



Shad White
State Auditor

Performance Audit Division:
An Economic Development Bond Audit
Huntington Ingalls, Incorporated
Pascagoula, Mississippi
2015-2016 Verification
August 7, 2018

The Office of the State Auditor (OSA) monitors the expenditure, employment, construction, and, in some cases, the productivity of a number of State-funded major economic development projects such as Huntington Ingalls, Incorporated (Ingalls) located in Pascagoula, Mississippi Jackson County.

Ingalls is a division of Huntington Ingalls Industries, formerly known as Northrop Grumman Ship Systems. The company serves as a full-service supplier of ships to the United States Navy, Coast Guard, Marine Corp, etc. It has the capability of building warships that can reach weight capacity of 24,000 tons. The OSA has audited the shipyard since 2003.

This particular review was conducted under the authority granted in Senate Bill 2906, 2015 Regular Session and HB 1729, 2016 Regular Session of the Mississippi Legislature. Whereas, the State Bond Commission authorized a total of \$65 million in general obligation bonds for Ingalls' Phase I and Phase II projects to be used for Shipyard improvements. To ensure the bond issuance was expended appropriately, the OSA performed a review of the accuracy and reliability of Ingalls 2015 and 2016 employee data, capital investment, and compliance with the Mississippi Employment Protection Act (MEPA). OSA conducted the audit to ensure the company's commitments and threshold dates were achieved accurately as agreed upon in the Memorandum of Understanding (MOU) to employ at least 11,000 full-time employees as of the execution of the MOU and maintained at least 8,100 full-time employees for years 2016, 2017, and 2018 at the project site, as well as invest \$130 million.

The audit utilized Ingalls employee listing submitted as of April 4, 2017, which an examination and verification of a 2% sample of the following data elements was conducted for each year: date of hire; employment analysis traceable to W-2 and W-4 tax forms; and E-verify confirmations. The test sample totaling 473 employees was confirmed by employment data traced to payroll documents provided by Ingalls. ***Based on the OSA's test procedures, Ingalls met its obligation of having at least 11,000 full-time employees at the execution of the MOU by having***

11,666 employed at the time of the review. In addition, the company has maintained the appropriate documentation to prove compliance with E-verify program guidelines. OSA's procedures verified Ingalls complied with having no less than 8,100 full-time employees at the project site with an average employment of 11,813 verified as of July 2016.

The OSA further determined Ingalls ***satisfied compliance*** by demonstrating it has or will expend, incur debt, or otherwise irrevocably dedicate a 2 to 1 ratio of a \$40 million capital investment for Phase I and \$90 million for Phase II of the project. OSA verified a sample totaling \$31.9 million of purchase requests and invoices that were maintained for documentation in reference to expenditures.

Lastly, Ingalls ***did comply*** with the MEPA by ***registering*** with the federal status verification system by July 1, 2011. OSA's test procedures verified Ingalls' administrative staff had successfully completed and registered with the E-Verify system on September 16, 2016, to ensure all employees hired were eligible for employment in the United States. ***OSA found that Ingalls has maintained compliance with MEPA by utilizing the federal status verification system to verify all newly hired employees.***

OSA further notes the legislature has approved a total of \$161 million in bond issuance for Ingalls continual upgrades to the Shipyard. The chart below indicates the amounts approved and the legislative authority.

Bill Number	Legislative Session	Amount (in millions)
SB 2010	2004	\$40
SB 2073	2006	\$56
SB 2906	2015	\$20
HB 1729	2016	\$45
Total		\$161

In conclusion, the overall accomplishments of the Ingalls project appear to be a success to the State of Mississippi. The Legislature's economic goal for this project was met, jobs were created and/or maintained, and investments were made.