



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

Management Letter #12 Regarding:

A Review of the Number of Employees at Pharma Pac Industries in DeKalb, Mississippi

December 7, 2011

Mr. Chuck Mobley
Bureau Manager
Mississippi Development Authority
P. O. Box 849
Jackson, MS 39205

RE: 2009-2011 Pharma Pac Employee Verification

Dear Mr. Mobley:

Beginning on Monday, September 26, 2011, the Office of the State Auditor's (OSA) Performance Audit Division (PAD) performed a review of the accuracy and reliability of the 2009-2011 employee information for Pharma Pac, LLC – DeKalb facility located in Kemper County Mississippi (the Project). This review, originally scheduled for the fall of 2009, was delayed due to circumstances outside of the control of either Pharma Pac or the Office of the State Auditor.

The purpose of this audit was to determine the following things: whether Pharma Pac met its obligation to create an additional 90 new full-time direct jobs at the Project site on or before September 1, 2009 and a capital investment of \$500,000 from local or federal sources was made to the Project. The employment figure was an addition to the company base employment of 115 persons reported as of October 1, 2005. Pharma Pac is to maintain a level of 205 employees until September 31, 2014.

The audit review utilized Pharma Pac's employee listing from September 26, 2011. From this listing of 177 employees, a 15% sample was chosen. PAD examined and verified the following data elements: date of hire, evidence of employment of the measurement date of September 1, 2009, evidence of employment of the maintenance dates of September 1, 2010 and September 1, 2011, verified that employment was traceable to W-2 and W-4 tax forms, and payroll documents provided by Pharma Pac.

Based on the OSA's test procedures, Pharma Pac failed to create the 90 new full-time jobs by the measurement dates of September 1, 2009 and September 1, 2010. In October 2009, Pharma Pac certified it had defaulted on the statutory job creation and failed to create 52 of the 90 new full-time jobs. The penalty imposed according to Article IV section 4.1 of the Memorandum of Understanding (MOU) provided that the State bond proceeds of \$500,000 would be divided by six (6) years for a total annually of \$83,333. This amount was then divided by the net new job requirement and then multiplied by the number of jobs short for the total amount owed. Therefore, Pharma Pac was imposed with a penalty amount of \$48,152 and payment was made in full in December 2010.

In September 2010, Pharma Pac once again certified it had defaulted on the statutory job creation and failed to create 48 of the 90 new full-time jobs. At that time, the computed penalty was \$44,448, and

Pharma Pac was to make quarterly payments to cover the penalty for the 2010 default. Documentation was provided to show where Pharma Pac was making payments. In total, Pharma Pac has repaid the State \$166,666 of the \$500,000 provided in incentives.

As of September 2011, Pharma Pac had met the job requirement by the measurement date and had created a total of 116 new full-time jobs from January 3, 2006 through September 6, 2011. *However, 1 out of 28 employees had a part-time status, 28 out of 28 employees W-2s and W-4s were not provided during the audit. Instead, as a procedure OSA was allowed to physically meet 25 of the 28 employees (1 was on maternity leave, 2 were terminated at the time of the audit).* OSA's procedures verified that Pharma Pac employed 177 employees as of the date of the audit.

Pharma Pac officials communicated its inability to create the required jobs was due to the poor economic times that the nation has been experiencing. Secondly, it was OSA's observation a number of the jobs in the facility required specialized, skilled education and training i.e. chemists, laboratory technicians, and computational scientists. Due to the specialized requirements, a number of the positions were difficult to recruit and fill for the Kemper County project. A third reason given for the inability to fill the required new positions was the company was delayed in actually occupying the facility due to architectural, engineering, and construction issues. The MOU was signed in 2005 but the company did not enter the facility until 2008, three years later.

While conducting the audit, *OSA found a lack of monitoring and verification done with this project by the Mississippi Development Authority (MDA).* In the MOU, Pharma Pac warranted it directly employed 115 full-time employees in Mississippi as October 1, 2005. While OSA found that Pharma Pac did directly employ 115 full-time persons, there was no evidence that MDA verified this number prior to the contract being signed. *OSA recommends in the future MDA verify all prior base employment information and records that pertains to the MOU before contracts are signed. MDA should also require the entity to submit all necessary backup documentations before contracts are signed.*

At the writing of this letter, no certification of compliance had been received by Mississippi Development Authority from Pharma Pac for its job creation for September 2011. *OSA recommends Pharma Pac seek to have its agreement with the State modified to either reduce its job creation number or extend its deadline for meeting that requisite amount of (90) jobs.* It was evident in OSA's review the company is an asset to the Kemper County community, surrounding counties, and to the State as an essential employer.

Sincerely,



Brandie Branch
Performance Auditor

cc: Michael Lalor, Vice President & CFO - Pharma Pac
John H. Harig, CMA - Pharma Pac
Neil Sirkin, President & CEO - Pharma Pac