

Independent Workforce Engagement FAQs for Northrop Grumman Managers

GENERAL PROGRAM INFORMATION

Northrop Grumman engages independent professionals—commonly known as independent contractors, consultants, freelancers, small services providers, and non-employee workers—to deliver specialized services. These independents provide Northrop Grumman with workforce flexibility and subject matter expertise that can augment the abilities of its full-time staff.

In short, independent professionals help Northrop Grumman compete in the ever-escalating war for talent—and it is critical that Northrop Grumman engages them safely and efficiently.

Why does Northrop Grumman use a program for engaging independent workers?

A consistent independent workforce engagement program promotes enterprise-wide process consistency, improves productivity, controls costs, increases visibility into provider relationships and spend, and mitigates the risks associated with using independents—most notably, independent contractor reclassification.

Reclassification can occur when the IRS or state tax authorities determine that independents working for a client do not meet the necessary criteria to engage as true vendors (or “independent contractors”) and be paid on a “1099” basis. These authorities may then **reclassify** them as employees, which frequently results in significant penalties and back-tax payments for the client. Reclassified workers may also try to recoup back-benefits through class-action lawsuits, which could prove very damaging to Northrop Grumman and its reputation, brand, and bottom line.

How will this program remove these risks?

The program ensures that only independent professionals who meet all appropriate qualification requirements may engage as vendors. All others must either work with MBO to establish a qualified business or engage as payrolled employees of MBO Partners.

This eliminates Northrop Grumman’s reclassification risk entirely and minimizes other risks, such as class-action lawsuits and business liability risk.

Who at Northrop Grumman is managing this program?

This program is operated by Northrop Grumman’s Managed Services Provider, Magnit. The program was developed in coordination with Northrop Grumman’s Human Resources, Legal, Finance, and Supply Chain organizations.

Which independents are appropriate for this program?

All professional internally identified independents (i.e., those not recruited or sourced through a staffing company) must engage through this program. This includes individuals and small businesses of four or fewer employees.

Important: Incorporated entities are **not exempt** from this program. If you have questions concerning whether a worker you wish to engage is appropriate for this program, please contact Jonathan Yeomans at jonathan.yeomans@ngc.com or Michelle Olseth at michelle.olseth@ngc.com.

Do workers need to engage through this program if they have previously worked for Northrop Grumman as independents?

Yes. This program's processes and goals apply regardless of whether or how we have worked with an individual in the past. As independents' circumstances may change over time, workers who previously operated as independent vendors may no longer be truly operating as such today.

Workers who operate as true independent vendors should be able to quickly complete the MBO qualification process and begin their next Northrop Grumman assignment. If there are questions about the status of an independent worker, it benefits both Northrop Grumman **and** the worker to ensure that those questions are addressed before beginning a new assignment.

Workers often do not recognize the requirements of qualifying as a true independent vendor or realize that Northrop Grumman expects all its outside vendors to comply with all applicable laws, warranty their work, and protect Northrop Grumman against loss. MBO helps workers understand what qualifying as an independent vendor entails and works with them to help them become qualified if possible. Workers who are unable or unwilling to achieve qualification may begin working on their next Northrop Grumman assignment by engaging through one of the other services we offer.

Do I need to engage former Northrop Grumman employees, who are now independents, through this program?

Yes. Former employees are no different from any other independent workers for the purposes of this program. In fact, former employees who are now working as independents are often one of the most decisive "red flags" for reclassification in the eyes of the IRS.

MBO PARTNERS AND ITS SERVICES

Why MBO Partners?

Since 1996, MBO Partners has delivered solutions that make it safer and easier for enterprise organizations and top independent professionals to work together. MBO strengthens relationships, minimizes risk, and maximizes value for businesses like Northrop Grumman. Our unmatched experience and industry leadership enable us to operate on the forefront of the independent economy and consistently advance the next way of working.

Can MBO help me find talent for my projects?

Yes, but we take a unique approach. MBO believes that **direct sourcing**—the ability for businesses to find independents without recruiting intermediaries—is the fastest and most cost-efficient way to engage top independent talent. We therefore provide our compliance, engagement, payment, and support services for workers whom Northrop Grumman identifies internally and refers to us.

To better enable direct sourcing, we give you access to the **MBO marketplace**: the fastest and easiest way to attract, source, and re-engage independent talent—without expensive staffing intermediaries. The MBO marketplace enables

Northrop Grumman managers to build a trusted community of independent professionals that you can use as your first-choice alternative when looking for top independent talent. If you haven't already, you can [get started here](#).

What services does MBO offer for engaging independent workers?

MBO features three engagement services which together ensure that all independents engage through a compliant program suited to their needs, expectations, and eligibility to operate as independent vendors.

- **Vendor Services.** A business-to-business engagement service for professionals who qualify to engage with Northrop Grumman as independent vendors. Workers interested in engaging through Vendor Services must undergo qualification evaluation during the Northrop Grumman / MBO onboarding process to ensure they meet [these criteria](#).
- **Business Services.** A unique engagement alternative for Sole Proprietors and other independent professionals who wish to work as compliant independent business owners (LLCs or corporations) but need assistance meeting and maintaining the appropriate credentials to do so. These workers enjoy the freedom and flexibility of operating an independent business at less cost and with less administration than doing it alone.
- **Payroll Services.** A conventional W-2 payroll solution for engaging workers who are ineligible for Vendor Services or Business Services due to their requirements, expectations, or status as an independent business.

The table that follows compares these three services side-by-side, or you can click here to see more [detailed descriptions](#).

	MORE LIKE A BUSINESS		MORE LIKE AN EMPLOYEE
	Vendor Services	Business Services	Payroll Services
Snapshot	Agent-of-record service for qualified vendors; MBO indemnifies Northrop Grumman for tax-related penalties of reclassified	Business set-up and management for professionals who need help meeting and maintaining vendor credentials	Traditional payroll; FLSA applies, including overtime and double-time as per state laws
Who is appropriate?	Professionals who operate as independent businesses and meet vendor requirements	Professionals who see themselves as independent businesses but do not currently qualify as vendors	Workers who do not see themselves or operate as true independent businesses
Vendor-qualified?	Yes	No	No (not evaluated)
Tax status	Independent vendor (1099)	1099 or W-2 of own corporation	W-2 of MBO Partners
Business insurances	Must carry insurances at Northrop Grumman-required levels	Covered under MBO's General Liability and Errors & Omissions*	Covered under MBO's General Liability and Errors & Omissions
Rate negotiation	Negotiate a bill rate that already factors in statutory taxes	Negotiate a bill rate that already factors in statutory taxes	Negotiate pay rate that does not factor in statutory taxes
When is the worker paid?	Upon receipt of Northrop Grumman's payment based on Net 50 terms	Upon receipt of Northrop Grumman's payment based on Net 50 terms	Two weeks after a given work week (or sooner if required by law)

* Independents may be required to purchase their own GL or E&O insurance to show an investment in their business for compliance purposes.

How does MBO decide which service is best for each worker?

All Northrop Grumman-referred independents complete a brief online survey that explores their independent experience, business structure and characteristics, expectations, and vendor qualification status. We also conduct a one-on-one consultation with the worker if necessary. We then have the information we need to select the engagement service that best fits the worker's unique situation.

Please note that we factor workers' wishes into our service determination, but we always ensure that they meet applicable eligibility requirements before onboarding them into the appropriate service. For example, independents wishing to engage through Vendor Services must meet [Northrop Grumman's qualification criteria](#) and pass a thorough compliance evaluation to qualify.

What is the value of Business Services?

Traditional providers offer a 1099 / agent-of-record service for qualified vendors and force everyone else into a conventional W-2 payrolling service. But this solution poorly serves to the large percentage of independent workers who resist W-2 payrolling yet do not qualify as vendors:

- If the provider engages them through an agent-of-record service, their client's risk and regulatory scrutiny increase dramatically.
- If the provider forces them into payrolling, it will likely lead to discontent, talent loss, and unnecessarily high costs.

Business Services is the only solution for independent business owners who do not meet eligibility requirements for engaging as independent vendors, yet are likely to reject the limitations of traditional payrolling. It lets Northrop Grumman better serve—and compliantly engage—the most common types of independent businesses, including corporations (C corps and S corps), LLCs, and Partnerships. Through Business Services, MBO even walks independents through the complexities of setting up their own compliant businesses

Business Services does more than reduce risk and create a better experience for your independents—it also helps control costs. With a mark-up that's up to 70% lower than traditional payroll providers, Business Services can help Northrop Grumman **cut overall engagement costs by up to 20%**.

How do I contact MBO Partners?

Northrop Grumman managers can contact Account Director Steve Berselli at 202-740-4745 or sberselli@mbopartners.com. Additionally, MBO's dedicated NGC Client Services Team can be reached at ng@mbopartners.com.

PROGRAM COSTS

Is there a cost for this program?

MBO applies a fee to the rate you negotiate with the worker. As indicated below, the fee varies based on the service through which each independent professional engages. You may wish to take this fee into consideration when negotiating rates with the independents you engage.

The program fee (which combines Magnit’s and MBO’s fees) varies depending on the engagement service through which the independent engages. However, Magnit and MBO collect the program fee from the independents’ billings as they work; as such, the program cost is borne by the independents. The various program fees are below:

	Vendor Services	Business Services	Payroll Services
Total Program Fee	4.17% of negotiated <u>bill</u> rate	6.67% of negotiated <u>bill</u> rate	20.02%* mark-up applied to <u>pay</u> rate
Magnit Component	1.67% of negotiated bill rate	1.67 of negotiated bill rate	1.67% of bill rate (after applying mark-up)
MBO Component	2.5% of remainder (after Magnit fee)	5.0% of remainder (after Magnit fee)	Remainder of the mark-up

* In Minnesota, a mark-up of 24.02% is applied to the worker’s pay rate.

Why are the Vendor Services and Business Services fees so much lower than Payroll Services?

Vendor Services and Business Services are intended for professional independents who understand the tax obligations of working independently and factor statutory costs into the rate they negotiate with you. MBO therefore uses an innovative and cost-saving pricing model for these services.

While most providers apply the same mark-up—which includes statutory taxes—even if these taxes are already factored into their negotiated rate, only MBO ensures that Northrop Grumman never double-pays these taxes. As introduced above, this results in **cost savings of up to 20%** compared to traditional payroll providers when workers engage through one of these services.

Payroll Services works differently. Most commonly, individuals in Payroll Services are hourly workers who do not factor in these taxes when setting their rate. As such, our Payroll Services mark-up includes appropriate statutory costs.

ENGAGEMENT PROCESS

Once I identify new independent workers, how do I refer them to MBO?

When you identify a new in-scope independent professional for an assignment, complete an Agreement in Beeline for system approval. MBO and Magnit then manage the contracting and enrollment processes and notify you when the independent is eligible to begin their assignment.

How long does it take to onboard workers after I refer them to MBO?

Average onboarding time varies by engagement service:

- For workers who engage through **Vendor Services**, typically four to six business days.

- For workers who engage through **Business Services**, typically five to eight business days.
- For workers who engage through **Payroll Services**, typically two to four business days.

These estimates do not factor in the time it takes for the worker to launch and complete the Northrop Grumman-required background check and drug screen. While screenings can take up to five days to complete, they can occur in parallel with other onboarding activities.

Of course, onboarding timing also strongly depends on the worker's responsiveness to MBO's onboarding instructions. MBO provides clear instructions and works closely with each worker to improve responsiveness and accelerate the process as much as possible.

As the independent's manager, you have a part to play as well. We recommend that you stress the importance of completing onboarding steps quickly when you're communicating with an independent worker you intend to engage.

This [Engagement Lifecycle Process Summary](#) includes a closer look at the Northrop Grumman / MBO onboarding process.

Are drug and background screenings required?

Yes. All new independents must undergo a background check and drug screen. MBO coordinates these screenings as part of our onboarding process. It is Northrop Grumman policy not to allow workers to begin work until the required screenings are complete.

How do independents enter their time and expenses?

MBO sends all independents complete time / milestone and expense submission instructions at the onset of their projects.

Northrop Grumman managers must approve these submissions before MBO initiates the payment process.

How do I approve time and expense entries?

You'll receive an email notification from Beeline each time a worker engaged on your projects submits time, milestones, deliverables, and/or expenses. Simply follow the instructions in the email to execute the approval.

Please be sure to approve all submissions by COB on Monday. Failure to meet this deadline may delay payments.

How long does it take for workers to receive their payments?

Payment timing varies by the worker's MBO engagement service.

- **Vendor Services** and **Business Services**

Magnit invoices Northrop Grumman for all workers' approved time and expense submissions every other Friday. Northrop Grumman pays Magnit based on Net 45 terms and Magnit then pays MBO based on Net 5 terms. Once MBO receives this payment, we pay workers in the next weekly payroll cycle. As such, independents in these services receive their payments eight weeks after each two-week work period. See the [Northrop Grumman Payment Calendar](#) for details.

- **Payroll Services**

MBO pays Payroll Services workers on Fridays, two weeks after a given work week (or sooner if required by state law).

Again, it is very important that you approve your independents' time and expense submissions before the COB on Monday deadline each week.

Can I engage independent workers outside the U.S through MBO?

Yes. MBO is headquartered in the U.S. and has offices in the UK and Ireland. Through these offices and an extensive international partnership network, we can compliantly engage talent in most countries.