DEPARTMENT: FINANCE   **DOCUMENT OWNER: CONTROLLER**

Changes since last issue:
1. *Update labor correction definition*

PURPOSE AND SCOPE:

The purpose of this procedure is to define the process for tracking the labor hours incurred by employees of Austal USA and any contract labor utilized to augment the Austal USA workforce. These hours represent work performed in either a direct or an indirect capacity. Charging of labor is defined per Austal USA's Cost Accounting Standards Disclosure Statement.

Workday is the system utilized at Austal USA for the tracking and charging of labor hours. Kaba time clocks are utilized to capture clock in/out time.

This policy does not include subcontractor labor hours/costs, which are defined as non-labor costs and represent work performed to a defined scope. Hours for subcontractor work scope are not systematically captured and not considered labor related.

DEFINITIONS:

- Charge Codes – the codes used to identify the work task performed on a Project. These are unique to each Project and defined by the Program Office, Finance and Production Control.

- Contractor – a contractor is a labor type employee who is employed by a temporary labor company and whose job duties augment that of Austal labor. This contract labor is not performing to a scope of work (subcontractor costs) and is costed at a per/hour rate. These individuals are subject to this policy.

- Cost Objective – term used to describe a Project

- Direct employees – employees who spend at least 90+% of the time worked performing a specific Project related task. Any work not performed to a specific project related task should be classified as indirect in nature (non-Project meetings, training, HR/Medical, etc.) and is subject to SUP114, Direct Charging Indirect procedure.

- Direct hours – hours charged to a final cost objective when personnel are working on specific project related tasks

- Direct to Indirect hours – hours charged by direct personnel when performing a task not directly related to a Project. These specific indirect functions and the process by which the time should be charged can be found in SUP114, Direct Charging Indirect.

- Indirect employees – support personnel whose daily activities are not specific to a Project. These employees may only charge to a direct project related to a continuous improvement funded work scope.

- Indirect hours – hours charged by indirect employees and those hours charged to indirect charge codes by direct employees.

- Labor correction – correction of labor charge/costing against a Project which is the result of an error in the original data entry or the movement of proposal related labor to a final cost objective as the result of a contractual award that allows for the incorporation of those costs. Defined in SUP110, Labor Cost Code Procedure.

- Program – a collection of various projects that have been awarded under one contract – i.e. LCS or EPF

- Project – a scope of work that is the first part of a charge code to which a direct employee charges hours worked. This is the final cost objective. Projects refer to:
  - New construction work scope including warranty
  - System related work scope
  - Service work scope
  - Engineering design work scope
  - Tendering (bid & proposal) work scope
  - Identified insurance claim work scope
  - Direct employees performing indirect work scope
  - Internal self-constructed asset work scope (internal labor used to build an asset)
  - Continuous improvement funded work scope
  - Special internal scopes of work where specific tracking must occur – i.e. events and training

- Task sheet – document that provides employees with specific charge codes for scanning. These task sheets are generated from the VCD or from the non-VCD application (Workday @ Austal).

- Trade – a particular craft to which an employee is assigned and work is performed. The employee has a particular skill and knowledge to perform a specific work task.

- Vessel Completion Database (VCD) – a management tool, providing current status of all ship construction. The tool is utilized by Supervisory personnel to print charge code bar codes.

- Workday @ Austal – a Company website that allows access to timekeeping related programs such as Workday and the non-VCD barcode application

RESPONSIBILITIES:

Accurate timekeeping is the responsibility of all personnel within the organization. Adherence to this timekeeping policy is critical to ensuring the accuracy of costing to final cost objectives.

- <u>Badges</u>
  Employees are expected to arrive at work with their Company issued identification badge. The responsibility to arrive to work with the proper identification resides with the employee. No temporary badges can be issued. See SUP623 Badge Policy.

- <u>Employee</u>
  The Employee is responsible for clocking in and out each day worked via the Kaba time clock. Time clocks are located throughout the facility at locations that make accessibility to all employees achievable.

  Once an employee has clocked in for the day, time is accounted for by the employee through the scanning of charge codes from a task sheet provided by the Supervisor or by the inputting of charge codes into a web-based interface called a calendar view within Workday. This ownership of time charging by the employee is the daily attestation (approval) of hours worked and accuracy of the assignment of those hours to the tasks performed. No other signoff is required.

  If an employee is travelling or working locally offsite and therefore a time clock is not accessible, then that employee is responsible for reporting time worked to the immediate Supervisor or Manager so that the time can be input into Workday by the individual with oversight of the employee. This reporting of time should occur daily so that the system is current and accurate. The process for employee time tracking while offsite is documented in the SUP138, Daily Offsite Time Card Procedure, along with the Daily Offsite Time Card document, SUPF138.

For those employees who scan task sheets, any changes made by a Supervisor to an employee's time worked or charged during the current work week will be routed back to the employee electronically for the approval of the change by the employee. The employee must systematically accept this change in order for the change to become permanent. A message will continue to appear at each employee scan of the time clock until the change is accepted. If the employee is not in agreement with the change, the employee should notify his/her supervisor, foreman or manager. For those employees who enter time via the web-based interface, the Supervisor should communicate any change with the employee and request the employee make the change if necessary. All changes can be viewed through a systematic audit report.

At any time an employee's time is manually input into the Workday system by someone other than the employee, a daily timecard should be utilized to ensure the employee has knowledge of the time inputted into the system and the charge codes to which that time is assigned.

For all time worked that is manually entered into Workday, a comment must be inputted to provide a detailed description of why the time was manually inputted rather than systematically updated via the Kaba time clocks. Manual entry of time should never occur prior to work actually being performed. The entry of time into Workday prior to performing a task is considered as time entered in advance of work and is strictly prohibited.

Employees are responsible for the systematic work time reported for them on a weekly basis. Hours should never be entered into Workday unless they represent actual hours for work performed by an employee. Entering of hours into the system for which are not actually worked is not appropriate and will result in disciplinary action as and is considered by the government as a form of theft.

Examples of time not worked include but are not limited to:
- Rest days for travel
- Time quarantined as the result of a national/worldwide health crisis
- Hours waiting as a result of delay or disruption of work due to an action by the Customer or other party

Any employee who cannot find resolution regarding time entry and task assignment changes through the proper chain of command should report the matter immediately to his/her HR representative or call the Austal Hotline 251-415-1957.

EMPLOYEE CLASSIFICATIONS

Direct Production Personnel
Direct Production Personnel are those individuals who perform tasks on a Project within the production environment or within an area that requires direct charging to a Project. Their Supervisor assigns these individuals work assignments of daily tasks. The Supervisor will distribute documents each day (or as required) with a scannable bar code. Upon beginning work on the initial task for the day, the employee will swipe his/her badge and then scan the task sheet. This will begin the assignment of work hours to that code for the day. If a task is completed, the employee returns to his/her Supervisor and receives another task sheet with a scannable bar code. The process repeats until the end of the workday at which time the employee clocks out and thereby ending the assigned work.

Direct Production Management Personnel
Direct Production Management Personnel are those individuals who supervise and manage the Direct Production Personnel (Supervisors, Foremen and Managers). Administrative and technical assistants to these individuals are also in this classification. These employees will utilize the web-based calendar functionality within the Workday system. The employee's clock in time will be visible in the calendar view of Workday. While this start time is visible, the system tracks the worked time based on a duration input by the employee of the time worked on a specific work activity.

The employee is provided a trade-specific, Program-specific charge code to which all supervisory time for that Program is to be assigned for the worked shift. If supervisory work on multiple Programs occurs, the employee should appropriately charge the time worked to

the appropriate Program Supervisory Code. Due to the oversight this employee classification has with regards to Direct Production Personnel, the work time is assigned to a trade specific supervisory code by Program and subsequently allocated based on the direct production labor hours by Trade by Project. The Supervisor code is charged for all supervisory activities.

When a specific non-supervisory function is performed, i.e. direct charging indirect, a non-supervisory work scope, or a Service/Support (Post Delivery), the employee is required to charge to that specific task.

The requirement is that this time is tracked in at least 15-minute intervals. Professional judgement should be used to ensure the time is accurately maintained to that interval or greater.

Duration of time worked against a supervisory code or a particular scope must be input into the system real-time as the employee performs the activity. If this real-time entry cannot occur, then this entry must occur at a minimum daily prior to the end of shift. Failure to comply with this requirement could result in disciplinary action.

Because the duration time entered by the employee may not synchronize to the clock out of the employee, each morning the employee should review their time worked for the previous day and make any adjustments accordingly. This happens because the employee will clock out after the final assignment of time occurs so an adjustment will be needed

Direct Production Support Personnel
Direct Production Support Personnel are those individuals who perform tasks in support of the direct production personnel. These individuals consist of personnel who perform specific tasks in:

- Logistics
- Crane & Rigging
- Site Services Cleaners
- Forklift Operators

These employees have one specific scannable task sheet for their regular job tasks. This task document is scanned as the employee begins work for the day and no other action is required unless the employee is assigned to a specific scope of work during the day. If this assignment occurs, the Supervisor will distribute a task sheet with a scannable bar code for the specific task. The employee swipes his/her badge and then the specific task sheet. Once the specific task is complete, the employee swipes his/her badge and once again scans the task sheet for their regular job tasks or another specific work activity assignment. The process repeats until the end of the workday at which time the employee clocks out and thereby ending the assigned work.

Other Direct Support Personnel
Other Direct Support Personnel consists of several groups, which may utilize the web-based calendar functionality within the Workday system or the scannable task sheets.

The groups of personnel who will utilize scannable task sheets and follow the same process as Direct Production employees include:

- Quality Control
- Technical Training
- Service & Support – production functions
- Test & Activation

The groups of personnel who will utilize web-based calendar functionality include:

- Contracts
- Production Control
- Quality Control Supervision
- Engineering
- Program Office
- Service & Support
- Finance
- Purchasing
- Estimating

The employee's clock in time will be visible in the calendar view of Workday. While this start time is visible, the system tracks the worked time based on a duration input by the employee of the time worked on a specific work activity. An employee's supervisor should assign work activity and provide charge codes applicable to that work scope. The employee should enter

the specific work activity charge code and the duration of time taken to complete that task into the system once the work is complete. The requirement is that this time is tracked in at least 15-minute intervals. Professional judgement should be used to ensure the time is accurately maintained to that interval or greater.

Duration of time worked against a particular scope must be input into the system real-time as the employee performs the activity. If this real-time entry cannot occur, then this entry must occur at a minimum daily prior to the end of shift. Failure to comply with this requirement could result in disciplinary action.

Because the duration time entered by the employee may not synchronize to the clock out of the employee, each morning the employee should review their time worked for the previous day and make any adjustments accordingly. This happens because the employee will clock out after the final assignment of time occurs so an adjustment will be needed.

Indirect Personnel
Indirect Personnel are required to clock in/out each day and their time worked is systematically assigned to their departmental overhead costs. These employees have visibility to time worked and may make any changes if work is performed on a continuous improvement funded project via the utilization of the web-based calendar functionality.

- Supervisor
The Supervisor is responsible for ensuring that employees assigned to him/her are working on the tasks assigned to the employee. For those employees' who require a scannable task sheet, the Supervisor must print this document from the Vessel Completion Database (VCD) and have it available to each employee assigned at the start of the work day and each time an employee changes to a new task. If the needed information is not available, the Supervisor should contact the Foreman or Manager who can contact Production Control for the information to be updated into the VCD. Charge codes not available in the VCD may be available at the Workday @ Austal application.

Supervisors should review the time entry of their employees on a daily basis to ensure accuracy and completeness. Any changes made by a Supervisor to an employee's time worked or charged should be clearly communicated to the employee.

At the end of the workweek, the Supervisor must electronically approve/submit all of the time worked/charged by his/her employees.

Supervisors are also responsible for all employees assigned to him/her who are on Company related travel or who perform offsite work.

- Foreman
The Foreman has the same level of responsibility for the timekeeping of the hours worked by all employees that fall within his/her line of authority. In the absence of a Supervisor, this individual will complete all tasks associated with the charging of labor hours to the appropriate labor charge code that would normally be completed by the Supervisor.

- Manager
The Manager has the same level of responsibility for the timekeeping of the hours worked by all employees that fall within his/her line of authority. In the absence of a Supervisor and/or Foreman, this individual will complete all tasks associated with the charging of labor hours to the appropriate labor charge code that would normally be completed by the Supervisor.

- Payroll
The Payroll Department is responsible for the weekly processing of payroll, which includes the locking of the system to ensure no changes can occur once payroll is processed. This department has no responsibility for time entry/correction during a pay cycle. If a time correction is needed for a prior pay cycle, the payroll department is responsible for ensuring this correction systematically happens once all proper approvals have occurred. This correction process is documented in SUP110.

PROCESS:

No employee or contractor should perform work without a proper code to charge the time worked. If a charge code is not provided to an employee, the Supervisor should be notified so that the proper charge codes can be located. Situations may occur where emergent issues arise and a charge code has not yet been created for that activity. The employee will be provided a temporary Direct to Indirect code until the accurate code is established. This proper code should be created within 24 hours and the time charged to the temporary charge code reassigned to this newly created charge code. The temporary charge code will be monitored by Payroll/Finance on a weekly basis as part of the weekly close process. Temporary codes are for new construction use only and not available for Service & Support work. Misuse of a temporary code is subject for disciplinary action.

Employees only charge to one charge code at a time. Work cannot be performed to multiple charge codes at one time.

The steps below are a high-level overview of the process for each group of employees. A detailed step-by-step process is available by contacting the Austal Training Team at training@austalusa.com.

Direct Production Personnel

1. At the start of the work day/week, the Supervisor/Foreman or Manager prints the task sheet from the VCD or Workday @ Austal application
2. Swipe badge at time clock on arrival to work
3. Receive work activity scan bar code (task sheet) from Supervisor
4. Swipe badge and scan work activity bar code at time clock prior to beginning work on first activity
5. Finish work activity then return to Supervisor for new work activity bar code
6. Swipe badge and scan work activity bar code at time clock to begin new work activity
7. Repeat steps 5-6 until end of shift
8. Swipe badge at time clock on departure from work

Direct Production Management Personnel

1. Swipe badge at time clock on arrival to work
2. Log into web based application
3. Review hours worked from previous day and adjust last activity worked for time clock out time difference
4. Assign hours worked to supervisory code or specific work activities as tasks are completed throughout the day
5. Swipe badge at time clock on departure from work

Production Support Personnel

1. At the start of the work day/week, the Supervisor/Foreman or Manager prints the task sheet from the VCD or Workday @ Austal application
2. Swipe badge at time clock on arrival to work
3. Receive work activity scan bar code (task sheet) from Supervisor
4. Is the work activity a regular activity
    i. Yes - go to Step 5, skip Steps 6-8
    ii. No – go to Step 5
5. Swipe badge and scan work activity bar code at time clock prior to beginning work
6. Finish work activity then return to Supervisor for new work activity bar code

7. Swipe badge and scan work activity bar code at time clock to begin new work activity

8. Repeat steps 5-6 until end of shift

9. Swipe badge at time clock on departure from work

Other Direct Support Personnel (scanning)

1. Follow Direct Production Personnel process

Other Direct Support Personnel (web-based)

1. Swipe badge at time clock on arrival to work

2. Log into web based application

3. Review hours worked from previous day and adjust last activity worked for clock out time difference

4. Receive work assignment and corresponding charge code information from Supervisor

5. Assign hours worked to work activities as tasks are completed during the work day

6. Swipe badge at time clock on departure from work

Indirect Personnel

1. Swipe badge at time clock on arrival to work

2. Swipe badge at time clock on departure from work

In circumstances where a direct employee/contractor must perform an indirect task, the Supervisor will provide the employee with a new task sheet that represents the indirect work activity. The same method of scanning or data input is followed as described previously, dependent on the employee classification. The exceptions to this process are indirect activity related to Training and Human Resources (HR)/Medical.

o **Training**
When an employee is assigned to training and that employee is a direct employee, a training work code will be assigned. The employee will swipe his/her badge at a time clock or electronic scanning device and will be given a training bar code to scan by the instructor. Once training is complete, the employee will either swipe his/her badge at a time clock to depart from work for the day or scan a work activity bar code to begin a new work task. If training is not set for the entire shift, this work task should be provided to an employee prior to the beginning of the training class so that there is a clear transition from training to work.

o **Human Resources/Medical**
When the need arises for an employee to go to Medical or Human Resources during work hours, the Supervisor must be notified by the employee unless the situation is an emergency. The employee then proceeds to the designated area, HR or Medical. Once the employee arrives at the designated area, the employee checks in with the representative in that area to receive a bar code scan document that corresponds to the reason for the indirect activity. The employee swipes his/her badge and then scans the bar code document. Once the activity at medical or human resources is complete, the employee swipes his/her badge prior to departure from this location and scans the original work activity bar code that he/she was working prior to the visit to medical or human resources. The employee must ensure he/she has received a code from his/her Supervisor prior to leaving the work location. If this is the final activity of the shift, the employee swipes his/her badge to clock out of work for the day.

ADDITIONAL NOTES & RESPONSIBILITES:

- All employee schedules are subject to SUP141_Work Schedule Policy.

- For those charge codes not available in the VCD, the Supervisor can utilize the non-VCD barcode generator to create a bar code document for employees to scan.

- Breaks or scheduled on-site 30-minute meal breaks do not require the employee to swipe the identification badge as that time is already registered via the system. Anytime the employee leaves the facility for non-work related activities or takes a scheduled meal break in excess of 30-minutes, the identification badge must be swiped at the time clock to record the time work was stopped.
    - o The exceptions to swiping the identification badge when leaving the facility are:
        - The time during which the employee is on a regularly scheduled break
        - The time the employee is off site <u>during</u> the scheduled 30-minute meal break
            - If the employee's time off site exceeds the 30-minute meal break, the employee must contact Supervision immediately so that the clock time can be adjusted and corrected
        - This exception is primarily related to those employees who are leaving the premise as it relates to the Smoke/Tobacco Free Workplace Policy, SUP258. As such the employee is off premises but is either on a scheduled break or meal break and therefore does not need to swipe the identification badge.
            - Proper notification to Supervision is still required as is the notification to Supervision if the actual break time exceeds the scheduled break/meal time.

- Employees on travel or performing work offsite must provide their daily time card information to their Supervisor/Foreman or Manager. This will facilitate the input of hours into Workday and assignment of hours to work activities. This information must be submitted daily by 9 am for work performed the previous day.

- Supervisors/Foremen/Managers should check Workday daily to ensure that all employees are clocked in. If any employees are on site but show a missing punch in the system, then the Supervisor should take corrective action.

- Supervisors must electronically approve/submit all time worked for each employee assigned to him/her. This is to be completed on the last work day of the work week but no later than 9:00 am on Monday for the time worked the previously closed week (day shift personnel) or 5:00 p.m. Monday (evening shift personnel).

- Paid Time-off (PTO) Requests should be submitted electronically via the Workday application. This submission should occur by the employee and will route to the Supervisor for approval. Submission of PTO should follow the Company Employee Handbook.
    - o If leave is unplanned, the electronic submission should occur as soon as it is known.

- Missing clock in/out can only be entered into Workday by Supervisors, Foreman, and Managers.

- Labor charge code corrections
    - o Changes outside of current workweek - Any correction to the codes to which labor hours have been charged must be processed through a labor cost code correction form (SUPF111) and follow (SUP110) Labor Cost Code Correction Procedure.
    - o Any correction within the current workweek can be processed in Workday by the Supervisor, which will route to the employee for systematic approval.

- Travel time should be kept according to SUP138, Daily Offsite Work Time Card Procedure. Travel time is considered that time from the employee's originating destination (Work Location or Airport) to the final destination (Hotel or Work Location).

- Those employees who are riding a vessel while at sea are compensated accordingly. When the vessel is on a Builder's or Acceptance Trial, the employee should follow all policies within this document. When an employee is on a vessel in a Ship Rider capacity or travelling on a vessel with a Ship Rider, the employee should follow SUP138, Daily Offsite Work Time Card Procedure. There is no standard work hours for this type of activity.

- No other document or system should be used for timekeeping purposes.

- Failure to follow the process defined in this document may result in disciplinary action, up to and including termination.

REFERENCES AND DOCUMENTATION:

Procedure
SUP110_Labor Cost Code Correction Procedure
SUP114_Direct Charging Indirect Procedure
SUP141_Work Schedule Policy
SUP138_Daily Offsite Work Time Card Procedure
SUP623_Badge Policy

Form
SUPF111_Labor Cost Code Correction
SUPF138_Daily Offsite Time Card
SUPF623_Replacement Badge Form