	GASOLINE, AUTO, UNLEADED, C.D.D.	091-30-3250	26,418.2	4,788.0	-21,630.2	\$ 3.2555	\$ (70,417)
2	DIESEL, RENEWABLE (99%)	091-40-3151	14,511.7	1,565.0	-12,946.7	3.5580	(46,064)
	Subtotal Gasoline Related (Variance +- \$5,000)						(116,481)
3	ADAPTER, 18" GH SPIGOT X MJB	047-30-1046	9	0	-9	4,576	(41,187)
4	ADAPTER, MJB X FLANGE, 20"	047-30-1020	85	75	-10	3,454	(34,544)
5	ADAPTER, MJB X FLANGE, 18"	047-30-1018	10	4	-6	2,931	(17,584)
6	STEM ASSEMBLY, HYDRANT, FOR 3" OUTLET NOZZLE	047-30-7507	68	22	-46	379	(17,443)
7	COLLAR, STOP, 18"	047-33-9018	17	0	-17	904	(15,368)
8	ADAPTER, 16" SPIGOT GH X 16" MJ	047-30-1044	3	0	-3	4,157	(12,470)
9	DUSTPAN, FRAME, 8"	048-21-1208	15	0	-15	747	(11,205)
10	BEND, MJ X BELL, 22" 18"	047-30-3418	4	1	-3	3,728	(11,184)
11	BEND, MJ X BELL, 22 1/2 DEG., 20"	047-30-2267	12	9	-3	3,553	(10,658)
12	ADAPTER, 16" MJB X GH SPIGOT	047-30-1248	2	0	-2	5,300	(10,600)
13	ADAPTER, 18" GH SPIGOT X MJ	047-30-1030	2	0	-2	4,830	(9,659)
14	BEND, MJ X BELL, 45 DEG., 18"	047-30-2295	4	1	-3	2,520	(7,560)
15	SLEEVE, MJ 10"	047-34-2410	18	11	-7	1,078	(7,544)
16	BEND, MJ X BELL, 45 DEG., 20"	047-30-2296	6	4	-2	3,675	(7,350)
17	GLAND, 18" MJ	047-30-9954	65	29	-36	197	(7,092)
18	ADAPTER, 18" MJB X 10" MJB	047-30-1250	1	0	-1	6,319	(6,319)
19	COLLAR, BELL, 20"	047-33-9120	38	32	-6	1,050	(6,300)
20	TEE, 18" MJB	047-34-6418	2	1	-1	6,275	(6,275)
21	VALVE, CHECK, SWING, 8"	048-22-1918	6	0	-6	1,044	(6,266)
22	BEND, MJ X BELL, 11 1/4 DEG., 14"	047-30-2231	2	5	3	1,680	5,040
23	VALVE, CHECK, SWING, 8"	048-22-1918	0	5	5	1,044	5,222
24	BEND, MJ X BELL, 45, 14"	047-30-3514	2	4	2	2,616	5,232
25	BEND, MJ X BELL, 22 1/2 DEG., 16"	047-30-3416	10	12	2	2,730	5,460
26	TEE, 18" X 10" MJB	047-34-6424	0	1	1	6,108	6,108
27	GLAND, 14" MJ	047-30-9950	10	92	82	87	7,134
28	BEND, MJ X BELL, 11 1/4 DEG., 18"	047-30-2232	7	10	3	2,555	7,665
29	STEM ASSEMBLY, HYDRANT, FOR 3" OUTLET NOZZLE	047-30-7507	0	22	22	379	8,342
30	GLAND, 16" MJ	047-30-9952		62	62	137	8,494
31	STEM ASSEMBLY, HYDRANT, FOR 3" OUTLET NOZZLE	047-30-7507	0	24	24	379	9,101
32	ADAPTER, 20" SPIGOT MJ X GH	047-30-1052	5	7	2	4,964	9,928
33	COLLAR, STOP, 20"	047-33-9020	32	42	10	1,032	10,320
34	DUSTPAN, 12"-20"	048-21-1020	11	55	44	260	11,440
35	SLEEVE, MJ 8"	047-34-2408	17	31	14	872	12,209
36	TEE, 18" X 8" MJB	047-34-6426	2	4	2	6,108	12,216
37	DUSTPAN, FRAME, 8"	048-21-1208	0	17	17	747	12,699
38	RISER, HIGH PRESSURE HYDRANT, 12" X 10"	048-22-8012	8	17	9	1,447	13,023
39	DUSTPAN, COVER, 12"-20"	048-21-1120	23	59	36	871	31,356
	Subtotal Other than Gasoline Related (Variance +- \$5,000)						(65,621)
	All Other Variances with Absolute Value Less Than \$5,000 (includes \$1,644 of Gasoline)						20,968
	Total						\$ (161,134)

Finally, as shown in **Table 3** below, based on the fuel dip procedures Crowe performed for this physical count, we found the actual quantities of fuel contained in the three on-site tanks were dramatically below those in the Maximo system. The \$118,125 fuel cost variance represents approximately 75 percent of the total Water Enterprise cost variance of \$161,134.

Table 3
San Francisco Public Utilities Commission
Water (CDD and AWSS) Inventory Count
Summary of Fuel Count Variances

No.	Description (Helper)	Item Code	Issue Unit	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance
1	GASOLINE, AUTO, UNLEADED, C.D.D.	091-30-3250	GAL	26,418.2	4,788.0	(21,630.2)	\$3.2555	\$(70,417)
2	DIESEL, RENEWABLE (99%)	091-40-3151	GAL	14,511.7	1,565.0	(12,946.7)	\$3.5580	(46,064)
3	DIESEL, RENEWABLE (99%)	091-40-3151	GAL	1,904.0	1,442.0	(462.0)	\$3.5580	(1,644)
Total				42,833.9	7,795.0	(35,038.9)		\$(118,125)

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller’s Accounting Policies and Procedures identifies that Departments shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Additionally, Section 6.1 (Policy Guidelines) indicates that inventory system records must be promptly adjusted for any discrepancies identified in the physical counts, Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy; and take corrective actions to reduce future discrepancies.

Cause:

The Water Enterprise indicated several reasons for the differences in this physical count compared to the count in Maximo, including:

- Occasional system posting manual errors by the individual entering the data where the quantity or unit of measure entered was incorrect.
- The CDD AWSS storeroom inventory was fully counted for the first time using a new approach that involved separating individual Maximo inventory items rather than a process of counting integrated system components which in some cases aggregated multiple Maximo items.
- Fuel variances due to known existing system interface issues between SFPUC’s Maximo & EJ Ward software.

Regarding the significantly overstated fuel volumes observed, we determined that the Water Enterprise uses the automated fuel tracking information system, E.J. Ward, to capture fuel usage and the SFPUC information technology department has developed an interface designed to periodically upload the E.J. Ward fuel usage data to the Maximo system. However, based on problems with the system interface between the E.J. Ward system and the Maximo system, actual Water Enterprise fuel usage data is not consistently and accurately uploaded into Maximo causing the variances.⁴ Thus the physical fuel counts

⁴ We verified that CDD enters receipt of all fuel deliveries in the Maximo system when received.

we observed reflected a significant amount of fuel dispensed which was not identified in the Maximo system. We believe that the quantities we observed during our physical count using a manual dip process and a conversion formula were reasonably accurate as they closely matched quantities registered by an electronic measurement system contained in the fuel tanks that the Water Enterprise generated that day (referred to as the System Status Report).

Effect:

The Water Enterprise inventory value in the Maximo system is overstated by \$161,134. Regarding the fuel usage discrepancies, absent periodic monitoring of the fuel levels, the Water Enterprise will have difficulty reconciling future inventories and identifying variances that are the result of missing fuel (e.g., theft), delivery errors, data entry errors, tank leaks, or shrinkage.

Recommendation:

The Water warehouse staff should update the asset inventory counts in Maximo after management approval. The SFPUC Financial Reporting and Analysis (FR&A) should adjust the General Ledger to reflect the actual cost of inventory on hand. The Water Enterprise should investigate the significant discrepancies between the physical counts noted in Tables 1 through 3, the Maximo system records, and the accounting records; document the reasons for discrepancies; and implement corrective actions to reduce future discrepancies.

Regarding the large fuel discrepancies, we recommend that in the short-term, the Water Enterprise develop a procedure to perform periodic manual reconciliations between actual fuel usage (either using manual handwritten logs or via system generated E.J. Ward reports showing amounts dispensed) with fuel usage amounts reflected in the Maximo system. The Water Enterprise should record fuel usage in cases where the data is not reflected in the Maximo system due to problems with the system interface. Over the longer term the Water Enterprise and the SFPUC information technology department should work toward fixing the fuel usage interface between the E.J. Ward system and the Maximo system such that manual reconciliations are not necessary.

Management Response:

CDD concurs with these findings and recommendations and:

1. CDD immediately reconciled Maximo data with audit findings in July and August.
2. CDD is actively working on controls to improve inventory management including: (1) increased and robust cycle count program, (2) quality assurance spot checks on manual receipt and issuance data entries, and (3) exploration of an inventory barcode system currently being piloted by SFPUC IT and Wastewater departments in 2022.
3. CDD will agree to run quarterly reconciliation reports for EJ Ward discrepancies until SFPUC ITS has resolved the interface problem.

Finding #2 – Some Items Identified in the Physical Count Were Not Identified in the Maximo System

Condition:

We identified some items, specified in **Table 4** below, within the bins holding the Water Enterprise inventory where we could not locate the item in the Maximo system. It is unclear whether these items should be captured as inventory in the Maximo system or whether these items are non-stock items.

Table 4
San Francisco Public Utilities Commission
Water (CDD and AWSS) Inventory Count
List of Items Not in Maximo

Item Number	Items not in Maximo	Item Code	Count	Bin
1	Dustpan, 12"-20"	048-21-1020	12	Twin Peaks
2	Dustpan frame, 12"-20" - 1/2 height, height is 4", but the standard item (048-21-1220), of which there are 55, has a height of 8"		2	Twin Peaks
3	Blind flange, 25.5"		3	Twin Peaks
4	Blind flange with handles, 16"		3	Twin Peaks
5	Blind flange, 11"		2	Twin Peaks
6	Blind flange no handles, 28"		1	Twin Peaks
7	Bend, 12"		4	Twin Peaks
8	Adapter, hex to round		3	Twin Peaks
9	14" x 12" MJB Reducer - different from item 047-30-1212		1	Twin Peaks
10	Grey pipe, 3' long, 18" diameter		3	Twin Peaks
11	Grey pipe, 2' long, 18" diameter		2	Twin Peaks
12	Flange, 20" x 12", by EF		1	Twin Peaks
13	6" by 1' spool piece		6	Twin Peaks
14	6" by 1' low pressure riser		1	Twin Peaks
15	18" by 20" spool piece		1	Twin Peaks
16	Bell 18"		8	Twin Peaks
17	18 MJ Stop		3	Twin Peaks
18	10 MJ Plug		3	Twin Peaks
19	12" valve, 10" spigot		1	Twin Peaks

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Department's should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

The Water Enterprise combines some non-stock items with the inventory items. Non-stock items should not be included in the inventory count and represent items that for example the Water Enterprise is temporarily holding for another unit or are project-related. In some cases, non-stock items were not clearly labeled "non-stock," and without assistance from the warehouse staff we could not easily determine that these items were non-stock compared to those that are part of the inventory.

Effect:

A third-party cannot easily perform the inventory counts without the assistance of Water Enterprise storekeeper staff. There is also the potential that some non-stock items should instead be captured in inventory, or are obsolete and should be salvaged or disposed of.

Recommendation:

The Water Enterprise should investigate the items noted in Table 4, and determine whether these items should be captured in the Maximo system records and the accounting records. Where these items are not inventory items and instead are non-stock items, the Water Enterprise should clearly label these items

as non-stock and perhaps consider moving them to another location in the warehouse to reduce the potential for future discrepancies.

Management Response:

CDD concurs with these findings and recommendations and will segregate all non-stock items and assess for obsolescence if applicable or move to stock inventory if warranted.

Other Matters

This Inventory did not constitute an audit, examination, review, or compilation of the historical and prospective financial information conducted in accordance with generally accepted auditing standards or with other standards established by the AICPA. Accordingly, Crowe is unable to express an opinion or any other form of assurance with respect to any of the historical or prospective financial information. Crowe did not perform any procedures to verify the Management Responses and Crowe does not provide any assurance regarding the accuracy or completeness of the responses. Any and all amounts referred to in this letter are preliminary and could change should additional procedures be performed. Additionally, issues that are not mentioned here could develop subsequent to the date of this letter that may have impacted Crowe's analysis or that Crowe may cite should additional procedures be performed.

The inventory services did not contemplate obtaining the understanding of internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this inventory, the SFPUC agreed to be responsible to make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The SFPUC has ultimate authority for making changes to inventory reported in its Maximo system and on its financial statements.

Crowe's fees are not dependent upon the outcome of this report.

We appreciate the contribution of SFPUC management and your input and direction on this project. We also thank Water Enterprise management and staff for assisting providing access to the inventory and for timely responses to our requests.

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San Francisco Public Utilities Commission
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

December 21, 2021

To: Steven Ritchie, Assistant General Manager, Water Enterprise
Ellen Levin, Deputy Assistant General Manager, Water
Angela Cheung, Water Supply & Treatment Manager
Annette Devincenzi, Warehouse Manager

CC: Eric Sandler, Assistant General Manager, Business Services & Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Lawrence Chew, Acting Information Technology Services Director

Subject: Post Fiscal Year End 2020-2021 Inventory Count – Water Enterprise, Millbrae Warehouse and Sunol Yard Fuel Station

Dear Mr. Ritchie, Ms. Levin, Ms. Cheung, and Ms. Devincenzi:

The San Francisco Public Utilities Commission (SFPUC) engaged Crowe LLP (Crowe) to perform physical inventory count services for three enterprise funds including the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Enterprise.¹ This report represents results of Crowe's physical count of the inventory at the Water Enterprise's Millbrae warehouse and fuel inventory at the Millbrae and Sunol Yards.

A. Scope of Inventory Work

The SFPUC requested Crowe to perform an annual physical inventory of these enterprise funds to test whether significant variances exist between the physical count and the records in the SFPUC's Maximo Inventory Tracking System (Maximo), to determine the cause of variances, and to determine amounts that need to be adjusted in Maximo. The SFPUC requested reporting of the analysis, findings, and recommendations consistent with the format requested by SFPUC's Financial Reporting and Analysis (FR&A) group.

B. Warehouse Locations

The locations for the Water Enterprise physical inventory were:

Millbrae Warehouse
1000 El Camino Real
Millbrae, CA 94030

Sunol Yard
505 Paloma Way
Sunol, CA 94586

¹ Note that some of the enterprises have multiple warehouse locations.

Crowe performed its inventory site visit on September 7, 2021. The last full inventory count was performed by Macias Gini & O'Connell LLP (MGO) for FY 2018-2019.²

The Millbrae Warehouse has controls in place for security, including a closed warehouse where only authorized personnel are allowed access. In **Table 1** below, we provide key data³ from Crowe's inventory count and the sampled FY2019-2020 physical inventory count conducted by MGO on June 23, 2020.

Table 1
San Francisco Public Utilities Commission
Water – Millbrae Warehouse and Sunol Yard Inventory Count
Comparison with Prior Physical Inventory Counts
(As of September 7, 2021)

Description	FY 2020-2021 (Crowe)		FY 2019-2020 (MGO)	
	Items	Value	Items	Value
Count with no Discrepancies	1,104	\$ 544,435	183	\$ 238,495
Count Discrepancies	17	460	23	432
Total Inventory Counted	1,121	\$ 544,895	206	\$ 238,927
Percentage of Inventory Sampled	100%	100%	18%	51%
Percentage of Discrepancies	1.5%	0.1%	11.2%	0.2%
Total Inventory per Maximo	1,121	\$ 544,895	1,123	\$ 472,291

Results

As indicated in Table 1, small discrepancies between Crowe's results from the sample count and the Maximo system were identified. The observation that follows explains the discrepancies in counts and a finding that follows explains the difficulty in locating some observed inventory items in the Maximo system. Crowe's recommendations are also included. Management responses to each finding were provided by the Millbrae Warehouse and Sunol Yard management team on December 13, 2021.

Observation #1 – Physical Inventory Counts Differed Slightly from Maximo Counts

Condition:

We identified a total of 17 items with a difference between the physical count and the count in Maximo. The total variance in the number of items counted was 1.5 percent (17 items divided by 1,121 items). Based on the physical count, and using the average cost in Maximo, we determined that the total value of the combined Millbrae Warehouse and Sunol Yard asset inventory was \$460, or 0.1 percent, below the total asset value of \$544,895 in Maximo.⁴

We found 8 positive variances (where the physical count exceeded the Maximo inventory count) which totaled \$421. We found 9 negative variances (where the physical count fell below the Maximo inventory count) which totaled (\$881). In **Table 2** below we provide a summary of variances which shows that most of the variance dollar amount is fuel-related.⁵

² This 2018-19 inventory data is included in Table 1 on page 2 of MGO's August 21, 2020 report titled "Fiscal Year 2019-2020 Annual Physical Inventory Count Services for Water-Millbrae and Sunol Warehouses."

³ Neither Crowe nor MGO performed any procedures related to the assigned value in the Maximo system.

⁴ \$544,895 is the combined asset value of all fuel as of September 7, 2021 and all other items as of September 6, 2021.

⁵ Of the 13 variances not related to fuel, none had an absolute dollar value greater than \$100.

Table 2
San Francisco Public Utilities Commission
Water – Millbrae Warehouse and Sunol Yard Inventory Count
Summary of Variances

Description	Item Count	Amount
Fuel Variances		
Positive	1	\$ 132
Negative	3	(615)
<i>Total Fuel Variances</i>	4	(483)
Other Variances		
Positive	7	289
Negative	6	(266)
<i>Total Other Variances</i>	13	23
Total Variances	17	\$ (460)

Finally, as shown in **Table 3** below, based on the fuel dip procedures Crowe performed for this physical count, we found the actual quantities of fuel contained in the four tanks varied from those in the Maximo system.

Table 3
San Francisco Public Utilities Commission
Water – Millbrae Warehouse and Sunol Yard Fuel Inventory
Summary of Fuel Gallon and Cost Variances

Item Number	Row Labels	Item Code	CURBAL 9.7.21	Crowe Count 9.7.21	Variance	Average Cost	Cost of Variance
1	GASOLINE, AUTO, UNLEADED, MILLBRAE	091-30-3255	5,569.1	5,415.0	(154.1)	\$ 3.5522	\$ (547.39)
2	GASOLINE, AUTO, UNLEADED, SUNOL	091-30-3260	2,953.6	2,988.0	34.4	3.8389	132.06
3	GASOLINE, DIESEL, SUNOL	091-40-3147	768.2	750.0	(18.2)	3.5494	(64.60)
4	GASOLINE, TRUCK, DIESEL FUEL, MILLBRAE	091-40-3146	3,378.85	3,378.00	(0.85)	3.6540	(3.11)
Total							\$ (483.04)

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller’s Accounting Policies and Procedures identifies that Departments shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Additionally, Section 6.1 (Policy Guidelines) indicates that inventory system records must be promptly adjusted for any discrepancies identified in the physical counts, Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

Regarding the fuel variances observed, we determined that the Water Enterprise uses the automated fuel tracking information system, E.J. Ward, to capture fuel usage and the SFPUC information technology department has developed an interface designed to periodically upload the E.J. Ward fuel usage data to the Maximo system. However, based on problems with the system interface between the E.J. Ward system and the Maximo system, actual Water Enterprise fuel usage data was not consistently and accurately uploaded into Maximo causing the variances.⁶ Thus the physical fuel we observed reflected a significant

⁶ We verified that the Water Enterprise frequently records and monitors quantities of fuel received from vendors in the Maximo system.

amount of fuel dispensed which was not identified in the Maximo system. We believe that the quantities we observed during our physical count using a manual dip process and a conversion formula were reasonably accurate as they corresponded with quantities registered by an electronic measurement system contained in the fuel tanks that the Water Enterprise generated that day (referred to as the System Status Report).

Effect:

The combined Millbrae and Sunol inventory value in the Maximo system is overstated by \$460. Regarding the fuel usage discrepancies, absent periodic monitoring of the fuel levels, the Millbrae Warehouse and Sunol Yard will have difficulty reconciling future inventories and identifying variances that are the result of missing fuel (e.g., theft), delivery errors, data entry errors, tank leaks, or shrinkage.

Recommendation:

The Water warehouse staff should update the asset inventory counts in Maximo after management approval. The SFPUC Financial Reporting and Analysis (FR&A) should adjust the General Ledger to reflect the actual cost of inventory on hand.

Management Response:

In response to the audit that took place on September 7, 2021 conducted by Crowe, Water Supply and Treatment management offers the following responses and suggestions for future audits:

Observation #1 – Physical Inventory Counts differed slightly from Maximo counts.

Millbrae Warehouse management offered to assist the auditors while the audit was being performed to help answer questions. However, the offer was turned down by the auditors. The auditors also left the site after the audit without a site debrief. When the auditors' draft findings were presented to warehouse management, warehouse management found a number of mistakes that could have been avoided if warehouse staff's offer to assist in the audit was accepted or a site debrief was held after the audit. The auditors initially found 69 items that they asked for recount. Of the 69 items, only 11 were actually miscounted in the original inventory count by warehouse staff. The auditors also missed 9 items in their audit, and warehouse management had to submit photos of those items as proof so the auditors could retroactively include the 9 items in the audit report, all of which could have been avoided if either the warehouse staff could assist during the audit or a site debrief was held after the audit.

Fuel variances

The audit's analysis of fuel inventory and methods used by the Millbrae Warehouse for tacking fuel deliveries and consumptions, warehouse management found the actual discrepancy to be minimal. It should be noted that with fuel, evaporation and expansion of fuel with temperature changes tend to contribute to variances between the two tracking systems. Unlike physical items, minor fuel variances are to be expected unless a substantial amount is unaccounted for, which was not the case here and likewise concluded by the auditors.

Crowe Response:

For this inventory, Crowe utilized a process to efficiently arrive at the most accurate results possible while minimizing disruption to the warehouse. Crowe provided Millbrae Warehouse management with preliminary inventory count variances on September 13, 2021 and provided Millbrae Warehouse management and staff an opportunity to review and provide comments and feedback on these preliminary inventory count variances. Crowe subsequently also made several additional inquiries regarding some of our observations and fully considered management's additional information and clarifications. Finally, based on additional information provided by Millbrae Warehouse management, Crowe made some adjustments to preliminary count variances to reflect the most accurate inventory counts possible. In future inventory efforts, Crowe will work with the SFPUC and Millbrae Warehouse management to arrive at a mutually agreeable process to perform the inventory which will involve greater on-site

assistance/participation from warehouse staff and a debrief discussion after the preliminary count variances are determined.

Finding #1 – Some Items Identified in the Physical Count Were Not Identified in the Maximo System

Condition:

We identified some items, specified in **Table 4** on the following page, within the bins holding the Millbrae Warehouse inventory where we could not locate the item in the Maximo system. It was unclear whether these items should be captured as inventory in the Maximo system or whether these items are non-stock items. Subsequent to Crowe's inventory count, warehouse management indicated that these items will not be added to inventory.

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

The Millbrae Warehouse combines some non-stock items with the inventory items. The Millbrae Warehouse temporarily holds some non-stock items for other units with some items being project-related. In some cases, non-stock items are not clearly labeled as "non-stock" and cannot be separately identified from inventory items without assistance from the warehouse staff .

Effect:

A third-party cannot easily perform the inventory counts without the assistance of Millbrae Warehouse storekeeper staff. There is also the potential that some non-stock items should instead be captured in inventory or are obsolete and should be salvaged or disposed of.

Recommendation:

The Millbrae Warehouse should investigate the items noted in Table 4 and determine whether these items should be captured in the Maximo system records and the accounting records. Where these items are not inventory items and instead are non-stock items, the Millbrae Warehouse should clearly label these items as non-stock and perhaps consider moving them to another location in the warehouse to reduce the potential for future discrepancies.

Management Response:

Warehouse management does not concur with this finding. Warehouse management intentionally stored and distributed the non-stock items, many of which were COVID PPEs, to allow front-line workers to be able to obtain COVID PPEs from the Millbrae Warehouse during the global pandemic. The other non-stock items were not mixed with the inventory and were known to be non-stock items.

Warehouse management does concur that third-party cannot easily perform the inventory counts without the assistance of Millbrae Warehouse storekeeper staff. This is the same reason assistance was offered to the auditors on September 7. This finding should be included in the scope of future audits to prevent the issues noted above.

We appreciate the opportunity to respond to the audit, and we look forward to collaborating with auditors in future audits.

Crowe Response:

Crowe continues to maintain that these non-stock items should be labeled/marked for easy identification. Crowe will work with Millbrae Warehouse management in future audits to leverage greater on-site assistance/participation from warehouse staff in an effort to clarify non-stock items and the reasons they are non-stock and not included in the Maximo inventory.

Table 4
San Francisco Public Utilities Commission
Millbrae Warehouse and Sunol Yard Inventory Count
List of Items Not in Maximo

Description	Quantity	Location	Item Number	Note
Filter Air Wix 46416	2	A00-A03-A01	022-05-1075	
Bag SF Water Millbrae 102	1	A00-B02-A01		
Powder Free Nitrile Gloves, Condor, S	10	A00-B02-A		COVID supplies
Powder Free Nitrile Gloves, Condor, M	2	A00-B02-A		COVID supplies
Tuff Grip Powder Free Nitrile Gloves, M	2	A00-B02-A		COVID supplies
ZyB11 N95 Particulate Respirator without Valve	6	A00-B02-A		COVID supplies
Surface Disinfectant	5	A00-B02-A		COVID supplies
Greenerways Hand Sanitizer 16 oz	2	A00-B02-A		COVID supplies
Purell Refreshing Gel 20 oz	4	A00-B02-A		COVID supplies
Showa unline nitrile gloves	12	A00-B02-A		COVID supplies
Non-surgical face mask, L	2 pack	A00-B02-A		COVID supplies
Tuff Grip Powder Free Nitrile Gloves, L	14	A00-B02-A		COVID supplies
M+D Gloves, XL	20	A00-B02-A		COVID supplies
M+D Gloves, M	8	A00-B02-A		COVID supplies
Purell Refreshing Gel 8 oz	3	A00-B02-A		COVID supplies
Unknown Green (no label)	6	A02-C01-A01		
		A03-C01-A01		
		A03-D04-A02		
long-lasting trigger prof. sprayer	7	A03-F05-A01		COVID supplies
Bottle, Spray, 26 oz	24	A03-F03-A01		COVID supplies
Bottle Sprayer BRD Yellow	3	A03-F03-W3tN		COVID supplies
Bottle Spray 600 mL	110	A03-F03-D03		COVID supplies
White Sprayer	33	A03-F03-A02		COVID supplies
Adapter Pipe PVC	6	A03-F01-A01	047-30-0664	
18" Diameter Pipe, Steel, Black, 20' Long	1	Y01-A01		
Nitri-Solve Gloves, Box of 144 pairs, size 9	30	Y01-A01		COVID supplies
Coverall, Tychem, Heavy Duty, size XX	11	Y01-A01		COVID supplies
Coverall, Tychem, Heavy Duty, size XXX	9	Y01-A01		COVID supplies
Coverall, Tuff-Gard, Medium	2	Y01-A01		COVID supplies
Coverall, Tuff-Gard, Large	5	Y01-A01		COVID supplies
Coverall, Kleenguard, size L	1 box	Y01-A01		COVID supplies
Coverall, Kleenguard, size XL	1 box	Y01-A01		COVID supplies
Coverall, Kleenguard, size 2XL	3 boxes	Y01-A01		COVID supplies
Coverall, Kleenguard, size 3XL	2 boxes	Y01-A01		COVID supplies
Coverall, Tyvek, size 3X	1 box	Y01-A01		COVID supplies
Conduit, 21' long, 1/2" diameter	4	outside of Y01-A01		
Conduit, 21' long, 3/4" diameter	6	outside of Y01-A01		
Tire	2	Z01-A01	022-05-5059	
Tire	1	Z01-A01	022-05-5061	
Tire	2	Z01-A01	022-05-5009	
Tire	3	Z01-A01	022-05-5070	
Poseidon 5000, Hydraulic Fluid, AW-46, 55-gal drum	1	Dock		
Latex Canner's Gloves, Blue, XL, box of 144 pair	4			COVID supplies
Latex Household Gloves, box of 144 pair	8		94410	COVID supplies
Nitrile Gloves, Nitri-Solve, package of 12 pairs, size 10	57			COVID supplies
Nitrile Gloves, Nitri-Solve, package of 12 pairs, size 8	60			COVID supplies
1-1/8" X 4-1/2" gr 5 HX Cap Screw 2n - Blue	140	P01	457721	
Jumbo Roll Tissue - 2,000 ft, case of 6 rolls	18 cases	P02-A02		
Mat, Rubber 3' X 5', Scraper	8	P02-A02-A01	079-40-3500	
NIPPLE, PIPE, STEEL, GALV, 1" X 6"	11	A01-B05-C01	047-32-4712	

Other Matters

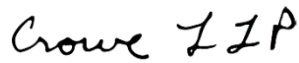
This Inventory did not constitute an audit, examination, review, or compilation of the historical and prospective financial information conducted in accordance with generally accepted auditing standards or with other standards established by the AICPA. Accordingly, Crowe is unable to express an opinion or any other form of assurance with respect to any of the historical or prospective financial information. Crowe did not perform any procedures to verify the Management Responses and Crowe does not provide any assurance regarding the accuracy or completeness of the responses. Any and all amounts referred to in this letter are preliminary and could change should additional procedures be performed. Additionally, issues that are not mentioned here could develop subsequent to the date of this letter that may have impacted Crowe's analysis or that Crowe may cite should additional procedures be performed.

The inventory services did not contemplate obtaining the understanding of internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this inventory, the SFPUC agreed to be responsible to: make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The SFPUC has ultimate authority for making changes to inventory reported in its Maximo system and on its financial statements.

Crowe's fees are not dependent upon the outcome of this report.

We appreciate the contribution of SFPUC management and your input and direction on this project. We also thank Millbrae Warehouse and Sunol Yard management and staff for providing access to the inventory and for timely responses to our requests.



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San Francisco Public Utilities Commission
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San Francisco, CA 94102

December 31, 2021

To: Barbara Hale, Assistant General Manager, Power
Ramon Abueg, Deputy Manager, Power Operations
Richard Stephens, Utility Services Manager
David Carter, Materials Coordinator
Bart Murphy, Materials Coordinator

CC: Eric Sandler, Assistant General Manager, Business Services & Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Lawrence Chew, Acting Information Technology Services Director

Subject: Post Fiscal Year End 2020-2021
Inventory Count – Hetch Hetchy Enterprise, Hetchy Power In-City Warehouse

Dear Ms. Hale, Mr. Abueg, Mr. Stephens, Mr. Carter, and Mr. Murphy:

The San Francisco Public Utilities Commission (SFPUC) engaged Crowe LLP (Crowe) to perform physical inventory count services for three enterprise funds including the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Enterprise.¹ This report represents results of Crowe's physical count of the Hetch Hetchy Enterprise - Hetchy Power In-City inventory.

A. Scope of Inventory Work

The SFPUC requested Crowe to perform an annual physical inventory of these enterprise funds to test whether significant variances exist between the physical count and the records in the SFPUC's Maximo Inventory Tracking System (Maximo), to determine the cause of variances, and to determine amounts that need to be adjusted in Maximo. The SFPUC requested reporting of the analysis, findings and recommendations consistent with the format requested by SFPUC's Financial Reporting and Analysis (FR&A) group.

B. Warehouse Location(s)

The location for the Hetchy Power In-City physical inventory was:

Hetchy Power In-City Warehouse
Pier 23
San Francisco, California 94111

Crowe performed inventory site visits on August 24 and 25, 2021. The last full inventory count was performed for FY 2019-2020 on May 21 and 22, 2020.

¹ Note that some of the enterprises have multiple warehouse locations.

The warehouse has controls in place for security, including a gated warehouse entry where Hetchy Power allows only authorized personnel access. In **Table 1** below, we provide key data² from Crowe's inventory count as the results from the sampled FY 2019-2020 physical inventory count conducted on May 22, 2020 by Macias Gini & O'Connell LLP (MGO).³

Table 1
San Francisco Public Utilities Commission
Hetchy Power In-City Warehouse Inventory Count
Comparison with Prior Physical Inventory Counts
(As of August 23, 2021)

Description	FY 2020-2021 (Crowe)		FY 2019-2020 (MGO)	
	Items	Value	Items	Value
Count with no Discrepancies	829	\$ 1,292,773	153	\$1,372,059
Count Discrepancies	534	\$ 139,041	701	214,100
Total Inventory Counted	1,363	\$ 1,431,814	854	\$1,586,159
Percentage of Inventory Sampled	100%	100%	100%	100%
Percentage of Discrepancies	39%	9.7%	82%	14.0%
Total Inventory per Maximo	1,363	\$ 1,431,814	854	\$1,586,159

Results

As indicated in Table 1, discrepancies between Crowe's results from the sample count and the Maximo system were identified. The two findings that follow explain the discrepancies in counts and difficulty in locating inventory items. Crowe's recommendations related to those findings are also included. Management responses to each finding were provided by the Hetch Power management team on December 28, 2021.

Finding #1 – Physical Inventory Counts Differed from Maximo Counts

Condition:

We identified a total of 534 items with a difference between the physical count and the items reported in Maximo. The total variance in the number of items counted was 39 percent (534 items divided by 1,363 items). This represents an improvement from the 82 percent discrepancy level observed for fiscal year 2019-2020 but still is a relatively large variance. We provided Hetchy Power In-City warehouse personnel with an opportunity to review/confirm the count figures and they were in agreement with the variances. This represents a recurring finding. Based on the physical count of the discrepancies, and using the average cost in Maximo, we determined that the total value of the warehouse inventory variance should be \$139,041, or 9.7 percent, above the current total asset value of \$1,431,814 in Maximo (i.e., equal to \$1,431,814 plus \$139,041, or \$1,570,855).

We found 244 positive variances (where the physical count exceeded the Maximo inventory count) which totaled \$278,339. We found 290 negative variances (where the physical count fell below the Maximo inventory count) which totaled \$139,298. In **Table 2** below we list 19 items with either positive or negative variances above \$2,000. The combination of these 19 items represented \$158,724, or the majority of the variance.

² Neither Crowe nor MGO performed any procedures related to the assigned value in the Maximo system.

³ Note: Crowe did not perform any procedures on the data presented in this MGO report.

Table 2
San Francisco Public Utilities Commission
Hetchy Power In-City Warehouse Inventory Count
List of Items with Variance Above or Below \$2,000

Item Number	Description	Item Number (Helper)	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance
1	3RD ST. SWOSH ARMS SMALL (6 5/8, 7 1/4)	PE-10-0767	-	14	14	6,613	\$ 92,575
2	3RD ST. SWOSH ARMS MEDIUM (8 3/4)	PE-10-0768	-	10	10	6,785	\$ 67,850
3	3RD ST. SWOSH ARMS LARGE (9 1/4, 9 5/8)	PE-10-0769	-	7	7	6,900	\$ 48,300
4	250W INSTANT RESTRIKE LAMP	PE-10-0625	26	199	173	28	\$ 4,844
5	DISPOSABLE WIPES, DRY, WYPALL X50	PE-10-1687		42	42	108	\$ 4,541
6	Bird Flight Diverter PGE 561455	PE-10-1756	50	104	54	62	\$ 3,353
7	BUSS FUSEHOLDER, HEX-AA	PE-10-0067	153	199	46	65	\$ 2,996
8	Wood Crossarms 8' Light 6 Pin	PE-10-1769	24	39	15	150	\$ 2,250
9	TX AL Plate 'SFPUC' machined on part	PE-10-1872	229	170	(59)	35	\$ (2,080)
10	Plate, Service Attachment, Steel, Galvanized	PE-10-0872	98	-	(98)	25	\$ (2,419)
11	Reducing Tap/Stud 15kv 600/200A PGE 303593	PE-10-1829	25	-	(25)	121	\$ (3,031)
12	4 FOOT METAL ARM NEW	PE-10-0458	23	-	(23)	140	\$ (3,220)
13	GVU6N GLASS POST TOP FOR HOLOPHANE FIXTURES	PE-10-0661	9	-	(9)	400	\$ (3,600)
14	WIRE, UNDERGROUND, TRI-PLEX 4/0 SERVICE WIRE, 600 VOLT XLP INSULATED CABLE, 3 CONDUCTOR	PE-10-1657	9,800	7,900	(1,900)	2	\$ (3,773)
15	200W INSTANT RESTRIKE LAMP	PE-10-0623	141	-	(141)	39	\$ (5,524)
16	LED LUMINAIRE, HOLOPHANE, WASHINGTON POST ENHAN LED2, P/N WSE2 P30 30K AS RAL5020 3 GL 6 PCS P7, USED ON THE EMBARCADERO	PE-10-1730	4	-	(4)	1,944	\$ (7,778)
17	POLE, 16FT, ROUND STEEL BOTTLENECK POLE, LUMEC, BLACK FINISH	PE-10-1916	15	9	(6)	1,778	\$ (10,668)
18	POLE, 16FT, ROUND STEEL BOTTLENECK POLE, WITH GFI, LUMEC, BLACK FINISH	PE-10-1918	10	4	(6)	1,940	\$ (11,642)
19	26 FT SINGLE POLE	PE-10-0483	19	-	(19)	750	\$ (14,250)
	Subtotal Variances with Absolute Values Greater Than or Equal to \$2,000						\$ 158,724
20	All Other Variances with Absolute Values Less Than \$2,000						\$ (19,683)
	Total						\$ 139,041

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Additionally, Section 6.1 (Policy Guidelines) indicates that inventory system records must be promptly adjusted for any discrepancies identified in the physical counts, Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Departments should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy; and take corrective actions to reduce future discrepancies.

Cause:

Hetchy Power In-City warehouse staff identified several reasons for the differences in this physical count compared to the count in Maximo, including:

- System posting errors, by the individual entering the data, where the quantity entered was incorrect
- A storeroom area was not added to Maximo
- Some inventory items were used on a project/job and were not reflected in Maximo
- Some parts were reclaimed from the Treasure Island warehouse and were not reflected in Maximo.

Effect:

The Hetchy Power In-City inventory value in the Maximo system is understated by \$133,047.

Recommendation:

Hetchy Power In-City warehouse staff should update the asset inventory counts in Maximo after management approval. The SFPUC Financial Reporting and Analysis (FR&A) should adjust the General Ledger to reflect the actual cost of inventory on hand. Hetchy Power In-City should investigate the significant discrepancies between the physical counts noted in Tables 1 and 2, the Maximo system records, and the accounting records; document the reasons for discrepancies; and implement corrective actions to reduce future discrepancies.

Management Response:

Finding #1

Management concurs except for the count on swoosh arms. The physical count from Crowe of the swoosh arms is correct but they are recorded under project warehouse and not operating fund warehouse. Below is management's version of Table 1 revised without swoosh arms, resulting inventory value overstated by \$69,684. The swoosh arms were not labeled as "Project" which was counted by Crowe as part of "Operating".

Description	FY 2020-2021 (Table 1)		Adjustment (project inventory)		Revised FY 2020-2021	
	Items	Value	Items	Value	Items	Value
Count with no Discrepancies	829	\$ 1,292,773			829	\$ 1,292,773
Count Discrepancies	534	\$ 139,041	(3)	\$ (208,725)	531	\$ (69,684)
Project Warehouse			3	\$ 208,725	3	\$ 208,725
Total Inventory Counted	1,363	\$ 1,431,814			1,363	\$ 1,431,814
Percentage of Inventory Sampled	100%	100%			100%	100%
Percentage of Discrepancies	39%	9.7%			39%	4.9%
Total Inventory per Maximo	1,363	\$ 1,431,814			1,363	\$ 1,431,814

Item Number	Description	Item Number (Helper)	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance	HHP-Cost of Variance
1	3RD ST. SWOSH ARMS SMALL (6 5/8, 7 1/4)	PE-10-0767	-	14	14	6,613	\$ 92,575	\$ -
2	3RD ST. SWOSH ARMS MEDIUM (8 3/4)	PE-10-0768	-	10	10	6,785	\$ 67,850	\$ -
3	3RD ST. SWOSH ARMS LARGE (9 1/4, 9 5/8)	PE-10-0769	-	7	7	6,900	\$ 48,300	\$ -
4	250W INSTANT RESTRIKE LAMP	PE-10-0625	26	199	173	28	\$ 4,844	\$ 4,844
5	DISPOSABLE WIPES, DRY, WYPALL X50	PE-10-1687		42	42	108	\$ 4,541	\$ 4,541
6	Bird Flight Diverter PGE 561455	PE-10-1756	50	104	54	62	\$ 3,353	\$ 3,353
7	BUSS FUSEHOLDER, HEX-AA	PE-10-0067	153	199	46	65	\$ 2,996	\$ 2,996
8	Wood Crossarms 8" Light 6 Pin	PE-10-1769	24	39	15	150	\$ 2,250	\$ 2,250
9	TX AL Plate 'SFPUC' machined on part	PE-10-1872	229	170	(59)	35	\$ (2,080)	\$ (2,080)
10	Plate, Service Attachment, Steel, Galvanized	PE-10-0872	98	-	(98)	25	\$ (2,419)	\$ (2,419)
11	Reducing Tap/Stud 15Kv 600/200A PGE 303593	PE-10-1829	25	-	(25)	121	\$ (3,031)	\$ (3,031)
12	4 FOOT METAL ARM NEW	PE-10-0458	23	-	(23)	140	\$ (3,220)	\$ (3,220)
13	GVU6N GLASS POST TOP FOR HOLOPHANE FIXTURES	PE-10-0661	9	-	(9)	400	\$ (3,600)	\$ (3,600)
14	WIRE, UNDERGROUND, TRI-PLEX 4/0 SERVICE WIRE, 600 VOLT XLP INSULATED CABLE, 3 CONDUCTOR	PE-10-1657	9,800	7,900	(1,900)	2	\$ (3,773)	\$ (3,773)
15	200W INSTANT RESTRIKE LAMP	PE-10-0623	141	-	(141)	39	\$ (5,524)	\$ (5,524)
16	LED LUMINAIRE, HOLOPHANE, WASHINGTON POST ENHAN LED2, P/N WSE2 P30 30K AS RAL5020 3 GL 6 PCS P7, USED ON THE EMBARCADERO	PE-10-1730	4	-	(4)	1,944	\$ (7,778)	\$ (7,778)
17	POLE, 16FT, ROUND STEEL BOTTLENECK POLE, LUMEC, BLACK FINISH	PE-10-1916	15	9	(6)	1,778	\$ (10,668)	\$ (10,668)
18	POLE, 16FT, ROUND STEEL BOTTLENECK POLE, WITH GFI, LUMEC, BLACK FINISH	PE-10-1918	10	4	(6)	1,940	\$ (11,642)	\$ (11,642)
19	26 FT SINGLE POLE	PE-10-0483	19	-	(19)	750	\$ (14,250)	\$ (14,250)
	Subtotal variances with Absolute Values Greater Than or equal to \$2,000						\$ 158,724	\$ (50,001)
	All Other Variances with Absolute Values Less Than \$2,000						\$ (19,683)	\$ (19,683)
20	Total						\$ 139,041	\$ (69,684)

Description	FY2018-2019	FY2019-2020	FY2020-2021
Count Discrepancies	1,318	701	531
Value of Discrepancies	\$ 630,228	\$ 214,100	\$ (69,684)
Percentage of Discrepancies	36.0%	14.0%	4.9%

Finding #2 – Some Inventory Was Difficult to Locate

Condition:

During the course of performing the physical count, we had difficulty locating some of the inventory items identified in the Maximo system. In particular, some of the larger bulkier items were located behind other items and recessed which limited access.

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Department's should prepare and organize storage for the inventory count.

Cause:

Hetchy Power In-City moved relatively recently to Pier 23 and has been transitioning its entire inventory to this new storage facility. Additionally, there are several items that are recently determined to be obsolete and were commingled with the current inventory items in Maximo (e.g., significant quantities of light bulbs).

Effect:

A third-party cannot easily perform the inventory counts without the assistance of storekeeper staff. There also is the potential for some inventory items not to be identified.

Recommendation:

For the next annual inventory, Hetchy Power In-City should clearly label and organize all of its inventory, particularly the bulkier items outside of the storage shelves, so that a third party can easily identify and count the inventory.

Management Response:

Finding #2: Concur.

SFPUC Power Enterprise is transitioning to new Part Numbers scheme and a Mobile Pick and Pack/Issue software program to improve accuracy in identifying parts, improve accuracy in the Pick and Pack process, and to implement coordination of Work Orders and Issuing to Work Orders closer in real time.

Other Matters

This Inventory did not constitute an audit, examination, review, or compilation of the historical and prospective financial information conducted in accordance with generally accepted auditing standards or with other standards established by the AICPA. Accordingly, Crowe is unable to express an opinion or any other form of assurance with respect to any of the historical or prospective financial information. Crowe did not perform any procedures to verify the Management Responses and Crowe does not provide any assurance regarding the accuracy or completeness of the responses. Any and all amounts referred to in this letter are preliminary and could change should additional procedures be performed. Additionally, issues that are not mentioned here could develop subsequent to the date of this letter that may have impacted Crowe's analysis or that Crowe may cite should additional procedures be performed.

The inventory services did not contemplate obtaining the understanding of internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this inventory, the SFPUC agreed to be responsible to make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The SFPUC has ultimate authority for making changes to inventory reported in its Maximo system and on its financial statements.

Crowe's fees are not dependent upon the outcome of this report.

We appreciate the contribution of SFPUC management and your input and direction on this project. We also thank Hetchy Power In-City management and staff for assisting providing access to the inventory and for timely responses to our requests.

Crowe LLP

Crowe LLP



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November 10, 2021

To: Greg Norby, Assistant General Manager, Wastewater Enterprise
Joel Prather, Maintenance Manager
Christian Losno, Materials Coordinator
Jorge Gonzalez, Assistant Supervisor of Stores & Equipment

CC: Eric Sandler, Assistant General Manager, Business Services & Chief Financial Officer
Nancy L. Hom, Deputy Chief Financial Officer
Charles Perl, Deputy Chief Financial Officer
Lawrence Chew, Acting Information Technology Services Director

San Francisco Public Utilities Commission
525 Golden Gate Ave
San Francisco, CA 94102

Subject: Post Fiscal Year End 2020-2021
Inventory Count - Wastewater Enterprise Warehouse

The San Francisco Public Utilities Commission (SFPUC) engaged Crowe LLP (Crowe) to perform physical inventory count services for three enterprise funds including the Wastewater Enterprise, Water Enterprise, and Hetch Hetchy Enterprise.¹ This report represents results of Crowe's physical count of the Wastewater Enterprise inventory (Inventory).

A. Scope of Inventory Work

The SFPUC requested Crowe to perform an annual physical inventory of these enterprises to test whether significant variances exist between the physical count and the records in the SFPUC's Maximo Inventory Tracking System (Maximo), to determine the cause of variances, and to determine amounts that need to be adjusted in Maximo. The SFPUC requested reporting of the analysis, findings, and recommendations consistent with the format requested by SFPUC's Financial Reporting and Analysis (FR&A) group.

B. Warehouse Location(s)

The location for the Wastewater Enterprise physical inventory was:

2725 Oakdale Avenue
San Francisco, California 94124

The last sampled inventory count was performed in FY 2019-2020 on June 30, 2020 at the Wastewater's SEP Warehouse. In late 2020, the Wastewater Enterprise moved its warehouse to the above location. SFPUC informed Crowe that our inventory count was the first full third-party inventory count conducted at this new warehouse location. Crowe visited the site on July 23, 2021, where a majority of the inventory was completed. Crowe also conducted a follow up visit on August 20, 2021, where we reviewed variances and verified some of the count data.

¹ Note that some of the enterprises have multiple warehouse locations.

The Wastewater Enterprise has controls in place for security, including a closed warehouse where the Wastewater Enterprise allows only authorized personnel access. Additionally, most of the small to mid-sized inventory items are maintained in secure cabinets with pull out drawers under lock and key. In **Table 1** below, we provide key data² from Crowe's inventory count as well as the results from the FY2019-2020 inventory count conducted by Macias Gini & O'Connell LLP (MGO) and published in its report to the SFPUC dated August 21, 2020.³

Table 1
San Francisco Public Utilities Commission
Wastewater Inventory Count
Summary of Key Data
(As of July 23, 2021)

Description	FY 2020-2021 (Crowe)		FY 2019-2020 (MGO)	
	Items	Value	Items	Value
Count with no Discrepancies	3,820	\$2,644,448	184	\$922,114
Count Discrepancies	93	33,513	21	76,570
Total Inventory Counted	3,913	2,677,961	205	998,684
Percentage of Inventory Sampled	100%	100%	5%	40%
Percentage of Discrepancies	2.4%	1.3%	10%	8%
Total Inventory per Maximo	3,913	\$2,677,961	3,876	\$2,488,948

Results

As indicated in Table 1, discrepancies between Crowe's results from the sample count and the Maximo system were identified. The four findings that follow explain the discrepancies in counts, obsolete inventory, and difficulty in locating inventory items. Crowe's recommendations related to those findings are also included. Management responses to each finding were provided by the Wastewater Management team on September 27, 2021.

Finding #1 – Physical Inventory Counts Differed from Maximo Report Counts

Condition:

We identified a total of 93 items with a difference between the physical count and the items reported in Maximo. The total variance in the number of items counted was 2.4 percent (93 divided by 3,913 items). Based on the physical count, and using the average cost in Maximo, we determined that the total value of the Wastewater Enterprise asset inventory should be \$33,513, or 1.3 percent, below the current total asset value of \$2,677,961 in Maximo.

We found 28 positive variances (where the physical count exceeded the Maximo inventory count) which totaled \$22,472. We found 65 negative variances (where the physical count fell below the Maximo inventory count) which totaled \$55,985. In **Table 2** below we list 13 items with either positive or negative variances above \$1,000. The combination of these 13 items represented \$29,364, or the majority of the \$33,513 variance.

² Neither Crowe nor MGO performed any procedures related to the assigned value in the Maximo system.

³ Note: Crowe did not perform any procedures on the data presented in this MGO report.

Table 2
San Francisco Public Utilities Commission
Wastewater Inventory Count
List of Items with Variance Above or Below \$1,000

Item Number	Item Description	Item Code	Maximo Count	Crowe Count	Variance	Average Cost	Cost of Variance
1	IMPELLER W/ RING ASSY, RAS;"INGERSOLL-DRESSER"PUMPRING ASSY DIA: 24.12",TYPE: 16MNZ25, SN: 79Z001796	MIMPS-0116	1	0	-1	\$14,064.2	\$(14,064)
2	HOLDER, CAST IRON ,(WALL BRACKET)3-15/16,FOR PEAK CAP BEARING; "LINK BELT"	ABRGP-9315	65	0	-65	\$196.1	(12,745)
3	FLIGHT,SIGMA (BLANK) 3"X 8"X 17FT 7-1/2"	GLFGT-0056	63	0	-63	\$165.7	(10,440)
4	IMPELLER 646 MDL#3300X	MIMPS-0094	1	0	-1	\$2,147.5	(2,147)
5	SPROCKET, C HUB, 32 T P/N 23091-150-22	ASPKH-SN43	4	0	-4	\$450.0	(1,800)
6	FLIGHT, SIGMA, FIBERGLASS 3IN X 8IN X 17FT 8IN;	GFLGT-0016	9	0	-9	\$184.5	(1,660)
7	FLIGHT,SIGMA (BLANK) 3"X 8"X 17FT 7-1/2"	GFLGT-0056	10	0	-10	\$165.7	(1,657)
8	HARNESS, FALL PROTECTION, 1108257, LARGE	ASFTM-6496	8	3	-5	\$297.9	(1,489)
9	CASING,BOTTOM	MCASE-0002	1	0	-1	\$1,123.5	(1,124)
10	CARTRIDGE, MULTI-GAS, P100	ASFTP-1052	226	304	78	\$25.1	1,954
11	Ring, Wear, Stationary, SS316, 3452518, PUMP, FLYGT, 3531.845	GRING-5678	0	4	4	\$779.0	3,116
12	Ring, Wear, Rotating, SS316, 3452520, PUMP, FLYGT, 3501.875	GRING-8765	0	5	5	\$920.0	4,600
13	ROTOR, "MOYNO" STATOR C82EE1 4054003615	MRTOR-0049	4	6	2	\$4,045.7	8,091
14	Sum of Cost of Variance of 80 Other Items Whose Individual Variances Each Have an Absolute Value Less Than \$1,000						(4,149)
Total							\$(33,513)

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Departments shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Additionally, Section 6.1 (Policy Guidelines) indicates that inventory system records must be promptly adjusted for any discrepancies identified in the physical counts, Departments must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Department's should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

The Wastewater Enterprise recently moved its entire inventory to a new storage facility and is in the process of organizing the inventory and indicated that it has near-term plans to construct new shelving for additional storage. Additionally, 12 items were disposed during the recent move but had not yet been updated in the Maximo system. Finally, ten items within the Maximo system are non-stock items which should not be included in the inventory (e.g., left over inventory items remaining from a project or tool room items).

Effect:

The Wastewater Enterprise inventory value in the Maximo system is overstated by \$33,513.

Recommendation:

The Wastewater warehouse staff should update the asset inventory counts in Maximo after management approval. The SFPUC Financial Reporting and Analysis (FR&A) should adjust the General Ledger to reflect the actual cost of inventory on hand. The Wastewater Enterprise should investigate the significant discrepancies between the physical counts noted in Tables 1 and 2, the Maximo system records, and the accounting records; document the reasons for discrepancies; and implement corrective actions to reduce future discrepancies.

Management Response:

Management performed an unofficial audit on all items in Table 2 and found the following:

- Seven (7) of the items were in fact disposed of during our recent warehouse relocation and were not properly removed from inventory in Maximo. This user error will be addressed with a new Standard Operating Procedures (SOP) for proper inventory disposal.
- Three (3) of the items were physically received but were not properly recorded in Maximo, thus still showing a zero or lesser balance in Maximo. The existing SOP for this procedure will be reviewed by management and then reissued to applicable staff.
- Two (2) other items either had erroneous cycle counts performed or were issued without proper reconciliation in Maximo. The existing SOPs for these procedures will be reviewed by management and then reissued to applicable staff.
- Item #4 (PUMP-8026) was found in its assigned bin. Management acknowledge that the warehouse team is still in the process of moving into the new warehouse location and the bin numbers can be difficult to identify in their current layout. But nonetheless, the item does physically exist, and the overage should be reduced by the value of this pump (\$4,654).
- Item #3 is incorrectly listed in this table. The description is the same as item 8, and the "PUMP" item code prefix does not correlate to a "flight". If it were a flight, the item prefix should start with "GFLGT" like items 7 and 8. Further, PUMP-0357 is listed as having a current balance of zero in Maximo, it's not clear where the count of 63 came from. Therefore, the overage should be reduced by the value listed on item #3 (\$10,440).

Crowe Response to Management:

We updated the inventory to reduce the variance amount identified above in Item #4 above totaling (\$4,654). We also removed the item from Table 2. For Item #3, we changed the item code for the item to GFLGT-0056 rather than MPUMP-0357.

Finding #2 – Some Items Identified in the Physical Count Were Not Identified in the Maximo System

Condition:

We identified some items, specified in **Table 3** below, within the bins holding the Wastewater Enterprise inventory where we could not locate the item in the Maximo system. It is unclear whether these items should be captured as inventory in the Maximo system or whether these items are non-stock items.

Table 3
San Francisco Public Utilities Commission
Wastewater Inventory Count
List of Items Not in Maximo

Item Number	Items not in Maximo	Item Code	Count	Bin
1	Unknown item		24	A16BCC
2	Bearing Sleeve 2-15/16"		15	A16BDA
3	Duragauge		16	A16BFE
4	Light switch		1	A16CEC
5	Power supply quantum CPU		1	A16DEI
6	Power supply		2	A16DDA
7	Power supply		2	A16DDB
8	Pressure switch		1	A16DGD
9	O-ring		1	A16DDI
10	Unknown item		1	A16EDA
11	Plug & stem assembly		1	A17FBH
12	Wiper assembly		1	A17FBM
13	Transmitter Disp Line		1	A17GBN
14	Fuse Plug holder pallet kit		2	A17HBA
15	Power port Expo kit		1	A17HGB
16	Controller		6	A17UBBA
17	Digital Output Module		3	A17UEAA
18	Remote Display Module		2	A17UEAB
19	16 Module		2	A17UFBA
20	DO Module, 16 Out		2	A17UFBB
21	8 Module		2	A17UFBC
22	D/I Module 32 in		1	A17UFCA
23	D/I Module ___ in		2	A17UFCC
24	D/I Module 32 in		2	A17UGBA
25	D/I Module 16 in		2	A17UGCC
26	Fire Pump O-ring		1	A18DDG
27	Valve, Seat Ring		2	A18EEC
28	Precision roller chains		1	A18HCG
29	Washer Weld SS, G Wash		1	A18HHF
30	Stainless steel rod, 5/8 inches		5	A20AE
31	Lamp		24	A20HEC
32	Valve	AVLVL-1025	6	
33	Rail socket		1	C04ABE
34	Element	GELEM-0020	30	C04BF
	Total		165	

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller's Accounting Policies and Procedures identifies that Department's must periodically review the inventory records for reasonableness and appropriateness of any changes to inventory unit cost, inventory valuation, and unit of measure, and Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines also indicate that Department's should investigate significant discrepancies between the physical count, the inventory system records, and the accounting records; document the reasons for discrepancy and take corrective actions to reduce future discrepancies.

Cause:

Within some of the storage bins, shelving, and containers, the Wastewater Enterprise combines some non-stock items with the inventory items. Non-stock items should not be included in the inventory count and represent items that for example the Wastewater Enterprise is temporarily holding for another unit or are project-related. In some cases, non-stock items were not clearly labeled "non-stock," and without assistance from the warehouse staff we could not easily determine that these items were non-stock compared to those that are part of the inventory.

Effect:

A third-party cannot easily perform the inventory counts without the assistance of Wastewater Enterprise storekeeper staff. There is also the potential that some non-stock items should instead be captured in inventory, or are obsolete and should be salvaged or disposed of.

Recommendation:

The Wastewater Enterprise should investigate the items noted in Table 3, and determine whether these items should be captured in the Maximo system records and the accounting records. Where these items are not inventory items and instead are non-stock items, the Wastewater Enterprise should clearly label these items as non-stock and perhaps consider moving them to another location in the warehouse to reduce the potential for future discrepancies.

Management Response:

Management performed an unofficial audit on ten (10) random items from Table 3 and found that all of the items were labeled with item numbers and identified in Maximo, all but one were listed as non-stock items in Maximo. Each item was stored in its own identifiable bin within a drawer or cabinet.

Management does not concur with the statement regarding omit the inventory counts of the non-stock items. Many of these parts were supplied as part of capital projects and are used by the crews to perform preventative or corrective maintenance on Wastewater Enterprise assets. Tracking these items are critically important to knowing where they are used and to determine what items might need to be added as a future stock item. The funding source used to purchase these items (capital vs. operating) is the main driver for initially listing these items as "non-stock, project spare parts".

Management partially concurs with the statement that these items should be more clearly separated from our stock inventory. The new warehouse will allow for this once our move is finalized later this year.

Crowe Response to Management:

Crowe is not suggesting that non-stock items should not be tracked. Rather, we want to make sure that the non-stock items are clearly identified and separated for purposes of physical inventory counts and that these non-stock items can be clearly separated from the stock inventory items captured in Maximo.

Finding #3 – Some Inventory Items Appeared Obsolete

Condition:

We found a total of 93 items, representing a value of \$24,596, which appeared to be obsolete as shown in **Table 4** below.

Table 4

**San Francisco Public Utilities Commission
Wastewater Inventory Count
List of Potentially Obsolete Items**

Item Number	Item Description	Item Code	Crowe Count	Average Cost	Total Cost	Comment
1	ANNUCIATOR, LCD REMOTE	EFIRE-0005	1	\$ 3,936	\$ 3,936	Obsolete
2	SPROCKET	GSPRK-0110	6	593	3,560	Rusted
3	BOARD (PC), MAIN CONTROL	CEMER-BD14	4	825	3,300	Obsolete
4	IMPELLER-MKIII,4 X 3-82,	MIMPS-0111	2	942	1,884	Rusted
5	SEAL (ASSEMBLY, FOR JOY	GSEAL-0104	1	1,880	1,880	Scrap
6	ACCESSORY (KIT), PROCESS	CEMER-BD19	9	165	1,485	Obsolete
7	CALIBRATION GAS, GAS	CBIOS-GA01	4	324	1,296	Obsolete
8	IMPELLER,MKIII-6 X 4 10,	MIMPS-0112	1	1,253	1,253	Rusted
9	MODEM, J478, AS-J478-010	CMODI-MM01	1	1,180	1,180	Obsolete
10	BREATHER	GMISC-0243	21	51	1,071	Expired
11	MOTOR (1185 RPM, 364T),	AMOTD-EC11	1	1,000	1,000	Obsolete
12	IMPELLER MKII,GPII 4 X3-10H,	MIMPS-0110	1	999	999	Rusted
13	MOTOR (1175 RPM, 256 TC,	AMOTA-WC01	3	300	900	Obsolete
14	TRACKBALL	CFOXB-TB01	1	313	313	Obsolete
15	UNLOADER DIAPHRAGM	MASSY-0238	2	78	155	Obsolete
16	CHART INK, CARTRIDGE,	AINKS-0402	3	44	132	Obsolete
17	CHART INK, CARTRIDGE,	AINKS-0401	3	38	114	Obsolete
18	HEAD,CARD READER,	GHEAD-0001	1	50	50	Obsolete
19	OIL, 8 OZ, 3/8 IN	AOILR-0008	3	11	34	Scrap
20	CLEANSER, POWDERED, W/	JSUPP-CL15	18	2	33	1 damaged
21	GASKET (LARGE 6" 1/64"	GGSKT-0334	6	2	14	2 broken
22	DISC	GDISK-0009	1	8	8	Scrap
	Totals		93		\$ 24,596	

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller’s Accounting Policies and Procedures identifies that Department’s shall conduct a physical inventory at least annually and ensure that the inventory management system records accurately reflect inventory on hand. Section 6.1 (Policy Guidelines) indicates that Departments must periodically review the inventory for obsolescence and reasonableness of inventory classification. The Policy Guidelines indicate that identifying and disposing of obsolete inventory must be conducted at least annually and be approved by both storage management and operations management.

Cause:

The Wastewater Enterprise has not conducted a recent review of its inventory to determine which items are obsolete and should be removed from its inventory. The Wastewater Enterprise also did not have formal policies and procedures in place that reinforce the timing and procedures it uses to evaluate inventory for obsolete items.

Effect:

The Wastewater Enterprise inventory value in the Maximo system may be overstated by as much as \$24,596 depending on whether there is any salvage value for these obsolete items.

Recommendation:

The Wastewater Enterprise should more frequently review its inventory for obsolete items and remove those obsolete items from inventory to avoid misstating inventory amounts on the financial statements.

Management Response:

Management performed an unofficial audit on eleven (11) random items from Table 4 and concurs that a more formalized process and an SOP in place for reviewing inventory for obsolescences and for properly removing that inventory from the physical stock.

However, Management is not clear on how the Audit team determined items as being “obsolete” or how it was determined based on the amount of surface rust on some parts deemed the inventory as unusable.

Crowe Response to Management:

Crowe noted obsolete items based on the appearance that the item was well beyond its useful life. We recommend that management review the noted items to determine whether they continue to be necessary to retain in inventory.

Finding #4 – Some Inventory Was Difficult to Locate**Condition:**

During the course of performing the physical count, we had difficulty locating some of the inventory items identified in the Maximo system. In particular, some of the larger bulkier items were located behind other items and recessed which limited access.

Criteria:

Chapter 6 of the City and County of San Francisco Office of the Controller’s Accounting Policies and Procedures identifies that Department’s should prepare and organize storage for the inventory count.

Cause:

The Wastewater Enterprise recently moved and transitioned its entire inventory to its new storage facility, and is in the process of constructing new shelving for additional storage so the current locations of some of the inventory appears temporary.

Effect:

A third-party cannot easily perform the inventory counts without the assistance of storekeeper staff. There also is the potential for some inventory items not to be identified.

Recommendation:

For the next annual inventory, the Wastewater Enterprise should clearly label and organize all of its inventory, particularly the bulkier items outside of the storage cabinets, so that a third party can easily identify and count the inventory.

Management Response:

Management concurs with this recommendation. The move to the new warehouse has taken longer than anticipated. Management unexpectedly found issues with the integrity of the concrete slab where our rack system needs to be anchored at the new location. The improvements to the concrete slab and subsequent relocation of the rack systems from our old warehouse to this new location should be completed in the coming months.

Once this work is completed, Management is confident in the ability of the warehouse team to present a well labeled and organized warehouse for third parties to perform inventory counts.

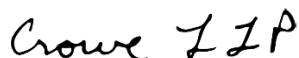
Other Matters

This Inventory did not constitute an audit, examination, review, or compilation of the historical and prospective financial information conducted in accordance with generally accepted auditing standards or with other standards established by the AICPA. Accordingly, Crowe is unable to express an opinion or any other form of assurance with respect to any of the historical or prospective financial information. Crowe did not perform any procedures to verify the Management Responses and Crowe does not provide any assurance regarding the accuracy or completeness of the responses. Any and all amounts referred to in this letter are preliminary and could change should additional procedures be performed. Additionally, issues that are not mentioned here could develop subsequent to the date of this letter that may have impacted Crowe's analysis or that Crowe may cite should additional procedures be performed.

The inventory services did not contemplate obtaining the understanding of internal controls or assessing control risk, tests of accounting records and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit or examination. Thus, this engagement was not intended to provide assurance that we would become aware of significant matters that would be disclosed in an audit or examination.

As part of this inventory, the SFPUC agreed to be responsible to make all management decisions and perform all management functions; designate an individual who possesses suitable skill, knowledge, and/or experience, preferably within senior management to oversee our services; evaluate the adequacy and results of the services performed; accept responsibility for the results of the services; and establish and maintain internal controls, including monitoring ongoing activities. The SFPUC has ultimate authority for making changes to inventory reported in its Maximo system and on its financial statements. Crowe's fees are not dependent upon the outcome of this report.

We appreciate the contribution of SFPUC management and your input and direction on this project. We also thank Wastewater Enterprise management and staff for assisting providing access to the inventory and for timely responses to our requests.



Crowe LLP