

FLA Audit Profile

Factory Code	530015746G
Country	China
FLA Affiliate	Adidas
Monitor	Level Works Limited
Audit Date	July 29–30 2009
Products	Apparel
Processes	Cutting, Sewing, Pressing, Finishing, Packing
Number of Workers	960



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Wages, Benefits and Overtime Compensation: A. Holidays, Leave, Legal Benefits and Bonuses

WBOT.5 Employers shall provide all legally mandated holidays, leave, benefits and bonuses, such as official holidays, annual leave, sick leave, severance payments and 13th month payments, to all eligible workers within legally defined time periods. In addition, all leave and bonuses shall be calculated correctly. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation:

Not all workers in the factory were entitled to the 5 types of social insurance schemes. The details were as follows: all workers had participated in disability insurance caused by work-related injury or occupational disease; only 513 out of the 1030 workers had participated in injury insurance, retirement insurance and unemployment insurance. The factory bought commercial injury insurance for the remaining 50% of the employees. Furthermore, there was no worker who had participated in the child-bearing insurance scheme.

Supporting Evidence/Source: Documents review and management interviews. Notes: PRC Labor Law article 72, employing unit and workers must participate in social insurance and pay social insurance premiums in accordance with the law; and according to article 73, labors shall enjoy social insurance benefits under the following circumstances: a) retirement, b) illness or injury, c) disability caused by work-related injury or occupational disease, d) unemployment; and e) child-bearing. According to this national law, all five types of social insurance schemes mentioned above should be provided for all employees of a factory. However, migrant workers from other provinces could not participate in child-bearing insurance.

Plan Of Action:

1. Factory is required to contribute work related injury and maternity insurance scheme for all employees first and then increase other contributions to other insurance schemes (e.g. retirement insurance, unemployment insurance and medical insurance) in order to fully meet the legal requirement in a reasonable time frame.

2. Factory is required to submit a plan on how it will achieve compliance and communicate this scheme to workers.

Deadline Date:

06/30/2009

Supplier CAP:

A plan has been developed for progressive expansion of the social insurance coverage with pension insurance scheme up to 60% coverage by the end of 2008.

Supplier CAP Date:

03/31/2009

Action Taken:

May 8 2009, Based on document review and management interview, Factory has not achieved any improvement yet. Factory should implement their remediation plan in a reasonable time frame.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Wages, Benefits and Overtime Compensation: O. False Payroll Records

WBOT.19 Employers shall not use hidden or multiple payroll records in order to hide overtime, to falsely demonstrate hourly wages, or for any other fraudulent reason. Payroll records maintained shall be authentic and accurate. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation: The factory provided attendance records and payroll records that were undependable and unverifiable; therefore, the compliance status of 'minimum wage', 'overtime wage' and 'overtime hours' could not be verified.
Supporting evidence/source: a. As per QC in-line Inspection Records review, one worker had carried out inspection on 4th of April 2008 (public holiday); b. As per medicine releasing records in first aid kits from cutting section, one worker was injured and used medicine during work time on 9th of September, 2007 (Sunday); c. As per materials backing to warehouse records, two workers from material warehouse had worked on 24th of February 2008 (Sunday); d. As per workers daily piece rate records, some workers from sewing section had worked on 27th of July 2008 (Sunday); but these public holiday and Sunday working hours were not indicated on workers' time attendance records; moreover, there is no information showed on payroll records to demonstrate these working hours were paid by factory. Corresponding workers were interviewed to corroborate the issue.

Plan Of Action: Transparency is most important between our company and suppliers. Factory should ensure all documents factory provided are reliable and consistent. Factory is required to improve their management system especially in working hours & compensation aspect as following:
1. Factory should set up an OT application and related approval procedure;
2. Factory management should assign a responsible person to ensure all workers' hours of work are properly recorded & compensated, and fully reflected in payroll record
3. Factory should provide time records for workers to review and recognize before each payment.

Deadline Date: 06/30/2009

Supplier CAP: In order to avoid similar occurrence, we developed have related policy or procedure to settle such issues and control excessive working hours as following:
1. All department are required to submit their overtime application to top management level for approval
2. Overtime application might only be approved with sufficient reason within 20 hours per week time-frame limitation. Any overtime work exceeding legal time frame must be rejected.
3. One day off in seven days must be guaranteed
4. Any infringement of these above mentioned company policy will be severely dealt with.
5. All departments should strictly implement our production planning.

Supplier CAP Date: 03/31/2009

Action Taken: May 8 2009, Based on document review and workers interview, no inconsistency was found during on site visit or raised by workers during

workers interview. This issue will be further monitored in future visit.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Freedom of Association: B. Right to Freely Associate

FOA.2 Workers, without distinction whatsoever, shall have the right to establish and, subject only to the rules of the organization concerned, to join organizations of their own choosing without previous authorization. The right to freedom of association begins at the time that a worker seeks employment, and continues through the course of employment, including eventual termination of employment, and is applicable as well to unemployed and retired workers. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation:

The Chinese constitution guarantees Freedom of Association; however, the Trade Union Act prevents the establishment of trade unions independent of the sole official trade union, the All China Federation of Trade Unions (ACFTU). According to the ILO, many provisions of the Trade Union Act are contrary to the fundamental principles of freedom of association, including the non-recognition of the right to strike. As a consequence, all factories in China fall short of the ILO standards on the right to organize and bargain collectively. Recently, however, the government has introduced new regulations that could improve the functioning of the labor relations mechanisms. The Amended Trade Union Act of October 2001 does stipulate that union committees have to be democratically elected at members' assemblies and trade unions must be accountable to their members. The trade union has the responsibility to consult with management on key issues of importance to their members and to sign collective agreements. It also grants the trade union an enhanced role in dispute resolution. In December 2003, the Collective Contracts Decree introduced the obligation for representative trade unions and employers to negotiate collective agreements, in contrast to the previous system of non-negotiated administrative agreements.

Plan Of Action:

First, Factory should educate the workers on their right to Freedom of Association and Collective Bargaining, and then factory should enhance internal two ways communication system between management and employees (e.g. set up worker-management communication committee and hold regular meeting). The grievance system should be effective and addressed to all employees.

Deadline Date:

03/31/2009

Supplier CAP:

We have plans to hold more communication meetings between management and workers, and improve our grievance system and address it to all workers.

Supplier CAP Date:

03/31/2009

Action Taken:

May 8 2009. 1. Based on documents reviewed and worker interviews, factory only educated the workers on their right to Freedom of Association and Collective Bargaining during vocational training. Factory should educate workers their rights via a separate meeting.

Plan Complete:

Plan Complete Date:
Action Verified:
Action Verified Text:
Action Verified Date:
Comments:

Freedom of Association: E. Employer Interference/Constitution, Elections, Administration, Activities and Programs

FOA.5 Employers shall not interfere with the right of workers to draw up their constitutions and rules, to elect their representatives in full freedom, to organize their administration and activities and to formulate their programs. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation: Worker representative candidates should firstly be recommended by on-site team leader, and they were selected by the workers from those candidates. At the same time, the worker representatives must be approved by the factory management and then can be effective.
 Supporting Evidence/Source: Documents review, management interview and workers interview

Plan Of Action: Worker representative candidates should be fully elected by workers themselves instead of recommended by on-site team leader or factory management.

Deadline Date: 03/31/2009

Supplier CAP: We will encourage workers to elect their representatives by themselves as per auditor recommended in last FLA audit

Supplier CAP Date: 03/31/2009

Action Taken: May 8 2009, based on document review and workers interview, only 2 workers were elected by workers as their representatives. To date, no workers committee has been set up.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: H. Permits and Certificates

H&S.8 The employer shall at all times be in possession of all legally required and valid permits and certificates related to health and safety issues, such as those related to the purchase and storage of chemicals, fire safety inspections, inspection of machinery, and (chemical) waste disposal. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation: The factory did not have an effective inspection certificate of competency

on the cargo lift. Supporting Evidence/Source: Documents review and management interview.

Plan Of Action: Factory should improve their management system and assign personnel to review all required certificates to ensure they are valid and up to date.

Deadline Date: 03/31/2009

Supplier CAP:

Supplier CAP Date:

Action Taken: May 8 2009, Based on document review, the cargo lift inspection certificate has been updated.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: I. Evacuation Requirements and Procedure

H&S.9 All applicable legally required or recommended elements of safe evacuation (such as posting of evacuation plans, the installation and maintenance of an employee alarm and emergency lighting systems, ensuring aisles/exits are not blocked and that workers are not blocked within their workstations, employee education, evacuation procedures, etc.) shall be complied with. Workers shall be trained in evacuation procedures. Alarm systems shall be regularly tested and evacuation drills shall be undertaken at least annually. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation: One passage and one emergency exit were blocked by goods. Supporting evidence: Factory tour and workers interviews.

No emergency light was installed at one emergency exit on 1st floor of dormitory building B. Supporting Evidence/Source: Factory tour and management interview.

No exit sign was affixed on an emergency exit on 1st floor in dormitory building B. Supporting Evidence/Source: Factory tour and management interview.

Plan Of Action:

1. Factory should set up a safety system and assign personnel to inspect all fire prevention facilities (e.g. fire extinguishers, hydrants, exit signs, emergency lighting, evacuation route, exit doors, fire alarm etc) on a regular basic to ensure these facilities are functioning while in emergency.
2. A. Factory management must ensure that all evacuation routes, emergency exits, including stairs, are equipped with battery backed emergency lights. B. Proper signs should be installed in all emergency exits, and there should be arrows indicating all evacuation routes.

Deadline Date: 03/31/2009

Supplier CAP: All these findings have been settled or corrected. We plan to hold more training sessions to increase the awareness of our employees. We also plan to implement our procedure strictly in fire prevention aspect to avoid this kind of case happen again.

Supplier CAP Date:

Action Taken: May 8 2009. Based on initial visual inspection. Even though the aforementioned issues have been corrected, similar problems were still found in other places. Factory should complete their procedure and ensure HSE committee is functional.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: J. Safety Equipment and First Aid Training

H&S.10 All safety and medical equipment (such as fire fighting equipment, first aid kits, etc.) shall be available in sufficient numbers throughout the factory, maintained and stocked as prescribed and easily accessible to workers. A sufficient number of workers shall be trained in first aid and fire fighting techniques. (S)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA Independent External Monitoring	Level Works	1 (out of 5)

Explanation: Four fire extinguishers and two fire hydrants were blocked. Supporting evidence: Factory tour and workers interviews.

Plan Of Action: Factory should assign personnel to inspect all fire extinguishers and fire hydrants on a regular basis ensuring all fire prevention facilities are not blocked in any time.

Deadline Date: 03/31/2009

Supplier CAP: We have assigned personnel to inspect all our fire extinguishers and fire hydrants on a regular basis to avoid these facilities being blocked again.

Supplier CAP Date:

Action Taken: May 8 2009, Based on visual inspection, one extinguisher was still found placed on floor.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Health and Safety: N. Material Safety Data Sheets/Worker Access and Awareness

H&S.14 Material Safety Data Sheets (MSDS) for all chemicals used in the factory must be available at the usage and storage sites of the chemicals, in the local language and the language(s) spoken by workers, if different from the local language. Workers shall have free access to MSDS. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
07/29/2008	External	FLA	Level Works	1 (out of 5)

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Explanation: No MSDS for chemicals was posted.
Supporting evidence: Factory tour and management interviews.

Plan Of Action: Factory is required to provide all MSDS of current chemicals in use and post them in all necessary areas (e.g. in chemical warehouse)

Deadline Date: 03/31/2009

Supplier CAP: We have posted MSDSs of our current chemical stock in all necessary areas.

Supplier CAP Date:

Action Taken: May 8 2009, Based on visual inspection, MSDS have been posted in the chemical warehouse.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:

Hours of Work: F. Time Recording System

HOW.6 Time worked by all workers, regardless of compensation system, shall be fully documented by time cards or other accurate and reliable recording systems such as electronic swipe cards. Employers are prohibited from maintaining multiple time-keeping systems and/or false records for any fraudulent reason, such as to falsely demonstrate working hours. Time records maintained shall be authentic and accurate. (P)

Audit Date	Audit Type	Audit Scope	Auditor	Score
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Plan Of Action: Transparency is most important between our company and suppliers. Factory should ensure all documents factory provided are reliable and consistent. Factory is required to improve their OT procedure, and ensure that their management systems ensure that all workers are paid the legal

530015746G – China: Adidas

OT premium for all OT/holiday work. Factory management must ensure all work completed by workers is recorded by the time recording system, and it's illustrated in the factory's payroll record. Factory management should assign a responsible person to ensure all workers' hours of work are properly compensated, and are reflected in payroll.

Deadline Date: 06/30/2009

Supplier CAP: We have inspected and developed ours related policy/procedure to avoid above mentioned issues happen again.

Supplier CAP Date: 03/31/2009

Action Taken: May 8 2009, Based on document review and workers interviews, no inconsistency was found during on site visit or raised by workers during workers interview. This issue will be further monitored in future.

Plan Complete:

Plan Complete Date:

Action Verified:

Action Verified Text:

Action Verified Date:

Comments:
