Contractor Oversight and Controls Guidelines

The purpose of this guideline is to establish minimum requirements for oversight and controls for contractors working at BASF’s North America sites. It applies to all contracted service providers including but not limited to maintenance, logistics, IT, janitorial, cafeteria, grounds keeping, etc. The intention of this guideline is to provide formalized and consistent controls concerning the accuracy of contractor time being invoiced to BASF for expenditures not defined by North American Capital Guidelines. The North American Project Management Guidelines including Project Quality Management N-P-PM-415, Monitoring Process for Outside Contractors N-G-BR-320, Construction Quality Assurance N-G-CN-214, Project Management Invoice Processing Approval N-G-PM-411, and Construction Invoice Approvals N-G-CN-210 provide contractor oversight guidelines for capital work.

GUIDEline Definitions

BASF Representative
A BASF representative is the BASF employee or BASF independent contracted employee who is accountable for the work that the contractor is engaged to perform by way of the work order or purchase order issued by BASF.

Contracted Services Director (‘‘CSD’’)
The Contracted Services Director is the BASF employee responsible and accountable for the integrity of the contractor alignment and monitoring process to drive continuous improvement.

Contractor
A contractor is an unrelated entity who performs a service at one or more BASF sites. A contractor may be a vendor.

Contractor Performance Review
Contractor performance reviews are meetings that are held at least twice a year with a contractor to review a contractor’s performance against the relative KPIs and BASF business and operational needs and objectives.

The site leadership team and/or key account manager and the contractor’s management will review the KPIs at least twice a year (the “contractor performance reviews”). Measuring and managing these KPIs are intended improve contractor alignment and performance with BASF business and operational needs and objectives.

Estimate Accuracy
Estimate accuracy is a contractor performance element that measures a contractor’s actual performance against an estimate provided for a given work scope.

Field Change Order (FCO)
A field change order is a change to the original scope of work that BASF provides to the contractor that is generated in the field normally during the construction phase of a job/project. FCOs may result from any number or type of factors including design error, request from manufacturing, unexpected field conditions encountered, delays to BASF’s account, etc.
**Key Account Manager**
The CSD may identify a contractor as a Tier 1 contractor where spending occurs across many BASF sites, e.g., security services, G4S, and IT services, Athos. In these cases, the CSD will identify a key account manager who will be accountable for compliance with the requirements of this policy.

**Key Performance Indicators for Contractor Oversight**
The key performance indicators (“KPIs”) for contractor oversight are statistics intended to measure a contractor’s performance in critical areas in relation to this policy and performance at the site. The site and/or key account manager and the contractor shall agree upon acceptable measures of contractor performance and the means and methods for contractor to measure and report any such agreed KPIs. The site leadership team and/or key account manager and the contracted management shall conduct contractor performance reviews at least twice a year. Measuring and managing these KPIs are intended improve contractor alignment and performance with BASF business and operational needs and objectives. The KPIs should be balanced and targeted to improve performance in areas of EHSS, costs, quality, and productivity. Contractors’ records relating to KPI measurement and reporting shall be made available and open to review and copying by BASF.

**Price Verification**
Price verification refers to the process of ensuring that the price paid for technical goods and services correspond to the negotiated terms of an agreement or contract. At a minimum this should include: (1) a timeline that shows which suppliers will be audited, (2) a description of the sampling procedure, and (3) the audit protocol.

**Procurement Manager**
The designated person responsible for developing and negotiating the local, regional or national supply/pricing agreements for the goods/services within his/her supply stream is the procurement manager.

**Rework**
Rework is work that is performed again or modified because of a failure to meet the applicable specifications or requirements. Rework is often caused by defects in methods, materials, machines, and/or manpower.

**Site Leadership Team**
The site leadership team is a group of locally designated site personnel responsible for the oversight of contractor compliance with this policy and completing the contractor performance reviews. The team may include but not be limited to the site director/manager, the operations director/manager, the TES manager, the maintenance manager, the engineering manager, and/or the safety manager/associate.

**Tier 1 Contractors**
Tier 1 contractors are defined as those contractors who conduct $1M or more of business with BASF on an annual basis. If a Tier 1 contractor has an annual spend below $500K at a site, the contractor’s services at such site will be managed based on the tier level that their spend represents at the affected site.
Tier 2 Contractors
Tier 2 contractors are defined as those contractors who conduct between $250K and $1M of business with a BASF site on an annual basis and are not otherwise falling within the definition of a Tier 1 contractor.

Tier 3 Contractors
Tier 3 contractors are defined as those contractors who conduct less the $250K of business with a BASF site on an annual basis.

Vendor
A vendor is an unrelated entity who sells materials and/or services to BASF. A vendor may be a contractor.

Verification of Qualifications and Certifications
Contractor qualifications refer to the general capability of a contractor to perform the requisite work or services. These qualifications are generally assessed during the procurement process. Assessment of specific contractor worker qualifications related to the performance of such work is the responsibility of the contractor. Certifications refer to any mandated safety, industry, or regulatory training necessary to perform specific types of work (e.g., crane operation, forklift operation, ASME coded vessel welding, etc.).

GUIDELINE PROCESS
This policy is applicable to all sites in North America with requirements as specified by the attached applicability matrix. The applicability of various elements of this guideline as outlined in the applicability matrix represents the minimum requirements. Sites/organizations may choose to require additional application of elements within specific jobs or with specific contractors as they deem appropriate.
Tier 1 Contractor Review

A. Each year, all North American sites and platforms will be provided a list of their Tier 1 contractors, i.e., contractors with whom spend from the prior year was in excess of $1MM. The Contracted Services Director (CSD) will provide this list. The site and/or key account manager must develop a list of key performance indicators (KPIs) targeted at improving contractor alignment and performance with this policy and BASF’s overall needs and objectives.

B. If a site uses a Tier 1 contractor, but its annual spend is below $500K, then the contractor will be managed based on the tier level that their spend represents at the site. Input may be provided to the site and/or key account manager who is performing performance reviews.

KPI Development

The site leadership team/key account manager, whichever applies, is accountable for the oversight of developing the KPIs that will be used for future discussions and reviews. The contractor should be involved in these discussions to develop and set agreed upon measures, means, and methods for measurement. These KPIs need to be customized to take into account what is important for the site leadership team and contractor at that time. Attached is a list of generic KPIs that the site leadership team/key account manager may use as a guide as they develop their KPIs. (See Contractor Performance KPI and Generic Scorecard Template attachments.)

The site leadership team/key account manager is accountable to track performance against the agreed upon KPIs. The responsibility can be delegated to the contractor, but must be verified/spot checked against underlying supporting documentation and data for accuracy by the site leadership team/key account manager or their designee.

Frequency of the Review Process

The site leadership team/key account manager and the contractor will have formal reviews to discuss performance against the agreed upon KPIs proportional to the need but at least twice a year. There should be open and frank discussions around what areas of performance have met or exceeded expectations and what areas of performance need improvement. These discussions should improve overall alignment, communications, and affinity of needs between the site leadership team/key account manager and the contractor’s management. These KPIs should be reviewed and changed as priorities at the site change.

Contractor Timesheet Process

A BASF representative should be in a position to reasonably verify by auditing that workers listed on a timesheet for contractor work crew personnel were present on the job for the number of hours that are shown as compared to a gate log or
personnel logging process. As a guideline, these audits should, at a minimum, consist of three (3) weekly timesheets or one (1) monthly timesheet for a selected contractor company and should be completed monthly. The selection of contractor companies and audit requirements should vary based upon exposure for the site. If discrepancies are found, testing should be expanded to determine the extent and total exposure to BASF, action plans should be documented to correct the process, and reporting and action plans should be communicated to Procurement as well as to the Contracted Services Director. Further, the BASF representative will reasonably verify that the work crew accomplished an acceptable level of productivity during a work shift. The work crew leader normally accomplishes this verification by direct field observation and/or daily reporting of crew size and progress.

Before a contractor commences work at a site, the BASF representative and the contractor should establish the format and ground rules for submitting timesheets. Below is an example:

Service providers who will be performing work on a reimbursable basis at a BASF site shall submit a daily timesheet to the BASF representative for approval by the end of each work shift. These timesheets should include the following information when being provided to BASF for signature:

- date and shift
- name(s) of worker(s)
- craft classification of worker(s) (per the contract rate sheet on file with BASF procurement)
- straight time hours worked
- overtime hours worked
- job worked by person or as a crew – i.e., equipment number and BASF work order number
- brief description of activities – i.e., “built forms for P-101 and set rebar”
- equipment used with hours shown
- materials used and quantity
- deviations from original scope such as field changes or discovery work

Late submittal of timesheets will not be accepted. As stated above, timesheets must be submitted to the BASF representative in a timely manner for approval. Multiple copies of a timesheet should be provided, so that a copy of the signed timesheet can be retained by the BASF representative for future reference, comparison to summarized invoice information, and audit purposes. Issues and oversights must be addressed promptly with the BASF representative, and proper paperwork must be submitted to correct any issues

In the case of contractors with sizable resident work forces, it is not always practical to verify workers and hours worked using the signed timesheet methodology described above. In these situations, additional administrative controls should be put into place to verify hours worked. For example, one acceptable practice is the use of IT tools that perform an automated audit of hours at the site (Gate Log) compared to hours charged on the timesheet (Time confirmation in ATLIS or SAP). This process immediately identifies discrepancies
between contractor submitted timesheets and the presence of contractor personnel at a site. These can be reviewed via a reconciliation process. (See Hrs Worked Flow and Hrs Work RACI attachments below.) When using an automated process such as this one, it is appropriate that the exception report and reconciliation process be managed by someone not in the contractor’s employment. This process used in concert with one that compares estimated hours to actual hours for a given job can be used effectively to manage the contractor. When using this method, it is not a requirement that the BASF representative sign daily timesheets as the validation of hours worked being equal to hours charged if handled by the automated process described above. Instead, the contractor work crew leader should be required to sign the timesheet as a method of holding the contractor accountable for accurate reporting and distribution of hours. With any such automated process, the BASF representatives should implement means to measure contractor personnel productivity.

Material Receiving and Management
In general, materials management is defined as the processes for ordering, physically receiving, inventorying, disbursing to work crews, and re-inventorying surplus materials for return or future use. This is applicable for materials ordered by contractors via a BASF PO or a contractor PO if BASF is to reimburse the cost of the material.

The BASF representative and the contractor should jointly develop a process that delineates responsibilities and segregates duties for procurement and management of materials. The process may be as simple as listing materials on daily timesheets or may require a more sophisticated process that uses a material management process. (See Materials Management Process and Mat'l Mgmt RACI below. Also attached below is an example of a material log that one might employ to meet the requirement for tracking materials used.) The process should incorporate appropriate levels of checks and balances and must be auditable. Purchased materials are to be traceable from development of the material take off to final installation and invoicing. It is imperative that contractors be held accountable for BASF provided materials.

Invoices for materials purchased by contractors on contractor POs must be accompanied with backup from the contractor’s supplier. The contractor’s mark-up for materials must be in accordance with the BASF contract/PO.
Verification of Job Completion

One may verify job completion by:

- job walks from maintenance personnel
- job walks from production personnel
- developing a punch list
- for construction jobs, using the pre-startup safety review (PSSR) form
- Completion status can be shown in SAP as job history and comparison of planned versus actual scope on execution.
- Completion status should also be communicated with returned copies of signed timesheets and a written job review, including planned versus actual of job scope, as well as noting discovery work.

Example QC form

Rework

The BASF representative and the contractor should jointly develop a process that clearly delineates responsibilities and segregates duties for monitoring and tracking rework or nonconformance. The process may be as simple as developing a policy that shows and recognizes each party’s responsibility. (See attached examples.) The process should incorporate an appropriate level of checks and balances and also be auditable.

Contractor EHS Qualification and Oversight

Contractors and subcontractors working at BASF locations covered under this policy must meet minimum EHS qualification criteria for work that:

- affects or has the potential to impact the safety of manufacturing, laboratories, maintenance, and office environments, or any time an EHS hazard is introduced into the work area by a contractor/subcontractor
- The minimum EHS requirements are specified under Corporate Procedure BC032.002 Contractor/Agency EHS Qualification and Oversight.

Timely Completion of Work

BASF representatives shall comply with the following minimum expectations when managing and verifying contractor schedule compliance.

Before commencement of work:

- Communicate any formal or informal scheduling expectations with contractor. These expectations include work start time, completion time, duration of work associated with the job, task, project, outage, etc.
- Gain contractor’s commitment to these expectations.
- Document the expectations as appropriate.
During the execution of work:

- Conduct field periodic reviews of a frequency appropriate to the work to confirm compliance with any scheduling requirements.
- Communicate any observed deviations to the contractor.
- Make any adjustments to expectations as may be required because of unanticipated events or developments.
- Document deviations as appropriate.

At completion of work:

- Assess contractor’s compliance with schedule expectations.
- Communicate findings to contractor.
- Document findings including any reasons for deviations or rework.

**Verification of Qualifications**

BASF representatives shall comply with the following minimum expectations related to the verification of contractor qualifications and certifications.

Before commencement of work:

- Verify that contractor company management is aware of any required certifications associated with work.

During execution of work:

- Conduct field periodic reviews of a frequency appropriate to the work to confirm quality of workmanship.
- Communicate deviations observed to the contractor.
- Request that the contractor’s management produce evidence of worker certifications or qualifications as needed.

At completion of work:

- Review work upon completion and assess quality of workmanship.
- Document and communicate findings to contractor and retain evidence.

**Estimates**

When contracting for services in a manner that puts BASF at full risk for contractor inefficiencies such as “Time and Material” or “Cost Plus,” it is important that BASF take measures to mitigate the risk. The preferred method for doing this is to have the contractor provide an estimate for the work to be performed that is reviewed by the BASF representative and subsequently agreed upon by both parties. In general, estimates should be provided no matter the job size unless extenuating circumstances such as emergency work dictate otherwise. Estimating goes hand in hand with planning, and it is widely accepted that planned work is executed more efficiently than unplanned work. The contractor’s estimate should generally contain labor, equipment, and materials components and should be amended.
if/when field or scope changes arise that warrant revision of the original estimate. It is the contractor’s responsibility to immediately identify these changes and bring them to the attention of the BASF representative for approval.

Productivity addresses the labor component of the contractor’s estimate and is normally expressed as a ratio of actual manhours to estimated manhours (original plus adjustments if required). As such, a productivity result of < 1.0 indicates better than estimated performance.

Field Change Orders
It is important to manage and document changes in the original scope of work no matter what type of pay arrangement (T&M, lump sum, or unit price) is used to compensate the contractor for the work being performed. A proper FCO process is essential for controlling and justifying the additional, legitimate cost of the contractor’s work.

Any additional work beyond the original scope described in the contract documents or work order and any additions, modifications, or deletions made to the plans and specifications and authorized by BASF, shall either be performed by the contractor; or shall be allowed by the contractor as a credit on the basis set forth in one of the three following subparagraphs designated (a), (b), and (c) to be selected by BASF.

(a) an agreed upon lump sum
(b) a cost plus basis
(c) unit prices

BASF shall not be obligated to pay a contractor for any additional work performed unless either (a) a written field change order (FCO) signed by BASF or (b) BASF’s formal purchase change order (PCO), showing the basis on which payment is to be made, has been issued prior to the commencement of such work.

Applicability: It is not intended that this section of the guideline be applied to every individual job performed by a Tier 1 contractor or Tier 2 contractor no matter the individual job size, as this would be impractical. It is appropriate to employ an FCO process for individual jobs with a value greater than $25K. (A lower trigger point may be used if felt needed by the individual site.)

Approval of Delivery
Upon satisfactory completion of the work, the BASF representative must take the appropriate steps to close the loop that began when the contractor was issued the purchase order or work order that was the basis for the work that was performed. This includes insuring that all documentation such as “as built” drawings, work history, etc., requested in the PO or WO has been provided.

Work Orders: The BASF representative should review actual cost versus estimated cost and reconcile any discrepancies identified with the contractor. Upon completion of this activity, the job history should be entered if required and the work order closed.

Purchase Orders: Invoices for progress and/or final payments are to be presented to the BASF representative by the contractor in a timely manner in accordance with the requirements set forth in the PO. The norm is within 15 – 30 calendar days.
days from the end of the billing period or from completion of the job. The BASF representative or designated person who reviews the invoices should have sufficient knowledge of the work that was performed and the commercial terms and conditions of the PO to ensure that the charges presented by the contractor are in accordance with the PO. This activity should take place for all invoices, and is not to be confused with the “Back End Audit Process.” Upon approval and processing of the final invoice, a PO created for capital work must be de-committed and closed.

Invoices should be formatted such that they can be easily audited (Quantities, unit pricing, extended cost, taxes, contractor markups, etc., should be easily identifiable and consistent with the terms of the contract.) Invoices will include the following information:
- invoice date
- remittance address
- invoice number
- purchase order and work order (if applicable) numbers
- name and telephone number of the contractor's invoice preparer
- name of the BASF representative
- job or project title
- brief description of the work covered by the invoice (include plant or unit name, equipment number, etc.)
- date range of the work covered by the invoice
- a summary level breakdown of the elements of cost (labor, equipment, materials, etc.) in accordance with the requirements set forth in the “Request for Quotation” and the purchase order
- the total PO amount, previous payments, and amount due for the current invoice

For time and material work, the invoice should have information attached as follows:
- signed timesheets
- copies of invoices from third party suppliers of materials, services, equipment, and supplies

Invoices not prepared in accordance with the requirements set forth by BASF should be promptly returned to the contractor with comments noted for correction and re-submittal.

**Back End Audit Process**

Tier 1 and Tier 2 contractors are to undergo price verification audit, which may be conducted using statistical sampling with a high level of statistical significance.

- With support of the procurement managers and/or strategy buyers, the contracted services management team will develop a yearly audit plan for the contractor base.
- The audit plan for services will be based on yearly invoiced amounts and a statistical sample of invoices from the Tier 1 and Tier 2 contractors.
- The contracted services director will be responsible for extracting all relevant data and setting up the statistical sample for auditing.
The contracted services director will be responsible for collecting all relevant information to conduct invoice audits.

The contracted services management team will conduct the audits. However, procurement managers, strategy buyers, and/or site leadership will be responsible for documenting and developing corrective actions and sustainability plan addressing the audit findings with the contractor.

The procurement manager and/or contracted services management team are responsible for communicating the verification to the sustainability plan to impacted procurement individuals and groups and to ensure that this plan is readily accessible.

The contracted services team will audit invoices against given parameters. These include but are not limited to:

a. invoiced rates and charges v. contracted rates, pricing schedules, discount agreements, etc.

b. verification of the contract validity period
c. invoiced amount v. lump sum tender
d. adherence to contract terms
e. when applicable, a supporting bonus/malus
f. when applicable, a supporting single source forms.
g. when applicable, a signature by an authorized BASF representative on invoices tied to service entries.
h. when applicable, supporting timesheets, supplier invoices, or other underlying documentation or data that support the invoice
i. When applicable, approved and accepted rate and charge increase amendments
j. inspection to ensure service entries in SAP were not made by contractors of the company providing the service

When errors are identified, the Contracted Services management team will engage the appropriate procurement manager/ buyer/site representative. The procurement manager/ buyer shall immediately inform the supplier and settle the deviation. If further deviations are identified, the contracted services director or procurement manager may decide to engage a third party company to audit all invoices with a given contractor.

The contracted services director, with support from the procurement hub manager, procurement manager for capital and services procurement, and site leadership will ensure that proper resources are devoted to the verification process.

Intentional overcharging by a contractor will minimally result in removal of the contractor from further business consideration.

SCOPE

This guideline applies to BASF Corporation and its United States subsidiaries.
RESPONSIBILITIES

Contracted Services Director

- identifies the site service providers who meet the thresholds of Tier 1 contractor and Tier 2 contractor to be included in the contractor performance program and back end audit process
- ensures that the back end audit process is conducted and sustained
- responsible for extracting all relevant data and setting up the statistical means and methods for auditing
- involved in reviewing select construction contracts and packages to ensure quality and to minimize risk of claims
- ensures that site contractor estimating standards are up to date with actual performance to enable accurate cost forecasting and control
- supports efforts to improve contractor productivity
- ensures that Tier 1 contractor performance reviews, according to identified criteria, are held and information is shared with other sites
- ensures that a contractor management portal is maintained and up to date
- promotes sharing of best practices regarding contractor management programs among sites to drive continuous improvement
- manages and supports contractor qualification and oversight process including PICS tool

Regional Service Center Manager

- coordinates the identification, qualification, and consolidation of contract service providers in the region and continuously monitor performance

Contractor

- if identified as a Tier 1 contractor, works with site leadership team/key account manager to develop and track KPIs; attends performance reviews, at least semi-annually, to review performance against the agreed upon KPIs
- provides evidence of worker certifications and qualifications as needed
- as required by criteria as specified in this guideline, submits daily timesheets for approval by the end of each work shift
- provides copies of invoices from third party suppliers of materials, services, equipment, and supplies
- submits invoices in a timely manner with the required minimum information as specified in this guideline

Manufacturing/Engineering

- communicates schedule expectations with contractor
• verifies that contractor is aware of any required certifications associated with work
• approves timesheets submitted by service providers as required
• verifies job completion
• reviews actual costs versus estimated costs
• reviews invoices to confirm that required information regarding services rendered by the contractor is included before approval

Back End Auditor

• audits invoices to verify adherence to PO and/or contract terms and conditions
• reviews invoices for mathematical correctness and that invoiced rates are consistent with contracted rates
• verifies supporting documentation such as timesheets and receipts for third party supplied material is attached and valid
• if errors identified, contacts procurement manager to work with contractor to settle the deviation

RELATED DOCUMENTS

![Contractor Team Procedure](ContractorTeamProc)  ![Contractor Team Procedure Master RACI.x]

REVISION HISTORY

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<td>alphabetized order of terms in “definitions section,” changed Contractor Timesheet Process, removed section numbers to align with guidelines format, added embedded “back end audit process,” updated embedded files</td>
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