



Crowe LLP
Independent Member Crowe Global
575 Market Street, Suite 3300
San Francisco, California 94105-5829
Tel 415.576.1100
Fax 415.576.1110
www.crowe.com

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.

Crowe LLP

Crowe LLP