



**GARLAND**

**INTERNAL AUDIT**

# **Kraft Employee Retention Agreement**

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*Report 201801*

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## Overall Conclusion

This audit provides a reasonable assurance that Kraft is in compliance with the Second Amended Economic Development Agreement dated June 25, 2014. However, recommendation made by Internal Audit (IA) in the last three years to define "full-time" in the agreement has not yet been implemented.

## Authorization

We have conducted an audit of the Kraft Employee Retention Agreement. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

## Objective(s)

The objective of this audit is to ensure compliance with the Economic Development Agreement regarding Kraft's employment of 391 full-time employees through August 31, 2017.

## Scope and Methodology

IA conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit period covered September 1, 2016 through August 31, 2017.

To adequately address the audit objective and to describe the scope of our work on internal controls, IA performed the following:

- Reviewed the Kraft Second Amended Economic Development Agreement for compliance requirements.
- Obtained and reviewed the Certificate of Compliance certifying that the company employed at least 391 full-time employees through August 31, 2017.
- Reviewed prior audit documentation to determine appropriate criteria to use for full-time employment and hours worked.
- Obtained a list of employees from Kraft to evaluate the number of full-time employees during the audit period.
- Verified the number of full-time employees throughout the audit period.
- Obtained and reviewed payroll and time card reports from Kraft to verify employment of the sample population.

- Personally met a sample of Kraft employees to ensure there were no fictitious employees.

To verify the reliability of the data provided by Kraft, IA reviewed documentation, interviewed the Controller and multiple employees of Kraft, compared payroll data with punch report details (clock in data), and met a sample of employees listed in the documentation. As a result of our review, we believe the information provided by Kraft was sufficiently reliable for the purposes of this engagement.

## Background

"The Kraft-Heinz Company is the third-largest food and beverage company in North America and the fifth-largest food and beverage company in the world, with eight \$1 billion+ brands. A globally trusted producer of delicious foods, The Kraft-Heinz Company provides high quality, great taste and nutrition for all eating occasions whether at home, in restaurants or on the go. The Company's iconic brands include Kraft, Heinz, ABC, Capri Sun, Classico, Jell-O, Kool-Aid, Lunchables, Maxwell House, Ore-Ida, Oscar Mayer, Philadelphia, Planters, Plasmon, Quero, Weight Watchers Smart Ones and Velveeta. The Kraft-Heinz Company is dedicated to the sustainable health of [their] people, [their] planet and [their] Company." <sup>(1)</sup>

The Garland Kraft plant opened in 1949, covering more than 675,000 square feet, and producing such varied products as mustard, margarine, chocolate candies, caramels, marshmallows, and mayonnaise.<sup>(2)</sup>

In spring of 2015, the H.J. Heinz Co. purchased Kraft Foods, creating a company with an annual revenue of about \$28 billion, in a deal Warren Buffett stated would "unit[e] two world-class organizations and deliver shareholder value."<sup>(3)</sup>

In June 2015, the Garland plant began expanding to include four Lunchables production lines. <sup>(4)</sup> As of 08/31/2017, there are currently 6 line in production and approximately 400 employees has been added since June 2015. <sup>(5)</sup>

In addition to jobs and revenue, Kraft-Heinz also believes in giving back to the community. In summer of 2017, Kraft-Heinz contributed enough school supplies for over 200 Garland students. <sup>(6)</sup>

Source:

1. Kraft-Heinz, <http://ir.kraftheinzcompany.com/overview.cfm>
2. Garland Economic Development Partnership, <http://www.garlandedp.com/garland-story/kraft.html>
3. CBSDFW, <http://dfw.cbslocal.com/2015/03/25/heinz-buying-kraft-to-create-28-billion-food-giant/>
4. United States Conference of Mayors <http://www.uscmwdc.org/workforce-solutions-greater-dallas/>
5. Kraft 2016 and 2017 Headcount Certifications.
6. Senior Community Liaison.