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Performance Audit Division Brief:  
***2010 Northrop Grumman Employment Verification***  
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### Introduction

The Office of the State Auditor (OSA) monitors the expenditure, employment, construction, and in some cases, the productivity of a number of major economic development projects during the life of the State bonds issued to provide incentives to the entity. OSA's Performance Audit Division is primarily responsible for this effort. The audit plans developed for the bond monitoring program were professionally developed in accordance with government performance auditing standards. Audit plans are tailored for each project based on individual State laws and Memorandums of Understanding (MOU) between the State and the private or federal entity.

As part of its Bond Monitoring Program, OSA is monitoring Northrop Grumman Ship Systems, Inc., (NGSS) for the duration of the contract with the State of Mississippi through the Mississippi Development Authority (MDA) until December 31, 2011. NGSS, beginning with its predecessor, has been partners with the State of Mississippi since 1967. Besides being one of the largest ship building companies in the United States, they are a large military ship manufacturer and a significant private employer in the State.

### NGSS Contract Requirements

In an effort to modernize and expand shipbuilding at the Pascagoula and Gulfport facilities, NGSS worked with MDA to obtain State bonds totaling \$144 million. *Additions in several other legislative sessions resulted in \$156 million in State Bond proceeds being issued to assist the company.* The MOU enacted in July 2003 denotes two major components including **matching capital investments** and **new job creation** by NGSS. Furthermore, the MOU has two addendums stipulating additional capital investments and new job creation requirements.

- The MOU signed in July 2003 stipulates in Article III, Section 3.2 that NGSS agrees to create an additional 667 new full time direct jobs in Mississippi on or before December 31, 2007
- The First Addendum to the MOU enacted in June 2005 affirms in Article III, Section 3.10 NGSS agrees to create an additional 667 new full time direct jobs in Mississippi on or before December 31, 2008.
- The Second Addendum to the MOU enacted in August 2008 affirms NGSS agrees to create an additional 366 new full time direct jobs in Mississippi on or before December 31, 2011. *Consequently, these new jobs shall be in addition to the job commitment contained in the MOU and the First Addendum.*
- The MOU and addendums clearly specify the matching capital investments required by legislation from 2002 through 2006. These totals are outlined in the box below.

- ✚ *2002 Act provides \$12 million and requires matching investment totaling \$25 million*
- ✚ *2003 Act provides \$48 million and requires matching investment totaling \$96 million*
- ✚ *2004 Act provides \$40 million and requires matching investment totaling of \$80 million*
- ✚ *2006 Act provides \$56 million and requires matching investment totaling \$112 million\**

*\*2005 Hurricane Katrina*

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### NGSS Site Visit

OSA completed a site visit to NGSS's Pascagoula facility on September 13 - 15, 2010 in an effort to verify that all requirements set forth in the MOU had been met and that MDA was maintaining proper oversight of its economic development bond program. OSA staff reviewed relevant employee documentation



including: W-2's, W-4's, and check stubs in order to verify that NGSS had met the job creation requirements of the MOU for the years ending 2007 and 2008. OSA staff met with key NGSS staff including the company's Business Manager and Personnel Director. OSA also met with the Project Manager from Parsons Inc., who was selected by MDA to oversee the work done by State selected contractors. NGSS conducted an onsite tour to provide a visual inspection of the projects for which State funds were used to modernize and expand the shipbuilding facility.

### Findings and Recommendations

While verifying the requirements of the MOU, OSA found that NGSS had in fact created more than 667 new jobs. However, some of the new jobs created were not maintained for any specific length of time. Additionally, as OSA reviewed a random sample of employees, they found several had been terminated and were no longer actively employed as of December 31, 2007 and December 31, 2008 respectively.

OSA determined that the contract between MDA and NGSS did not actually define any minimum amount of time that a newly created job had to be maintained. Nor was there a definition of "full-time employee" described in the MOU. *OSA has found this to be the case in a numerous other Bond Projects under contract with the State of*

*Mississippi.* **OSA recommends that for future bond projects, MDA establish job definitions that will not only define a minimum number of hours worked per week to qualify as full-time or part-time, but also define a minimum employment length of time to be counted in the annual audit (for example, 4, 6, or twelve months, etc).** This might include establishing a minimum number of positions, PINs (position identification numbers), WINs (worker identification numbers), or FTEs (full time equivalencies) throughout the year.

OSA requested a detailed expenditure report from NGSS prior to the site visit, which was provided by Parsons Inc., the Project Manager. This report showed a expenditures by year from 2002 through September 2009. Although the *total required capital investment* had been met, the \$96 million in matching funds required by the 2003 Act fell short. Just under \$67 million was invested in Mississippi according to the report provided by Parsons Inc. **OSA recommends that MDA verify and monitor all phases of the MOU to ensure that all obligations are met. In addition, penalties need to be established for not meeting all obligations or warrants mention in the direct employment figures reported in the MOU.**

OSA requested Bond monitoring policies and procedures from MDA after the site visit was conducted, but none could be provided. **OSA recommends that MDA establish monitoring policies and procedures for bond projects. This is to ensure that the entities are meeting all established obligations mentioned in the MOU.**

### Conclusion

NGSS did create more than 667 jobs, although they did not all remain filled throughout the year. Also, they did meet total investment requirements, yet they did not meet the 2003 investment amount during the time frame audited, meaning that they invested a larger amount at some other time. In 2004, OSA made findings and recommendations similar to those found in this report which detailed what to avoid in dealing with MOUs. The first and second addendums to the original MOU did not include many of the recommendation and thus continue to be problem areas as OSA continues the Bond monitoring process. OSA recommends that MDA take a proactive approach to correcting some of these issues through contract changes and policy and procedural changes within the agency.





For more information about this issue, contact

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