



**GARLAND**

**INTERNAL AUDIT**

# **Kraft Employee Retention Agreement**

**March 18, 2019**

**Report 201901**

**City Auditor:**

Jed Johnson, CIA, CGAP

**Major Contributor:**

Ashvi Patel

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## Executive Summary

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

## Authorization

This audit was conducted under the authority of Article IV, Section 8 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 evaluate Kraft's compliance with the Economic Development Agreement regarding Kraft's employment of 391 full-time employees through August 31, 2018.

## 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.

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

The audit period covered September 1, 2017 through August 31, 2018.

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, 2018.
- 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.

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- 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 Finance Analyst and Team Coordinator 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 (NASDAQ: KHC) is the fifth-largest food and beverage company in the world. 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 our people, our planet and our Company.”  
(1)

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.(2)

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.”(3)

In June 2015, the Garland plant began expanding to include four Lunchables production lines. (4) As of 10/23/18, there are currently 6 line in production.

Source:

1. KraftHeinz, <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/>