
2023 Nutrition Services
Inventory Audit

Issue Date: November 15, 2023



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Ms. Teresa Corrigan, Director of Ethics and Compliance/
Sr. Executive Director
Houston Independent School District
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We have completed the 2023 Nutrition Services Inventory Audit for Houston Independent School District (the "District"). We assessed whether the inventory reports provided to us were reasonably accurate give our audit's sample results. As a result of the physical count performed by Nutrition Services management, inventory records required no adjustments. We did not identify any exceptions noted in the sample counts.

Please contact Celina Cereceres at 713-386-1175 should you have any questions about this audit report.

Sincerely,

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, TX

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EXECUTIVE SUMMARY

Background

On March 13, 2023, the Houston Independent School District's (HISD or District) Board of Education awarded a renewable annual term contract for broadline warehousing and distribution services to Labatt Food Service (Labatt) to provide food and non-food items for the Pre-Kindergarten through 12th grade schools. The current year contract term ends on June 30, 2024.

A broadline distributor, often referred to as a "one stop shop", provides a large inventory of diverse offerings and are highly efficient in logistics and product delivery. The contract also includes inventory management of United States Department of Agriculture commodity products (referred to as "USDA brown box" items) for HISD. The Labatt warehouse is located at 6650 Pine Vista Lane in Houston, TX.

Since 2021, HISD Nutrition Services (HNS) transitioned to a decentralized "just in time" distribution model using a contracted broadline distributor (Labatt). This transition resulted in a significant decrease in the inventory that is maintained at the Bennington warehouse. In the prior year, our inventory audit was performed at Bennington and Labatt warehouse. For the current year, management requested an audit of HISD's inventory that was stored at Labatt.

Nutrition Services management conducted a physical inventory at the Labatt warehouse on June 29, 2023. As in prior years, their staff physically counted 100 percent of the inventory. The Internal Audit Department asked Whitley Penn LLP, a public accounting firm, to perform an audit of the "brown box" inventory items that were stored at Labatt locations.

Labatt is responsible for overseeing, storing, and distributing food and supplies. Those items were purchased or were donated by the federal government, which includes bulk commodities that are converted into smaller packages. Specifically, Labatt sells all dry, cooler, and frozen food items, smallware (e.g., kitchen utensils), and disposable items. HISD acquires similar items from other vendors as well.

The USDA brown box inventory items held at Labatt are accounted for at HISD through a journal entry at the end of the fiscal year. After the physical inventory counts were conducted and adjustments were made to the general ledger, the resulting inventory balance at the time of Whitley Penn LLP's physical count was approximately \$69,578. See additional details in the chart below.

Ending Inventory Balance as of June 11, 2021	Ending Inventory Balance as of June 11, 2022	Ending Inventory Balance as of June 28, 2023	2023 Decrease from 2022	2023 Percentage Decrease from 2022
\$2,295,084	\$727,088	\$69,578	(\$657,510)	(90%) *

*This decrease occurred because management operationally moved from a centralized to a decentralized food distribution model in 2021. There was still inventory from FY 2022 that was completely depleted during FY 2023. The 90 percent decrease in inventory value happened because Nutrition Services transitioned to a broadline distributor (Labatt) on July 1, 2021. There was inventory that was in the process of depleting in the Nutrition Services Warehouse but still had some remaining inventory at the June 2022 annual inventory. From July 2022 to June 2023, they depleted all of the inventory at the Nutrition Services warehouse. The balance as of June 2023 was the amount of commodities that were stored and inventoried at Labatt warehouse. Inventory amounted to \$69,578 as of June 28, 2023.

On a weekly basis, schools place food and supply orders into HISD's Primero Edge ordering system (PEOS), which is used by schools to order food and related items that students need. The orders are reviewed by HISD Nutrition Services Management Department and sent to the food vendor/supplier for purchase. Then, the food and supply orders are delivered to the schools.

Background (continued)

HISD has been one of the top 10 school districts in the nation for the highest participation in the federal Summer Food Service Program. For the 2022-2023 school year, Nutrition Services provided meals for HISD's 276 schools. An average of 205,822 meals were served per day and approximately 34.7 million meals were served for that school year.

As of our audit, Nutrition Services had about 1,553 employees who were responsible for the preparation and distribution of meals.

Audit Objective

The overall objective of our audit was to determine whether the inventory reports provided to us were reasonably accurate given our audit's sample results. To achieve that objective, we determined whether the:

- Inventory count was properly conducted at the warehouse.
- Sampled quantities agreed with the inventory report.
- Inventory adjustments were properly recorded in SAP, and properly reported to and approved by management.
- Physical inventory agreed with the inventory reports and the general ledger account balance as of June 28, 2023.
- Inventory pricing was accurate based on a comparison of the moving average price to the last purchase order.

Audit Scope

To satisfy our objective, we conducted a limited scope audit of HISD's physical inventory that was held in the Warehouse. Specifically, we:

- Obtained and reviewed pertinent inventory reports and a purchase order report.
- Selected inventory samples to test from the freezer, dry goods, and cooler areas. Overall, we tested a combined average of 85 percent of the inventory value.
- Verified the prices at which the inventories were valued.
- Compared the physical inventory results to the SAP perpetual inventory records.

Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Accordingly, it included tests of records and other auditing procedures that we deemed necessary under the circumstances.

Overall Conclusion

Based on our physical inventory observation, test counts, and other audit procedures that we performed, we determined that the Labatt location's:

- Inventory count was properly conducted.
- Inventory adjustments were properly recorded in SAP.
- Physical inventory agreed with the inventory reports and general ledger account balance as of June 28, 2023.
- Inventory pricing was accurate based on a validated purchase order report.

As a result of the physical count performed by Nutrition Services management, inventory records required no adjustments. Whitley Penn LLP had no exceptions noted in the sample counts.

Labatt Warehouse staff demonstrated a thorough knowledge of the proper techniques that are used to perform the inventory count, as well as the items stored in their location. Also, warehouse management had established and refined inventory methods in place, which contributed to the effectiveness of the inventory evaluation.

Overall Conclusion (continued)

The results of our audit are summarized in the chart below. No adverse audit findings were observed during our audit. Additional inventory related information is presented on page 4.

SUMMARY OF AUDIT FINDINGS	
ITEMS TESTED	AUDIT FINDINGS
General Ledger Reconciliation: Determined if the food inventory was properly recorded on the general ledger.	No Exceptions
Inventory Adjustments: Determined if the inventory adjustments were properly recorded in SAP and reported to and approved by senior management.	No Exceptions
Inventory Items: Determined if the physical inventory was properly conducted.	No Exceptions
Inventory Pricing: Determined if the inventory pricing was accurate.	No Exceptions

ADDITIONAL INVENTORY RELATED INFORMATION

Historical Comparison

The historical inventory balances from 2021 through 2023 are included in **Table 1** below for comparative purposes. From 2022 to 2023, the results of the inventory counts showed a decrease of \$657,510 (i.e.,90 percent) in the total post-inventory value. As a result, HISD no longer had to receive, inventory, and distribute food and non-food supplies from a central location, because that responsibility was transferred to and being handled by the broadline distributor (i.e., Labatt).

Table 1- Historical Balances

Historical Ending Balances After Inventory Counts (*i.e., Post-Inventory)				
June 11, 2021	June 11, 2022	June 28, 2023	2023 Decrease from Prior Year	2023 Percent Decrease from Prior Year
\$2,295,084	\$727,088	\$69,578	(\$657,510)	90%*

*This decrease occurred because management operationally moved from a centralized to a decentralized food distribution model in 2021. There was still inventory from FY 2022 that was completely depleted during FY 2023.

Sample Items Tested

We sampled approximately 85 percent (\$58,787) of the total inventory value of \$69,578. The sample size information is included in **Table 2** below.

Table 2- Sample Size

Sample Size Selection For Fiscal Year 2022-2023	
Inventory Value According to the Labatt Inventory report as of June 28, 2023	\$69,578
Value of the Inventory Items that were selected for the Inventory Count Test	\$58,787
Percentage of the Inventory Value that was tested	85%