



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

Management Letter #18 Regarding:

An Economic Development Bond Audit of Ingalls Shipbuilding (aka Northrop Grumman) in Pascagoula, Mississippi

March 12, 2013

Mr. Brent Christensen
Executive Director
Mississippi Development Authority
P. O. Box 849
Jackson, MS 39205

RE: 2007, 2008, and 2011 Employee Verification

Dear Mr. Christensen:

The Office of the State Auditor (OSA) Performance Audit Division (PAD) performed an audit of the accuracy and reliability of the 2007, 2008, and 2011 employee data and capital investment requirement of Ingalls Shipbuilding formerly known as Northrop Grumman Ship Systems, Inc. (NGSS) in Pascagoula, Mississippi. The purpose of the audit was to determine if NGSS met its employee threshold, complied with the Mississippi Employment Protection Act (MEPA), and met its capital investment obligation as mentioned in the Memorandum of Understandings (MOU). The legislature approved this project as a major economic impact bond project in July 2003. A total of \$156 million in general obligation bonds were issued. The breakdown of issuance under which PAD monitors this facility is as follows:

- 2002 Act (SB 3197) provided \$12 million and required a capital investment of \$25 million
- 2003 Act (SB 2886) provided \$48 million and required a capital investment of \$96 million
- 2004 Act (SB 2010) provided \$40 million and required a capital investment of \$80 million
- 2006 Act (SB 2073) provided \$56 million and required a capital investment of \$112 million

In addition, the project required the following new full-time job creation in Mississippi:

- The MOU signed in July 2003 affirms, in Article III, Section 3.2, the creation of an additional 667 new full-time direct jobs on or before December 31, 2007.
- The First Addendum to the MOU enacted in June 2005 affirms, in Article III, Section 3.10, the creation of an additional 667 new full-time direct jobs on or before December 31, 2008.
- The Second Addendum to the MOU enacted in August 2008 affirms the creation of an additional 366 new full-time direct jobs on or before December 31, 2011.

The new full-time jobs stated in the First and Second Addendum to the MOU were in additions to the job commitments mentioned in the original MOU dated July 23, 2003.

On Monday, September 13, 2010, the PAD reviewed the 2007 and 2008 employee information of NGSS. The audit consisted of utilizing NGSS's employee listing that was submitted to the OSA. From this listing, a random sample was selected for review. ***OSA found NGSS met the commitment of creating an additional 1334 new full-time direct jobs in Mississippi on or before December 31, 2007 and December 31, 2008, respectively.***

On Monday, July 16, 2012, the PAD reviewed the 2011 employee information of NGSS. Once again, from NGSS's employee listing a random sample was selected. ***OSA found NGSS met the commitment of creating an additional 366 new full-time direct jobs in Mississippi on or before December 31, 2011.*** OSA's procedures verified NGSS employed over 14,800 persons at the Project site as of December 2011, which exceeds the requisite minimum job requirement.

In conjunction with the employee verification, the PAD confirmed the company's compliance with the Mississippi Employment Protection Act by reviewing the company's E-Verify MOU, Form I-9s, and E-verify confirmations. ***Based on the OSA's audit test procedures, the company complies with the MEPA by registering and using the Federal Government's E-verify System to determine employee's eligibility to legally work in the United States. However, 22 out of 94 employees did not have a Form I-9 maintained, 29 out of 94 employees were not E-verified within three business days after the hire date, and 12 out of 94 employees had issues with the hire date.*** The company stated the reason for discrepancies with e-verify were due to the company's severe spike in hiring activity and some employee's records were destroyed by Hurricane Katrina.

This audit too, reviewed NGSS's capital investment records to determine the company's capital investment. ***Based on the OSA's audit test procedures, NGSS met its capital investment obligation to add at least \$313 million in capital assets and improvements to the Project; investing a total in excess of \$313,888,712 to the Project site.***

Sincerely,



Brandie Branch
Project Manager

cc: Governor Phil Bryant
Lt. Governor Tate Reeves
Philip Gunn, Speaker of the House
Herb Frierson, Chairman of Appropriations, House of Representative
Eugene Clarke, Chairman of Appropriations, Senate
Chuck Mobley, Mississippi Development Authority
Lee Green, Ingalls Shipbuilding
Chris Hudson, Ingalls Shipbuilding