



**GARLAND**  

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**INTERNAL AUDIT**

# **Kraft Retention Agreement**

*December 14, 2016*

*Report 201701*

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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, recommendations made by Internal Audit (IA) in the last two years have not been implemented. Specifically, IA recommended: 1) defining "full-time" in the agreement and 2) aligning the deadline for employment requirements with the time period for grant payments. Please refer to the Kraft Retention Agreement reports dated December 16, 2014 and December 16, 2015 for more detail.

## Authorization

We have conducted an audit of the Kraft 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

The objective of this audit is to ensure compliance with the Economic Development Agreement regarding Kraft's employment of 352 full-time employees through December 31, 2015, and 391 full-time employees by December 31, 2016.

## 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, 2015 through August 31, 2016.

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 and Tax Abatement Agreement for compliance requirements.
- Consult with the Economic Development Office to determine if the agreement has been updated and recommendations from last year were implemented.
- Obtained and reviewed the Certificate of Compliance certifying that the company employed at least 352 full-time employees and is on track to employ 391 full-time employees by December 31, 2016.
- 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 for Kraft, 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, which are expected to bring an additional 400-500 jobs to Garland.<sup>(4)</sup> As of 10/31/2016, three of the four lines are already in production, with one more currently being built.

In addition to jobs and revenue, Kraft-Heinz also believes in giving back to the community. The company provides \$2 billion to feed hungry children worldwide, <sup>(5)</sup> a portion of which remain in Garland. In 2016, Kraft-Heinz contributed to the City's Summer Nutrition Program by providing healthy snacks for children free of charge. <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-Heinz Fact Sheet,  
[http://www.kraftheinzcompany.com/KraftHeinzCompany\\_FactSheet.pdf](http://www.kraftheinzcompany.com/KraftHeinzCompany_FactSheet.pdf)
6. Garland News Updates,  
<http://www.garlandtx.gov/news/displaynews.asp?NewsID=1230&TargetID=15>