



GARLAND

INTERNAL AUDIT

Kraft Amended Economic Development Agreement Audit

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Authorization

We have conducted an audit of the Kraft Amended Economic Development 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

Ensure compliance with the Kraft Amended Economic Development Agreement regarding Kraft's employment of 230 full-time employees between September 1, 2011 through December 31, 2011 and 215 full-time employees between January 1, 2012 through August 31, 2012.

Scope and Methodology

We 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.

Our audit period covered September 1, 2011 through August 31, 2012.

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

- Reviewed the Kraft Amended Economic Development Agreement for compliance requirements.
- Requested and received the required Certificate of Compliance certifying that the company employed at least 230 full-time employees in the period from September 1, 2011 through December 31, 2011 and 215 full-time employees in the period from January 1, 2012 through August 31, 2012.
- Obtained a list of employees from Kraft to evaluate the number of full-time employees required during the audit period.
- Determined the number of hours required to define full-time employment based on the Texas Enterprise Zone Act (Government Code, Title 10, Subtitle G, Chapter 2303, Subchapter F) which states qualified businesses will provide at least 1,820 hours of annual employment for each employee. ⁽¹⁾
- Obtained and reviewed payroll reports from Kraft.
- Developed an interval sample to verify the number of full-time employees throughout the periods (See Exhibit A – Sampling Methodology).
- Personally met a sample of Kraft employees to ensure there were no fictitious employees (See Exhibit A – Sampling Methodology).

- Obtained and reviewed employment records to ensure compliance with the agreement.

We were unable to verify the reliability of computer generated data because we did not have access to Kraft's payroll systems or supporting evidence. However, we did ensure that we met a number of employees personally and reviewed identification.

If there are any deficiencies in internal controls that are significant within the context of the audit objectives and based upon the audit work performed, it will be stated in the Opportunities for Improvement section.

Source:

- (1) Texas Enterprise Zone Act - <http://www.statutes.legis.state.tx.us/Docs/GV/htm/GV.2303.htm>

Background



On August 4, 2011, the company announced its intention to create two independent public companies: (i) a global snacks business (Mondelēz International, Inc.) and (ii) a North American Grocery Business (Kraft Food Groups, Inc.). Mondelēz International, Inc. consists of Kraft Foods Europe and other developing market segments as well as the North American snack and confectionary businesses. Kraft Foods Group, Inc. consists of U.S. Beverages, Cheese, Convenient Meals and grocery segments as well as other related categories in the Canada and North American food service segments.⁽¹⁾

On October 1, 2012, Mondelēz International, Inc., formerly Kraft Foods Inc., announced via press release that it completed spin-off of its North American grocery business, Kraft Foods Group, Inc.⁽²⁾

Mondelēz International, Inc. (NASDAQ: MDLZ) is one of the world's largest snacks companies, with global net revenues of \$35.0 billion in 2012. The company employs 110,000 employees to support manufacturing and marketing food and beverage products for consumers in 165 countries around the world and is the world's pre-eminent maker of snacks. Mondelēz International is currently number one globally in Biscuits, Chocolate, Candy and Powdered Beverages as well as number two in Gum and Coffee. About three-quarters of the company's annual revenue is generated in these categories and more than 40 percent of sales is from growth in developing markets.⁽³⁾



Kraft Food Groups, Inc. (NASDAQ: KRFT) offers a tasty portfolio of brands that people love and is North America's 4th largest consumer packaged food and beverage company with revenues of approximately \$19 billion. ⁽⁴⁾ The company also includes 10 brands with more than \$500 million in annual sales. In addition, 98% of North American households choose Kraft for their pantries or refrigerators. The company employs 25,000 employees across the United States and Canada. ⁽⁵⁾

Kraft's mission is to be North America's best food and beverage company. The company has a great heritage that they are building into an even greater future. ⁽⁵⁾

Sources:

- (1) Kraft Foods, Inc. Annual Report for the period ending December 31, 2011 and filed February 27, 2012.
<http://www.mondelezinternational.com/SiteCollectionDocuments/pdf/investor/2011AnnualReport10K.pdf>
- (2) Mondelēz International, Inc. Press release dated October 1, 2012.
<http://ir.kraftfoodsgroup.com/releases.cfm>
- (3) Mondelēz International, Inc. Fact Sheet updated February 2013.
http://www.mondelezinternational.com/SiteCollectionDocuments/pdf/mondelez_intl_fact_sheet.pdf
- (4) Kraft Foods Groups, Inc. Investor Center. <http://ir.kraftfoodsgroup.com/index.cfm>
- (5) Kraft Foods Groups, Inc. About Us webpage as of March 13, 2013.
<http://www.kraftfoodsgroup.com/About/index.aspx>

Overall Conclusion

Our inspection of payroll records indicated that Kraft was in compliance with the Amended Economic Development Agreement and employed at least 230 full-time employees in the period from September 1, 2011 through December 31, 2011 and 215 full-time employees in the period from January 1, 2012 through August 31, 2012.

Sampling Methodology

We obtained a list of full-time employees from Kraft who were employed between September 1, 2011 and August 31, 2012 which consisted of 265 employees. From this list, we agreed to use an interval sample of 30 individuals to check employment records and a judgmental sample of 12 to check for fictitious employees. Each sampling methodology was used to ensure that each employee had an equal opportunity for selection.

To develop our sample, we obtained a list of full-time employees from Kraft. We then calculated the number of employees who were showing to be employed during the audit period. Because some individuals were newly hired or terminated during the audited period, we reduced our total number of employees to the 212 shown to be presently employed during the entire audited period. From the 212, we divided the number by 30 which gave us an interval number of 7. We sorted the list by hire date and selected every 7th person from the 212 showing employed during the entire audit period.

For the second sample of 12, we judgmentally selected individuals that were not included in the previously selected 30. We requested each individual to report to us and present appropriate identification as proof of their existence as a full-time employee.

Our samples provide a reasonable assurance that the company was in compliance with the amended agreement.