



2011

FAIR LABOR ASSOCIATION INDEPENDENT EXTERNAL VERIFICATION REPORT*

COMPANY: Hanesbrands
COUNTRY: Indonesia
FACTORY CODE: 720033877GV
MONITOR: Andrew Teh
AUDIT DATE: October 20, 2011
PRODUCTS: Knit Tops and Bottoms,
Ladies, Men's, Kids Apparel
PROCESSES: Cutting, Sewing, Finishing,
Packing
NUMBER OF WORKERS: 1,978

Company Comment: Hanesbrands Inc. sourced garments from [Factory name] via a Korean agent. The agent advised us that the factory was deactivated November 31, 2011. However, the FLA IEV was conducted on October 20th and 21st, 2011; the Company received the formal report from FLA on December 14, 2011. Due to the cessation of business with the factory, no follow-up audit was performed. We had a call with the agent's compliance manager and advised her to closely follow up on the issues identified by FLA. The Company will maintain the records, and if it is decided to re-start business with this facility, a follow-up audit will be done.

*To read the original IEM report of this factory, please visit the FLA website [here](#).
For an explanation on how to read this report, please visit the FLA website [here](#).



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Wages, Benefits and Overtime Compensation: 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)

Noncompliance

Explanation: 1) There were improper legally mandated benefits provided to workers as follows:

- The factory provided a meal overtime allowance (Rp. 3,500 per day for operators and Rp. 5,000 per day for staff), instead of a nutritious meal as required by law/regulation.
- There was a lack of entitled causal leave included in the granted company regulation and a lack of entitled leave in the notification posted. It does not count as causal leave if a member of the worker/labourer's household dies. In this case the worker shall be entitled to receive 1 (one) day of paid leave.

Legal References: Labor Minister Decree No. KEP.102/MEN/VI/2004 regarding overtime hour and overtime pay, article: 7.1, states that when the company assigns workers/ labors overtime work, it is obligated to (a) pay overtime pay; (b) provide a chance to have enough rest; (c) provide meals and drinks totaling 1,400 calories if the overtime work lasts for 3 (three) hours or more. Article 7.2 states that the meals and drinks cannot be replaced by money. Labor Act UU No.13/2003 regarding working hours, subsection 4, Article 93(4) states wages which are paid towards the employee/laborer shall not be included in the job in the same manner as mentioned in paragraph (2c): If the employee/laborer gets married, he/she shall get 3 paid days off; If his/her child gets married, the worker shall get 2 paid days off; If he gets his child circumcised, he shall get 2 paid days off; if his child is baptized, he gets 2 paid days off; if his wife gives birth or has a miscarriage, he gets 2 paid days off; if a worker's husband/wife, parent/parent in law, or child or daughter in law passes away, he shall get 2 paid days off; and if a family member in his house passes away, he gets 1 paid day off. Article 82 states that (1) Female workers/ labourers are entitled to a 1.5 (one-and-a-half) month period of rest before an obstetrician or a midwife has determined they are due to give birth and another 1.5 (one-and-a-half) month period of rest after they give birth. (2) A female worker/ labourer who has a miscarriage is entitled to a 1.5 (one-and-a-half) month period of rest. Article 84 states that workers who use their leave rights as mentioned in article 82 are obliged to receive their full wage.

2) There was a delay in payment of the national social security scheme (JAMSOSTEK). The last payment made was for July 2008 that was conducted in September 2008. According to the management information, this happened since there was a delay in payment from their customers, hence they have delayed the payment of JAMSOSTEK. Due to this reason, it could not be fully verified whether or not the currently employed workers (1,730 workers in the main factory and 690 workers in factory 2) are already enrolled in JAMSOSTEK and their own managed healthcare security program. In practice, the factory has 1 under payment record for all workers (main factory and factory 2) for each JAMSOSTEK account and for their own managed healthcare security.

Legal References: Act No.3/1992 regarding the social security scheme (JAMSOSTEK), article 3 (2) states that every worker has the right to participate in the social security scheme (JAMSOSTEK). Article 6 states that the social security scheme consists of working accident security, death security, a pension fund and healthcare security. Article 16(1): workers, their husband or wife, and children have the right to healthcare security. Government Regulation (PP) No.14/1993 regarding implementation of the social security scheme (JAMSOSTEK), article 2.1 states that the employer is obligated to register their employees with the Social Security Fund Scheme (JAMSOSTEK), which consists of working accident security, death security, a pension fund and healthcare security. Article: 2(3); an employer who employs a minimum of 10 workers or pays a minimum wage of Rp 1,000,000 a month must have their employees participate in the social security scheme. Article 10 states that payments to Jamsostek should not be later than the 15th of the next month.

3) Based on the last social security scheme (JAMSOSTEK) payment receipt for July 2008, all workers have been covered using the JAMSOSTEK packet, which includes working accident security, death security, and a pension fund. The factory provides its own managed healthcare security for workers in cooperation with 1 local hospital [Name of hospital has been removed]. However, based on the agreement made with the hospital, the healthcare security benefits provided to the workers were still not fully in accordance with the Jamsostek benefits. Currently the factory only provides benefits based on what services are used by the workers. Furthermore, although the MOU (memorandum of understanding) between the hospital and the factory states the covered services for the workers and their families, there was never any official notification given to the workers on how to use the service for their families, which family members are entitled to use the services, etc. Currently there is simply a posted procedure on how workers can use the healthcare security. The procedure only indicates how to use the service during work hours. It does not provide information on how to use the service outside work hours. Also there is no indication that there have been other efforts or encouragement from the management to ensure all workers are well informed of the kinds of services provided by the managed healthcare security. There has apparently not been enough effort from the management to make workers feel that they and their family members can use the benefits. Additionally, the recommendation letter from the managed healthcare security has been expired since August 1, 2007.

Legal References: (Act No.3/1992 regarding social security scheme (JAMSOSTEK), article 3 (2) states that every worker has the right to participate in the social security scheme (JAMSOSTEK). Article 6 states that the social security scheme consists of working accident security, death security, a pension fund and healthcare security. Article 16(1): workers, their husbands and wives, and children have the right to get healthcare security.

Government Regulation (PP) No.14/1993 regarding implementation of the social security scheme (JAMSOSTEK), article 2.1 states that the employer is obligated to register their employees with the Social Security Fund Scheme (JAMSOSTEK), which consists of working accident security, death security, a pension fund and healthcare security. Article: 2(3); an employer who employs a minimum of 10 workers or pays wages at a minimum of Rp. 1,000,000 a month must have their employees participate in the social security scheme.

Labor Ministry Regulation No. PER 01/MEN/1998 article 1-2 states that the company may establish its own healthcare security as long as the service standard is better than what Jamsostek gives. Article 15 states that if the company establishes its own healthcare security with better service standards than what JAMSOSTEK gives, the employer shall ask the chief of the local labor department for legalization.

4) Based on the payroll records for the all-in payment worker review, it was noted that the pension fund contribution for the JAMSOSTEK scheme was based on basic wages instead of the monthly wage.

Legal Reference: Government Regulation (PP) No.14/1993 regarding implementation of social security scheme (JAMSOSTEK), article: 9.3 states Contribution for Pension Fund is 5.7% of monthly wage for each worker, paid by employer (3.7%) and by employee (2%).

Plan Of Action: Hbl asks the supplier to correct 3 issues: provide an overtime meal to workers instead of money; pay for the social security fund in a timely manner per the legal requirement; document the causal leave policy in the factory regulations and communicate it to employees.

Deadline Date: 01/31/2009

Supplier CAP: Immediate action:

1) Factory will provide a meal and drink totaling 1400 calories when the workers work more than 3 hours by September 1, 2009.

2) Factory will make JAMSOSTEK payments by September 1, 2009.

3) The causal leave policy should be included in the factory regulations by the end of January.

Supplier CAP 01/31/2009

Date:

Action 1st follow-up audit on January 29th 2009:

Taken:

1) Completed: The factory has an approval letter from the local labor department (dated April 16, 2008) that allows the factory to provide a meal overtime allowance instead of nutritious meals because the workers requested this. They prefer to have money to buy their own food instead of receiving food from the factory.

2) Incomplete: The factory still did not include a causal leave (If a member of the worker/laborer's household dies) in the factory regulation.

3) Completed: There was on-time payment to the social security scheme (JAMSOSTEK).

Plan Yes

Complete:

Plan 01/12/2009

Complete

Date:

Action No

Verified:

Action IEV (October 20th and 21st 2011):

Verified

Text:

Ongoing: According to document review, the company rules and regulations and the payroll records all showed that the overtime meal allowance is IDR (Indonesian Rupiah- the currency in Indonesia) 4,000 per day for workers and IDR 5,000 per day for staff. According to management and worker interviews, workers prefer to receive the meal allowance in cash as most of them are staying near the factory and they can go home and have dinner. According to the factory management, they have obtained the approval from the labor department but they were unable to present the official approval letter to the monitor for verification.

Completed: It was also noted that the 1-day causal leave entitlement has been stated in the company rules and regulations. According to worker interviews, workers were aware that they are entitled to the causal leave.



Completed: According to the Jamsostek payment record review for the period of January 2011 to September 2011, all payments have been made on time within 15 days of the dateline. According to document review, it was noted that all workers were enrolled in Jamsostek schemes, except its healthcare security program, since the factory implemented its own healthcare security program, which it already had. The factory is maintaining the same agreement with the local hospital [Name of hospital has been removed], which is about 2.5 km away from the factory. In addition, the factory has an in-house clinic with 2 nurses. The nurses work the same hours as the workers, including overtime hours.

Pending: According to the management and worker interviews, the factory's own healthcare security still does not cover the workers' immediate family members (spouse and up to a maximum of 3 children).

Pending: According to factory management and document review, the pension fund contribution to the JAMSOSTEK scheme was still based on basic wages instead of the monthly wage.

Action 10/21/2011
Verified
Date:

Wages, Benefits and Overtime Compensation: General Compliance Wages, Benefits and Overtime Compensation

WBOT.1 Employers shall comply with all local laws, regulations and procedures concerning the payment of wages and benefits, including overtime compensation. In any case where laws and the FLA Code are contradictory, the standard that provides the greatest protection for workers shall apply. Where provisions are lacking, employers shall take measures to reasonably accommodate matters concerning the payments of wages and benefits, including overtime compensation. (S)

Noncompliance

Explanation: 1) There was an improper 'All-In' payment system practice that potentially led to the improper overtime payment issue. Moreover, there was an unclear system for determining which workers received the 'All In' vs. the 'Non-All In' payment system, since there was no available supporting documentation to review. In practice, the factory applied the 'All-In' payment system to all office staff, all mechanic workers, supervisors, the chief, some production operators in QC and the production administrator, etc. For these kinds of workers, there was no overtime compensation regardless of how many hours of overtime work is done, since overtime hours are already included in the provided salary package. As per regulation, not all workers can be categorized as those who hold a structural position in the company organization, who have an obligation, responsibility and authority toward company policy, get higher wages and receive better benefits compared to ordinary workers. Based on randomly selected samples reviewed, these workers received a total salary ranging from Rp. 900,000 to Rp. 6,000,000 per month with basic wages ranging from Rp. 600,000 per month to Rp. 3,600,000 per month, plus a fixed allowance: a position allowance (if any), overtime compensation allowances and an unfixed allowance: overtime meal allowance (if any). The wage and all the allowances provided will be deducted if the worker cannot come to work. Actually, for some workers, if the overtime work is properly compensated, the total salary earned could possibly be more than the 'All In' salary.

Legal References: Labor Act UU No. 13/2003, regarding working hour, chapter XI paragraph 4 article 77.2 states that the working hours as mentioned under subsection (1) cover: a. 7 (seven) hours a day and 40 (forty) hours a week for 6 (six) workdays in a week; or b. 8 (eight) hours a day, 40 (forty) hours a week for 5 (five) workdays in a week.

Article 78 states that entrepreneurs who require their workers/laborers to work overtime are obligated to pay overtime wages. Circular letter SE-2/M/BW/1987 defines staff that does not receive overtime wages: 1) Staff workers are salaried and don't get overtime. Staff includes employees in the company organizational structure. Staff includes positions that have an obligation, responsibility, and authority to contribute, and to think and to execute company policy in order to develop the company. 2) Overtime wages are wages paid by the employer to the employee as a reward for doing work on the employer's request that exceeds work hours and work days (7 hours a day and 40 hours a week) and on Sunday rest days, or on official national holidays. 3) For staff workers mentioned in point 1, it is considered normal to not get overtime wages, although they work more than the normal requirement. 4) The criteria to be considered a staff worker includes: a. Those who hold a structural position in the company. b. Those who have an obligation, responsibility, and authority towards company policy. c. Those who get higher wages than other employees. d. Those who have better facilities compared to other employees.

2) Based on the provided record review, there was an improper salary structure applied for those All-In payment workers. According to the agreed salary package, 60%-66% of the compensation will be based on basic wages and 40% will be based on a fixed allowance.

Legal Reference: Labor Act No. 13/2003 article 94 states that if a wage is composed of basic wages and a fixed allowance, the amount of the basic wage must not be less than 75% (seventy five percent) of the total amount of the basic wages and fixed allowances.

3) Although the service year allowance is already provided to the workers by law, it does not stipulate the exact amount. It was noted that the practice of only providing service year allowances for workers who have been employed for more than 1 year is not based on the written agreement between workers/union/worker's representative and the employer. This practice is solely due to the employer's decision. Currently, the workers who have worked for 1 year receive a service year allowance for as much as Rp. 100 per month and those that have worked 2 years receive a service year allowance for as much as Rp. 200 per month, and an additional Rp. 100 per month for every additional year. In fact, the current amount is not appropriate and is not enough to even buy a cup of drinking water or a candy. Furthermore, there was no evidence that the factory uses a salary grid to account for workers' occupations/qualifications/experience.

Legal References: Labor Minister Regulation PER-01/MEN/1999, regarding the legal minimum wage, article 13 (2) states that the minimum wage shall be given to workers with less than 1 service year. Article: 14 (3) states that the wage that shall be received by workers who work more than one year shall be based on the written agreement between the employee/union and the employer. Labor Act (UU) No. 13/2003, article: 92, states (1) Entrepreneurs shall formulate the structure and scales of wages by taking into account the level, position, years of work, education and competence of the worker/labourer. (2) Entrepreneurs shall review their workers'/labourers' wages periodically by taking into account their enterprise's financial ability and productivity. Labor Minister Decree No. KEP-49/MEN/IV/2004 regarding the determination and structure and scale of the wages, article 2 states that entrepreneurs shall formulate the structure and scale of wages in the company. Article: 3 states, in formulating the structure and scale of wages as mentioned under subsection (2), it should be based on job analysis, job description and job evaluation.

Plan Of Action: Hbl will assist the factory so it easily understands the requirements of "All In" and "Non-All In" employees, and then Hbl will ensure the factory represents the employee categories clearly in the payroll. Their respective wages should meet the legal requirement.

Deadline Date: 03/31/2009

Supplier CAP: Factory did not have any intention to pay less compensation due to the unclear salary system. Factory needs additional time to study the difference between the "All in" and "Non-All In" employees because the law is confusing. They will consult the Labor Department for further advisory if necessary.

Supplier CAP Date: 01/31/2009

Action Taken: 1st follow-up audit on January 29 2009: The factory is still unclear on how to determine which employees receive the "All In" payment and the "Non-All In" payment. It was suggested to them to follow up with the Labor Department.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified: IEV (October 20 and 21st 2011): Pending:

Text: 1) According to the factory management and document review, the factory still pays the All-In salary to all the office staff, all the mechanic workers, supervisors, production chiefs, in-house QCs and the production administrators.

2) According to management and document review, the factory is still paying the All-In salary workers a composition of 60% basic wage and 40% allowance.

3) It was noted that the factory is paying a service year allowance of IDR 500/month to those workers who have been working for more than 1 year. However, there was no service year allowance agreement between the factory and the union/workers.

Action Verified Date: 10/21/2011

Wages, Benefits and Overtime Compensation: Accurate Calculation and Recording of Wage Compensation

WBOT.17 All payments to workers, including hourly wages, piecework, benefits, bonuses, and other incentives shall be calculated and recorded accurately. (S)

Noncompliance

Explanation: Although the factory issued pay slips to workers, in practice, the factory did not keep a copy of the pay slip provided to the workers. The factory just required the workers to sign the general payroll sheet, which had the signatures of all the workers. During the audit this payroll sheet was provided by the management for verification. Based on the blank sample pay slip provided, the slip apparently provides detailed information on all kinds of payments including deductions. The pay slip consists of the following information: total working days, position allowance, overtime premium rate, calculation and payment, overtime meal allowance, paid leave, attendance allowance, incentives, rounding payment made, tax deduction, JAMSOSTEK deduction

Plan Of Action: Hbl (Hanesbrands) will ensure that the supplier keeps the payroll slips for at least 1 year.

Deadline Date: 01/31/2009



Supplier CAP: Due to environmental concerns, the factory didn't want to keep too much paper; therefore, they asked employees to sign a summary sheet. The FLA auditor reported that we truly have to issue payroll slips to employees. The factory needs to change this practice if FLA insists that we need to keep a copy of the pay slips and insists that the summary sheet is insufficient.

Supplier CAP Date: 11/30/2008

Action Taken: 1st follow up audit on January 29, 2009: The factory has been keeping copies of the payroll slips for each worker since November 2008.

Plan Complete: No

Plan Complete Date: 11/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to document review and management interviews, the factory has kept the copies of the workers' signed pay slips since November 2008.

Action Verified Date: 10/21/2011

Wages, Benefits and Overtime Compensation: 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)

Noncompliance

Explanation: Due to inconsistencies in the records and information noted during the audit, auditors were unable to verify the actual work hours and payments for the following reasons: The daily overtime sheet and summary work hour sheet indicated that the following Sunday work, public holiday work, as well as work lasting until morning was not recorded in the attendance records provided:



a) Sunday work: March 30, 2008 (cutting workers and sewing workers), April 20, 2008 (QC workers, finishing workers, cleaning service) June 22, 2008 (sewing workers), and July 13, 2008 (sample workers).

b) Public holiday: May 1, 2008 (sewing workers)

c) May 7, 2008: at least 4 packing workers worked till 5:30 AM; May 6, 2008: at least 1 finishing worker worked till 23:00 and 6 packing workers worked till 5:30 AM; May 5, 2008: at least 5 packing workers worked till 5:30 AM. The meeting records between the management and worker's representative dated July 7, 2008 indicated that there is concern from the workers to the management concerning overtime payments for working till the work is finished or even working till morning (this is called 'SS' which means working till the work is finished).

The management provided feedback and states that the SS overtime will be paid double. During work hours and the wage verification process, it was found that their computerized attendance record system program shows the weekly working hours are not any more than 60 hours per week. Almost all clients expect working hours to be limited to 60 hours a week. Hence, almost all the maximum hours recorded on the attendance records were 21:00 (most) or 22:00 (few) per day and 60 hours per week. Except for the months where a rest day is swapped with an electrical blackout day as allowed by law, the attendance records revealed that the weekly working hours were more than 60 hours a week and that there was rest day work. In practice the public holiday work and Sunday work, with the exception of the legal swap day, are not shown on the attendance records. Furthermore, if the total working hours exceed 60 hours a week, the record automatically records 60 hours a week and the hours are distributed to other weeks. The factory claims that the distribution of hours is only done within a 1-month payment period and there is no separate overtime practice.

Plan Of Action: Hbl ensures that the supplier will provide genuine and complete time records for review. Also, the OT premium should be sufficiently paid to all employees. Hbl plans to shift some orders to other factories in January and then their production capacity will be less booked. The OT hours will be decreased substantially.

Deadline Date: 06/30/2009

Supplier CAP: Immediately action: the factory always maintains authentic and accurate payroll records for review, therefore, the excessive OT hours were noted in those records. Also, we will ensure a sufficient OT premium will be paid for all hours. The records are available for review for every audit.

Long-term plan: the factory will control the working hours so they do not exceed 60 hours because the economic downturn and the orders have dropped significantly.

Supplier CAP 06/30/2009

Date:

Action 1st follow-up audit on January 29 2009:

Taken:

- Based on management discussion: the factory management confirmed that all the provided records were authentic and accurate.
- Based on worker interviews and document review (daily overtime sheet, summary working hour sheet and payroll records), it was found that:
- Max OT: 4.5 to 5 hours per day and 25.5 hours per week in November and December
- Sunday: 1-2 times per month during November and December 2008 (November 14th and 21st 2008 and December 30th 2008) They received a sufficient OT premium for those extra hours.

Plan No

Complete:

**Plan
Complete**

Date:

Action No

Verified:

Action IEV (October 20th and 21st 2011): Completed: According to document review and
Verified worker interviews, both the attendance and payroll records from May 2011 to
Text: September 2011 were consistent.

Action 10/21/2011

Verified

Date:

Forced Labor: Employment Terms/Voluntary Agreement

F.3 Employment terms shall be those to which the worker has voluntarily agreed, in as far as those terms do not fall below provisions of local laws, freely negotiated and valid collective bargaining agreements, or the FLA Code. (P)

Noncompliance

Explanation: Factory employed all workers through direct employment. However, 1,206 out of 1,730 workers during a specific period of time were contract workers that were positioned in almost all the production areas and were doing jobs that were permanent in nature. According to the regulations for such conditions, the employment status should be changed to permanent status. Additionally, the contract period ranged from 3 to 12 months. Moreover, some workers' contract agreements have been prolonged more than once.

Legal References: Labor Act No. 13/2003, article 58.1 states that a work agreement for a specified time cannot stipulate probation. Article 59.1 states that work agreements can only be made for certain jobs, including:

- a) Work to be performed and completed at once or work which is temporary in nature;
- b) Work whose estimated completion time is not too long and is no longer than 3 (three) years;
- c) Seasonal work; or
- d) Work that is related to a new product, a new activity or an additional product that is still in the experimental stage or try-out phase.

Article 59.2 states that a work agreement for a specified time can't be made for jobs that are permanent in nature. Article 59.7 states that any work agreement for a specified time that does not fulfill the requirements mentioned under subsection (1), subsection (2), subsection (4), subsection (5) and subsection (6) shall, by law, become a work agreement for an unspecified time. Decree of The Minister of Manpower and Transmigration of The Republic Of Indonesia Number: KEP. 100/MEN/VI/2004 regarding Stipulation on Implementation of Work Agreement for Specified Period of Time, Chapter III, PKWT for Seasonal Work Article 4 (1) Seasonal work is work whose execution depends on the season or weather conditions. (2) PKWT for the work as meant in paragraph (1) can only be made for 1 type of work in a certain season. Article 5 (1) The work that has to be done to fulfill orders or certain targets can be executed with PKWT as seasonal works. (2) PKWT for the work as meant in paragraph (1) is only valid for the worker/ laborer who does additional work. Article 6, Entrepreneurs that employ workers/ laborers based on PKWT as meant in article 5 shall create a name list of workers/ laborers who perform additional work. Article 7, PKWT as meant in Article 4 and Article 5 cannot be renewed. Article 15.2 states that In the case PKWT does not fulfill the stipulation as meant in Article 4 paragraph (2), or Article 5 paragraph (2), consequently PKWT is changed into PKWTT from the time the working relation existed.)

Plan Of Action:	Hbl understands this is the common practice in the garment industry. Due to the added financial burden to the factory, we encourage the supplier to increase the number of permanent employees gradually.
Deadline Date:	
Supplier CAP:	It is the norm in the garment industry to hire seasonal workers since it is a high financial burden to hire permanent workers. Long-term plan: The factory has plans to promote 10 seasonal employees to permanent employees per month in 2009.
Supplier CAP Date:	
Action Taken:	<p>1st follow-up audit on January 29, 2009:</p> <ul style="list-style-type: none"> • Based on the last update in January 2009, it was found that 1500 out of 1771 workers in the factory were under a specified period of time contract. • Factory management noted that they planned to increase permanent workers (by 10 workers per month) in 2009. However, no written plan was available.
Plan Complete:	No



**Plan
Complete
Date:**

**Action
Verified:** No

**Action
Verified
Text:** IEV (October 20th and 21st 2011): Completed: According to management interviews and document review, there was a total of 150 permanent workers and 1,828 contract workers at the time of the audit. It was noted that 12 workers were under a 3 month contract, 80 workers were under 3-6 month contract, 327 workers were under 6-12 month contract, 485 workers under 1st -2nd year contract, 187 workers under 2nd -3rd year contract, 230 workers under 3rd - 4th year contract, 398 workers under 4th – 5th year contract.

**Action
Verified
Date:** 10/21/2011

Freedom of Association: General Compliance Freedom of Association

FOA.1 Employers shall comply with all local laws, regulations and procedures concerning freedom of association and collective bargaining. (S)

Noncompliance

Explanation: Previous findings (October 23rd and 24th 2008): There was no evidence to prove that the workers' representatives in the bipartite cooperation institution were democratically elected by the workers/ laborers to represent their interests in the factory. It was noted that the workers listed as the workers' representatives in the institution were not elected directly by the workers.

**Plan Of
Action:**

**Deadline
Date:**

**Action
Taken:**



Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to management and worker interviews, the workers started the election by electing 3 worker representatives (Bipartite Members) from each department during the period from November 2009 to June 2010. Then, all the worker representatives (Bipartite Members) elected the Bipartite Chairman on June 6, 2010. The total number of worker representatives (Bipartite Members) is 33 who are now serving a period of 2 years (December 9 2009 until December 2011). According to worker interviews, workers were free to elect their own preferred worker representatives (Bipartite Members). According to the interviews with Bipartite Members, they were free to elect their own Chairman without any influence from the factory management.

Action Verified Date: 10/21/2011

Freedom of Association: Grievance Procedure

FOA.26 Employer shall have in place written grievance procedures that allow first an attempt to settle grievances directly between the worker and the immediate supervisor but that, where this is inappropriate or has failed, it is possible for the worker to have the grievance considered at one or more steps, depending on the nature of the grievance and the structure and size of the enterprise. Employers shall ensure that the grievance procedures and applicable rules are known to workers. (P)

Noncompliance

Explanation: Previous findings (October 23rd and 24th 2008): Factory established a simple grievance system in order for workers to voice their grievances. However, there was no evidence to prove that the workers and the management have efficiently and actively utilized the existing grievance system. Also there were no efforts undertaken by the factory to educate workers on the grievance system on a regular basis.

**Plan Of
Action:**

**Deadline
Date:**

**Action
Taken:**

**Plan No
Complete:**

**Plan
Complete
Date:**

**Action No
Verified:**

**Action IEV (October 20th and 21st 2011): Completed: According to the management and
Verified worker interviews, the most effective grievance system for normal grievances is direct
Text: communication from the workers to the worker representative (Bipartite Member) and
 then the issues were to be discussed within the Bipartite/Union. According to document
 review, the Bipartite/Union have their meetings once every 1-2 months with issues
 documented in the meeting minutes. For urgent issues, the Worker Representative
 (Bipartite Member) will urgently hold the meetings with the factory management.**

**Action 10/21/2011
Verified
Date:**

Freedom of Association: Other - Freedom of Association and Collective Bargaining

Other

Noncompliance

Explanation: Previous findings (October 23rd and 24th 2008): There was no written policy established by the management to recognize and respect freedom of association and collective bargaining. Also, there was no written policy or procedure supporting independent worker representation. Factory only had a notification for workers regarding how to voice grievances.

**Plan Of
Action:**

**Deadline
Date:**

**Action
Taken:**

**Plan
Complete:** No

**Plan
Complete
Date:**

**Action
Verified:** No

**Action
Verified
Text:** IEV (October 20th and 21st 2011): Ongoing: The factory established the freedom of association policy in their factory code of conduct. The factory has a union that was established by workers called [Name of union has been removed] that was established on December 8, 2010. However, there was no Collective Bargaining Agreement between the factory and the union. According to the management interview, they were unaware of the definition and requirements of Collective Bargaining Agreement.

Legal Reference: Indonesia Labor Law Act no. UU 13 Year 2003 Chapter XI Section 7 Article 116 (1) A collective labour agreement shall be made between a trade/labour union or several trade unions already recorded at a government agency responsible for manpower affairs and an entrepreneur or several entrepreneurs respectively.

Action Verified Date: 10/21/2011

Harassment or Abuse: Discipline/Review of Disciplinary Action

H&A.3 The disciplinary system shall include possibilities for workers to have disciplinary action imposed on them reviewed by someone at a higher managerial position than the manager who imposed the disciplinary action. In addition, such a system shall include the ability of a worker to appeal and/or question any disciplinary action against him or her and/or have a third party of his or her choice present when the disciplinary action is being imposed. (P)

Noncompliance

Explanation: There was no evidence that proves that the current disciplinary system provides workers with an opportunity to reply to, challenge or make appeals against a termination. Furthermore, there was no evidence that proves that the factory provides a relevant education and training to their workers.

Plan Of Action: Hbl requires that the supplier set up a complete disciplinary system. Also, this system should be properly communicated to employees.

Deadline Date: 01/31/2009

Supplier CAP: The factory will maintain a disciplinary system that provides workers with an opportunity to reply to, challenge or make appeals against termination. Also, we will plan a training for all employees in December.

Supplier CAP Date: 12/31/2008

Action Taken: 1st follow-up audit on January 29, 2009:

- The factory had set up a factory Code of Conduct including a disciplinary system (opportunity to reply to, challenge or make appeals against the termination).
- Code of Conduct training had been provided to all workers on December 15, 2008 which included a section on the disciplinary system
- Code of Conduct has been posted in the working area



Plan Complete: Yes

Plan Complete Date: 12/31/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Pending: There was no evidence to prove that the current disciplinary system provides workers with an opportunity to reply to, challenge or make appeals against a termination. Furthermore, there was no evidence to prove that the factory provides a relevant education and training to their workers.

Action Verified Date: 10/21/2011

Harassment or Abuse: Discipline/Worker Awareness and Participation of Workers

H&A.6 Workers must be informed when a disciplinary procedure has been initiated against them. Workers have the right to participate and be heard in any disciplinary procedure against them. Employers shall maintain written records of all disciplinary actions taken. Workers must sign all written records of disciplinary action against them. Such records must be maintained in the worker's personnel file. (P)

Noncompliance

Explanation: It was found that there was no proper record keeping system for the warning letters issued to the workers. The warning letters were maintained separately from the individual personnel files. Furthermore, there was no evidence to prove that the factory provides a copy of the issued warning letter to their workers.

Plan Of Action: Hbl will ensure the supplier will put the warning letters in the workers' personal files.

Deadline Date: 01/30/2009

Supplier CAP: Factory will keep the warning letters with each worker's personnel files.

Supplier CAP 12/30/2008

Date:

Action Taken: 1st follow-up audit on January 29, 2009: Based on worker personnel file reviews, it was found that the factory started keeping warning letters in the worker's personnel file starting in December 2008.

Plan Complete: Yes

Plan Complete Date: 12/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to document review, the factory has kept the warning letters inside the personnel files. According to the management, the factory has given a copy of the warning letter to the workers. According to worker interviews, the workers have acknowledged that they received the warning letters.

Action Verified Date: 10/21/2011

Harassment or Abuse: Discipline/Training of Management

H&A.7 Employers shall ensure managers and supervisors are fully familiar with the factory disciplinary system and trained in applying appropriate disciplinary practices. (P)

Noncompliance

Explanation: There was never any training for supervisors and managers on applying appropriate disciplinary practices. Factory has only conducted the harassment and abuse training for workers on a supervisory level, and that was held on October 14, 2008.

Plan Of Action: Hbl requires the factory to conduct the training on the disciplinary system for supervisors and managers per their schedule.

Deadline Date: 06/30/2009



Supplier CAP: Factory will conduct a harassment and abuse training for supervisors and managers in mid-2009 because a similar topic had been done in October 2008.

Supplier CAP Date: 06/30/2009

Action Taken: 1st follow-up audit on 29 January 29, 2009: There was no objective evidence to prove that the harassment and abuse training has been conducted on the supervisor and manager levels.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Pending: According to document review and management interviews, it was noted that no training was ever conducted for supervisors and managers on applying the appropriate disciplinary practices.

Action Verified Date: 10/21/2011

Harassment or Abuse: Other - Harassment or Abuse

Other

Noncompliance

Explanation: The factory has not maintained a harassment and abuse policy onsite.

Plan Of Action: Hbl ensures the supplier will write a policy and communicate it to employees properly.

Deadline Date: 01/31/2009



Supplier CAP: Factory will post an anti-harassment and abuse policy onsite on November 27th, 2008.

Supplier CAP Date: 11/27/2008

Action Taken: 1st follow-up audit on January 29th, 2009 was conducted by [Name of auditor has been removed]. The factory set up a factory Code of Conduct, including a harassment and abuse policy, and posted it in the working area.

Plan Complete: Yes

Plan Complete Date: 11/27/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: The factory has established a harassment and abuse policy in their factory COC, which is posted in the reception area.

Action Verified Date: 10/21/2011

Child Labor: Other - Child Labor

Other

Noncompliance

Explanation: Although there was no child labor found, the factory did not maintain a child labor policy and age verification procedure system on-site.

Plan Of Action: Hbl ensures the supplier will write this policy and communicate it to employees properly.

Deadline Date: 01/31/2009



Supplier CAP: Factory will post a child labor policy and age verification procedure system on-site on November 27th, 2008.

Supplier CAP Date: 11/27/2008

Action Taken: 1st follow-up audit on January 29th, 2009: The factory set up the factory Code of Conduct including a child labor policy and age verification procedure system and posted it in the working area.

Plan Complete: Yes

Plan Complete Date: 11/27/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: The factory has established a child labor policy in the factory COC. It is posted in the reception area.

Action Verified Date: 10/21/2011

Non-Discrimination: General Compliance Non-Discrimination

D.1 Employers shall comply with all local laws, regulations and procedures concerning non-discrimination. (S)

Noncompliance

Explanation: Workers who applied for maternity leave were required to submit a copy of the family card [Name of family card] and a copy of the marriage letter, which is only available for workers who are legitimately married, even though such a requirement is not stipulated by the law.



Legal References: Labor Act UU No.13/2003, article 82.1 states (1) Female workers/ labourers are entitled to a 1.5 month period of rest before the time at which they are estimated by an obstetrician or a midwife to give birth to a baby and another 1.5 month period of rest thereafter. Article: 84 states every worker/ labourer who uses her right to take the period of rest as specified under points b, c and d of subsection (2) of Article 79, Article 80 and Article 82 shall receive her wages in full.

Plan Of Action: Hbl ensures the supplier understands this issue and cancels the submission requirements of the marriage certificate and the family card before maternity leave is approved.

Deadline Date: 01/31/2009

Supplier CAP: Factory will consider revising this policy but the purpose of this policy was not to discriminate. It is just a common procedure in a legal entity with numerous employees.

Supplier CAP Date: 01/31/2009

Action Taken: 1st follow-up audit on January 29th, 2009 by [Name of auditor has been removed]. Based on a review of the factory regulations, it was found that the regulations still require a copy of the family card [Name of family card has been removed] and a copy of the marriage letter from the female who needs to take the maternity leave.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: The factory has revised their policy by asking the pregnant workers to only present the maternity leave confirmation letter from the doctor.

Action Verified Date:

Non-Discrimination: Other - Non-Discrimination

Other

Noncompliance

Explanation: There was no non-discrimination policy and/or procedure maintained onsite.

Plan Of Action: Hbl encourages the supplier to write this policy and properly communicate it to employees.

Deadline Date: 01/31/2009

Supplier CAP: Factory posted a non-discrimination policy/procedure onsite on November 27th, 2008.

Supplier CAP Date: 11/27/2008

Action Taken: 1st follow-up audit on January 29th, 2009 by [Name of auditor has been removed]. The factory set up the factory Code of Conduct, including the non-discrimination policy and/or procedure, and posted it in the working area.

Plan Complete: Yes

Plan Complete Date: 11/27/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: The factory has established a non-discrimination policy in their factory COC. The COC is posted in the reception area.

Action Verified Date: 10/21/2011

Code Awareness:

GEN.2 Ensure that all Company factories as well as contractors and suppliers inform their employees about the workplace standards orally and through the posting of standards in a prominent place (in the local languages spoken by employees and managers) and undertake other efforts to educate employees about the standards on a regular basis.

Noncompliance

Explanation: The company currently sent a compliance staff person and a designated service provider for a common social compliance audit visit only. There was no evidence that the company has undertaken other efforts (e.g. company COC training, company COC project, etc.) to educate the management and the employees on the company's standards on a regular basis.

Plan Of Action: Hbl conducted a social compliance training for all suppliers in Indonesia on August 5th, 2008. The supplier had assigned a management and compliance staff person to participate in this training. Then, they will train their employees in the factory after the course. Additionally, we posted our Hbl Global Standards for Suppliers policy in the workshops to ensure all of them know our code of conduct. We will plan an additional training in mid-2009 if the budget allows.

Deadline Date: 01/31/2009

Supplier CAP: Actually, the factory educated some employees on the company standards, but only supervisors and managers, so they plan to educate all employees on the company's standards by December 30th, 2008.

Supplier CAP Date: 12/30/2008

Action Taken: 1st follow-up audit on January 29th, 2009:

- The factory had set up a factory Code of Conduct
- Code of Conduct training was provided to all workers on December 15th, 2008
- Code of Conduct has been posted in the working area

Plan Complete: Yes

Plan Complete Date: 12/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: Interviews with the workers revealed that the workers are not aware of the Company CoC.

Action Verified Date: 10/21/2011

Code Awareness:

GEN.3 Develop a secure communications channel, in a manner appropriate to the culture and situation, to enable Company employees and employees of contractors and suppliers to report to the Company on noncompliance with the workplace standards, with security that they shall not be punished or prejudiced for doing so.

Noncompliance

Explanation: There was no evidence that there is a noncompliance reporting mechanism, including a non-retaliation policy, which would allow factory workers to contact the company.

Plan Of Action: Hbl will work to ensure that there is an effective means of communication between factory workers and Hbl management.

Deadline Date:

Supplier CAP: Factory will cooperate with Hbl if they set up contact channels for employees.

Supplier CAP Date:

Action Taken: 1st follow-up audit on January 29th, 2009: Though the Hbl reporting channel has not yet been developed, the factory developed the following grievance channels:

- They had 2 grievance boxes in the production line.
- Grievance procedure had been posted in the working area.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Pending: According to the management interviews, there is no evidence that there is a noncompliance reporting mechanism, including a non-retaliation policy, which allows factory workers to contact the company directly.

Action Verified Date: 10/21/2011

Miscellaneous: Illegal Subcontracting

MISC.1 Illegal Subcontracting

Noncompliance

Explanation: The subcontracted production used by the factory for the company's order was only related to embroidery at an outside facility. However, there was no evidence to show that the factory communicated the code principles to the subcontractor used.

Plan Of Action: Hbl ensures the supplier will send notices to their subcontractor about the code principles.

Deadline Date: 01/31/2009

Supplier CAP: Factory will keep the communication evidence with the subcontracted factory about the code principles.

Supplier CAP 03/31/2009

Date:

Action Taken: 1st follow up audit on January 29th 2009: There was no objective evidence to show that the factory had communicated the code principles to the subcontractor.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to document review, it was noted that the subcontractor acknowledged receipt of the factory's COC only. According to the factory management, the company's orders were all in-house production only since the embroidery and printing work were not required.

Action Verified Date: 10/21/2011

Health and Safety: General Compliance Health and Safety

H&S.1 Employers shall comply with all local laws, regulations and procedures concerning health and safety. (S)

Noncompliance

Explanation: 1) Factory has only conducted medical examinations for 17 workers, while no occupational medical examination has ever been conducted for other workers.

Legal References: The safety act UU No.1/1970, regarding Occupational Safety Law chapter III article 8.2: the employer shall be obligated to have all workers under their supervision regularly inspected by a doctor designated by the employer and confirmed by the director. Labor Minister Regulation No PER-02/MEN/1980 regarding Periodical Medical Examination, article 2, 3 and 9: any undertaking as referred to in subsection 2 (2) of Safety Act No. 1/1970 shall provide a pre-medical examination, a periodical examination and a special medical examination for workers.

2) It was noted that the factory has never conducted a hazard assessment in the facility to identify ESH hazards and the appropriate responses for risks that might occur. Also, the factory has never conducted ergonomic measurement in the workplace.

Legal Reference: Labor Ministry Circular No. SE-05/BW/1997, states the factory shall maintain a hazard assessment to determine if the personal protective equipment is sufficient for the working conditions.

Plan Of Action: Hbl requires the supplier to provide medical examinations to additional employees per their time schedule. Also, they should conduct the work hazard assessment by the end of March or before.

Deadline Date: 03/31/2009

Supplier CAP: 1) The factory plans to do medical examinations for 10 people per month starting January 1st, 2009.
2) The factory will conduct a hazard assessment in the facility by March 31st, 2009.

Supplier CAP Date: 03/31/2009

Action Taken: 1st follow-up audit on January 29th, 2009:
1) The factory has provided a medical examination for only 17 workers and there was no objective evidence to ensure that the medical examination will be provided to other workers.
2) There was no objective evidence that the hazard assessment was available in the factory.

Plan Complete: No

Plan Complete Date:

Action Verified: No



Action Verified Text: IEV (October 20th and 21st 2011): Ongoing:
The factory has conducted the general medical check-up for 1,300 workers (out of 2,138 workers) during March 10th-15th 2010. In addition, the factory has also conducted the occupational health medical exam for 12 workers from the mechanic and spot-cleaning department during March to July 2011.

Completed:

It was noted that the factory conducted a hazard assessment in the facility to identify ESH hazards and the appropriate response for risks that might occur.

Action Verified Date: 10/21/2011

Health and Safety: Worker Consultation

H&S.4 The health and safety policy shall be developed and implemented in consultation with workers or their representatives. (P)

Noncompliance

Explanation: There was no written health and safety policy/procedure maintained in the factory.

Plan Of Action: Hbl ensures that the supplier will prepare the health and safety policy and procedures in accordance with the requirements of the FLA.

Deadline Date: 03/31/2009

Supplier CAP: Factory will develop the health and safety policy.

Supplier CAP Date: 01/31/2009

Action Taken: 1st follow up audit on January 29th, 2009 by Hbl auditor - [Name of auditor has been removed]: there is no evidence to conclude that the health and safety policy has been completed.

Plan Complete: No

**Plan
Complete
Date:**

**Action
Verified:** No

**Action
Verified
Text:** IEV (October 20th and 21st 2011): Completed: According to the available documents and management interviews, it was noted that the factory has established the health and safety policy/procedures such as procedures on how to use PPE. They have also established an Emergency Response Plan and a Waste Management Policy.

**Action
Verified
Date:** 10/21/2011

Health and Safety: 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)

Noncompliance

Explanation: 1) The boiler operator who works in the factory has never participated in the boiler operator training conducted by the local labor department.

Legal Reference: Labor Minister Regulation PER-01/MEN/1988, chapter III regarding qualifications, article 3(f) states that the operator for the boiler shall graduate the exams from local labor department.

2) Factory provided a clinic on-site with 1 paramedic (nurse), however, the paramedic (nurse) working in the clinic has not received the HYPERKES (Hygiene, Factory, Health and Safety) training.

Legal Reference: Labor Minister Regulation No. PER-01/MEN/1979 regarding obligation of HYPERKES (Hygiene, Factory, Health and Safety) training for the company's paramedics, article: 1 Every company is obliged to have its paramedics participate in HYPERKES (Hygiene, Factory, Health and Safety) training.

Plan Of Action: Hbl ensures the supplier will have its boiler operator and nurse participate in training and obtain relevant certificates.

Deadline Date: 01/31/2009

Supplier CAP: 1) Actually, the factory has a boiler operator who already got the boiler-training certificate but the problem is there is only 1 operator controlling all the boilers. The factory will hire 1 more boiler operator who has a boiler-training certificate by January 2009.

2) Factory has a nurse who has the HYPERKES training till October 10th, 2008 but she has since resigned, so the factory is finding a new nurse who has the HYPERKES training document.

Supplier CAP Date: 01/31/2009

Action Taken: 1st follow-up audit on January 29th, 2009 by the Hbl auditor:

- 1) Additional boiler operator has still not been hired
- 2) A new nurse who has the HYPERKES training is still not available in the factory

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified: IEV (October 20th and 21st 2011): Ongoing:

Text: According to the provided document (certificate of joining training) It was noted that there's 1 operator out of the 2 boiler operators has completed the training from the labor department and received certification.

According to management interviews and provided documents (certificate of HYPERKES training), it was noted that there are 2 nurses (paramedics) working in the factory but only 1 has obtained the HYPERKES certificate. The second nurse just started on October 20th 2011.

Action 10/21/2011
Verified
Date:

Health and Safety: 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)

Noncompliance

Explanation: The last fire evacuation training conducted by the factory was on August 16, 2008. However, there was no evidence that the factory has conducted the fire evacuation drill once every 6 months since the factory could not show the previous documentation of evacuation training.

Legal Reference: Labor Minister decision KEP.186/MEN/1999, regarding Fire Management Unit in Work Location article 2(1): The employer shall be obligated to prevent, alleviate and extinguish fire, and to run training for fire management in the work location.

Plan Of Action: Hbl ensures the supplier will work out its training plan per the time schedule. Also, the training documents should be properly documented for review.

Deadline 08/31/2009
Date:

Supplier CAP: Immediate action: Factory will make plans to do evacuation training by January 9th, 2009.

Supplier CAP 08/31/2009
Date:

Action Taken: 1st follow-up audit on January 29th, 2009: The factory had a plan to set up evacuation trainings 2 times in 2009.

- 1st on February 16th 2009
- 2nd on August 16th 2009

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: According to the documents (photo, records of training) it was noted that the fire drills are not conducted every 6 months. The fire drills in 2011 were conducted on February 12th, 2011 and October 8th, 2011.

Action Verified Date: 10/21/2011

Health and Safety: 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)

Noncompliance

Explanation: There were incomplete first aid supplies in the first aid kit boxes that were provided in the production areas. In general, the first aid kits contained fabric bandages, cotton balls, ammoniac inhalants, antiseptic, adhesive tape and alcohol. But there was no burn cream, gloves or scissors.

Plan Of Action: Hbl ensures the supplier will implement a long-term plan for the adequacy of first aid supplies on the production floor.

Deadline Date: 03/31/2009

Supplier CAP: Immediate action: The factory has complete first aid supplies in the first aid kit boxes in the production areas as of November 26th, 2008.



Long-term plan: Factory will make sure all the medical equipment is available in sufficient numbers throughout the factory by assigning the nurse to check the first aid boxes on a daily basis and sign the checklist.

Supplier CAP 03/31/2009

Date:

Action Taken: 1st follow up audit on January 29th, 2009: Site observation found that most of the first aid boxes are still missing items.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to the factory tour observation, it was noted that the burn cream, gloves and scissors were inside the first aid kits.

Action Verified Date: 10/21/2011

Health and Safety: Personal Protective Equipment

H&S.11 Workers shall be provided with effective and all necessary personal protective equipment (such as gloves, eye protection, hearing protection, respiratory protection, etc.) to prevent unsafe exposure (such as inhalation or contact with solvent vapors, noise, dust, etc.) to health and safety hazards, including medical waste. (S)

Noncompliance

Explanation: It was noted that the workers working with chemicals in the spot cleaning section were only using fabric gloves instead of rubber gloves.

Plan Of Action: Hbl ensures that the supplier will provide sufficient PPE (personal protective equipment) to the chemical handling workers. Also, we propose that they post a reminder sign in the workstation.

Deadline Date:

Supplier CAP: Immediate action: Factory provided rubber gloves in the spot cleaning section on November 26th, 2008.

Long-term plan: Factory will make sure to provide effective and necessary personal protective equipment in the future.

Supplier CAP Date:

Action Taken: 1st follow-up audit on January 29th, 2009: Site observation found that the chemical operators already had a full range of PPE equipment, such as chemical masks and rubber gloves, etc.

Plan Complete: Yes

Plan Complete Date: 12/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Pending: During the factory tour, it was noted that there were 6 workers working in the spot cleaning department and none of them were using rubber gloves.

New finding: It was noted that the workers dealing with Benzene were only provided with a cotton mask and were not provided any other PPE such as eye goggles, solvent resistant gloves or work clothing. There was no chemical management control. The Benzene usage area was not enclosed and was open to other workplaces and there was no local exhaust ventilation system.

Action Verified Date: 10/21/2011

Health and Safety: Chemical Management and Training

H&S.13 All chemicals and hazardous substances shall be properly labeled and stored in accordance with applicable laws. Labels shall be placed in the local language and the language(s) spoken by workers, if different from the local language. Workers shall receive training, appropriate to their job responsibilities, concerning the hazards, risks and the safe use of chemicals and other hazardous substances. (S)

Noncompliance

Explanation: There is no evidence to prove that the chemical handling training has been provided to workers.

Plan Of Action: Hbl ensures the factory will conduct the chemical handling training at least once a year.

Deadline Date: 01/30/2009

Supplier CAP: Factory will provide a chemical handling training for workers by January 9th, 2009 or before.

Supplier CAP Date: 12/12/2008

Action Taken: 1st follow-up audit on January 29th, 2009: They had set up a chemical safety training for all the chemical operators on December 12th, 2008.

Plan Complete: Yes

Plan Complete Date: 12/12/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to the documents provided, it was noted that the factory has conducted a training on chemical handling such as how to use PPE, etc.

Action Verified Date: 10/21/2011

Health and Safety: 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)

Noncompliance

Explanation: Factory has provided a Material Safety Data Sheets (MSDS) for most of the chemicals used. However, there was no MSDS for Acetone, which is used in the spot cleaning section.

Legal References: Labour Minister Decree No. KEP.187/MEN/1999 regarding hazardous chemical control at work, article: 2 and 3, the company using, storing, wearing, producing and transporting hazardous chemicals in the workplace is obliged to control the chemicals by providing a Material Safety Data Sheet (MSDS). Article: 16, MSDS shall be put in a place that is easily noticed by the worker.

Plan Of Action: Hbl ensures the supplier will provide sufficient information on the MSDS.

Deadline Date:

Supplier CAP: Immediate action: Factory provided the Material Safety Data Sheet (MSDS) For Acetone on November 26th, 2008.

Long-term plan: The factory will make sure the Material Safety Data Sheets (MSDS) of the chemicals being used are provided.

Supplier CAP Date:

Action Taken: 1st follow-up audit on January 29th, 2009: The Material Safety Data Sheet (MSDS) for acetone has been posted in the chemical usage area and a safety officer is now responsible for all MSDS in the factory.

Plan Complete: Yes

Plan Complete Date: 11/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to the documents provided, it was noted that the factory has kept an MSDS for acetone in the files, but the MSDS is not posted in the spot cleaning area since the substance is not being used at the moment. Benzene/Bensol is being used and the MSDS has been posted.

Action Verified Date: 10/21/2011

Health and Safety: Ventilation/Electrical/Facility Installation and Maintenance

H&S.17 All necessary ventilation, plumbing, electrical, noise and lighting services shall be installed and maintained to conform to applicable laws and in such a manner as to prevent or minimize hazardous conditions to workers in the facility. (S)

Noncompliance

Explanation: Based on observation, the electrical panel in the material warehouse was found open. Moreover, 1 electrical panel was blocked by material in the fabric warehouse.

Legal Reference: Safety act UU No.1/1970, regarding Occupational Safety Law, article: 3 states (1) Working condition requirements include: (a) to avoid and reduce the risk and to overcome accident such as fire, etc. (d) to provide a way to escape in case of fire or any emergency.

Plan Of Action: Hbl ensures that the supplier will remove the obstruction in the fabric warehouse and cover the electrical panel properly.

Deadline Date: 01/31/2009

Supplier CAP: Immediate action: Factory removed the obstruction in the fabric warehouse and covered the electrical panel in the material warehouse on November 26th, 2008.

Long-term plan: Factory will make sure that all the necessary ventilation, plumbing, electrical, noise and lighting services are installed and are maintained to conform to the applicable laws and in such a manner as to prevent or minimize hazardous conditions to workers in the facility.

Supplier CAP 11/30/2008

Date:

Action Taken: 1st follow-up audit on January 29th, 2009: Material Safety Data Sheet (MSDS) for acetone has been posted in the chemical usage area. They assigned a safety officer to be responsible for all MSDS in the factory.

Plan Complete: Yes

Plan Complete Date: 11/30/2008

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: During the factory tour, it was noted that 1 electrical panel was blocked materials in the production area.

Action Verified Date: 10/21/2011

Health and Safety: Machinery Maintenance and Worker Training

H&S.18 All production machinery, equipment and tools shall be regularly maintained and properly guarded. Workers shall receive training in the proper use and safe operation of machinery, equipment and tools they use. Employers shall ensure safety instructions are either displayed/posted near all machinery or are readily accessible to the workers. (S)

Noncompliance

Explanation: Factory has provided eye shields for the overlock machines. However, it was noted that the workers did not use the eye shields.



Plan Of Action: Hbl requires that the supplier provide education and monitoring on the overlock machine operation.

Deadline Date: 03/31/2009

Supplier CAP: Immediate action: Each morning, the factory educates all workers on the use of eye shields. This was done until December 6th, 2008.

Long-term plan: The factory will make sure that all the production machinery, equipment and tools are regularly maintained and properly guarded and will make sure the supervisor monitors them daily.

Supplier CAP Date: 01/30/2009

Action Taken: 1st follow-up audit on January 29th, 2009: Site observation revealed that most of the workers who work with the overlock machines still do not use the eye shields.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: During the factory tour, it was observed that 3 workers were not using the eye-shields.

Action Verified Date: 10/21/2011

Health and Safety: Sanitation in Factory Facilities

H&S.22 All facilities including factory buildings, toilets, canteens, kitchens, and clinics, shall be kept clean and safe and be in compliance with all applicable laws, including relevant sanitation, medical and safety and health regulations. (S)

Noncompliance

Explanation: Based on observation, the bathroom facilities provided for male workers did not appear clean and well maintained.

Legal References: Labor Minister Regulation No.7 of 1964 regarding conditions related to health, cleanliness and lighting in the workplace, (9) A clean lavatory is a lavatory which fulfills the following conditions: a. does not smell; b. is not dirty; c. does not have flies, mosquitoes or other insects; d. is provided with sufficient clean water for use; e. can be easily cleaned; f. is cleaned at least 2-3 times a day. (10) Doors of lavatories shall easily close.

Plan Of Action: Hbl ensures that the supplier will have a long-term plan for bathroom cleaning work.

Deadline Date: 01/31/2009

Supplier CAP: Immediate action: the factory cleaned the bathroom facilities for male workers on November 26th, 2008.

Long-term plan: The factory will make sure all the bathroom facilities are clean and are checked twice a day.

Supplier CAP Date: 01/30/2009

Action Taken: 1st follow-up audit on January 29th, 2009:

- Male bathroom/toilet facilities were clean and well maintained during the audit.
- However, there was no objective evidence of a cleaning plan for the bathrooms/toilets

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: During the factory tour, it was noted that the condition of the water container inside the male toilets was dirty and not cleaned properly.

Action Verified Date: 10/21/2011

Health and Safety: Toilets

H&S.23 Employers shall establish the number of toilets required under applicable laws within reasonable distance of the workplace. (S)

Noncompliance

Explanation: There was a total of 15 male toilets and 35 female toilets; there were 469 male workers and 1,261 female workers in the factory. Based on local law, the factory needs 14 more male toilets and 44 more female toilets. Based on observation, there were no long queues found for the toilets, even though the numbers were insufficient.

Legal Reference: Labor Minister Regulation PER-07/1964, regarding conditions of health, cleanliness and lighting in the workplace article 6: (6) The scale of lavatories must be as follows: for 1-15 workers = 1 lavatory, 16-30 workers = 2 lavatories, 31-45 workers = 3 lavatories, 46-50 workers = 4 lavatories, 61-80 workers = 5 lavatories, 81-100 workers = 6 lavatories, and 6 lavatories for every 100 additional workers.

Plan Of Action: Hbl recommends that the factory work out the plan to increase the number of toilets by mid-2009.

Deadline Date: 06/30/2009

Supplier CAP: Factory will submit an application for a government permit letter from the local labor department by January 31st, 2009. Then, they will make a plan to install toilets in mid-2009.

Supplier CAP Date: 06/30/2009

Action Taken: 1st follow-up audit on January 29th, 2009

- The number of toilets is still the same.
- The improvement plan is still not available.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Pending: During the factory tour, it was noted that the 12 female toilets out of 36 toilets were not functioning. 4 out of 15 male toilets were not functioning.

Action Verified Date: 10/21/2011

Health and Safety: Toilets/Restrictions

H&S.24 Employers shall not place any undue restrictions on toilet use in terms of time and frequency.
(P)

Noncompliance

Explanation: Workers must take a permission card in case they have to go to the toilet. The toilet cards are implemented strictly for the sewing workers only. No workers could go to the toilet if they did not have a permission card.

Plan Of Action: Hbl told the factory to remove the toilet card system. We will ensure the factory provides at least 1 card for every 10 persons. Also, the workers are allowed to go to the toilet without a card if they have an emergency.

Deadline Date: 01/31/2009



Supplier CAP: Factory will remove the toilet card system.

Supplier CAP Date: 11/30/2008

Action Taken: 1st follow-up audit on January 29th, 2009: The toilet card system is still used in the factory. However, it was found that the workers could go to the toilet without a card if they had an emergency.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to worker interviews and a factory tour, it was noted that there are no more toilet cards, nor any other restriction on toilet use.

Action Verified Date: 10/21/2011

Health and Safety: Drinking Water

H&S.26 Safe and clean drinking water shall be freely available at all times, within reasonable distance of the workplace. Drinking water shall be of a reasonable temperature and the means to drink water (cups, etc.) must be safe and sanitary and available in an appropriate number. (S)

Noncompliance

Explanation: It was noted that the last drinking water test analysis was conducted in October 2007. Factory has not conducted a drinking water test analysis since then.

Plan Of Action: Hbl ensures that the factory will conduct annual testing on drinking water. Hbl recommends that the factory should add this policy to their safety and health committee.



Deadline Date: 01/31/2009

Supplier CAP: Factory already conducted a drinking water test analysis on October 17th, 2008.

Supplier CAP Date: 01/09/2009

Action Taken: 1st follow-up audit on January 29th, 2009: Factory conducted a drinking water test on October 17th, 2008. File on the drinking water test has been sent to FLA for review; test covers the period from October 17th, 2008 until October 16th, 2009.

Plan Complete: Yes

Plan Complete Date: 01/09/2009

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to the provided document, the drinking water test was conducted on September 20th, 2011. The results have met the standards for drinking.

Action Verified Date: 10/21/2011

Hours of Work: General Compliance Hours of Work

HOW.1 Employers shall comply with all local laws, regulations and procedures concerning hours of work, public holidays and leave. (S)

Noncompliance

Explanation: Based on a randomly provided time card record review, it was noted that the maximum overtime hours were as follows: - 5.5 hours per day or till around 22:00 on at least September 15, 16, and 25, 2008 for almost all sewing workers on line 16 and line 3. - 74.5 hours per week in at least 2 sewing lines for 3 workers during the period from September 15 to 21, 2008, while the other sewing workers worked hours ranging from 64-71.5 hours per week during the same period. The excessive working hours occurred due to an electrical blackout and the coming long leave that started at the end of September 2008 (religious holidays). Nevertheless, since there was inconsistency in the records and the information noted, it has been impossible to fully verify the actual working hours of the workers.

Legal References: Labor Act UU No.13/2003, regarding working hours, chapter XI paragraph 4 article 77.2 states that the working hours as mentioned under subsection (1) cover: a. 7 (seven) hours a day and 40 (forty) hours a week for 6 (six) workdays in a week; or b. 8 (eight) hours a day, 40 (forty) hours a week for 5 (five) workdays in a week; Article: 78.1 states that entrepreneurs who require their workers to work longer than the working hours determined under subsection (2) of Article 77 must meet the following requirements: a. Approval of the relevant worker; b. Maximum overtime work of 3 (three) hours in a day and 14 (fourteen) hours in a week.

Plan Of Action: Hbl worked with the sourcing team to shift orders to other suppliers from this supplier, to ensure they are not overbooked on production. Then, the OT hours will be decreased from February onwards. Hbl will conduct the continual monitoring of this supplier for the first half of 2009, to ensure their production planning is properly controlled. We plan to visit the factory after 3 months.

Deadline Date: 06/30/2009

Supplier CAP: Immediate Action: The factory will try to properly arrange the production and make sure it complies with all local laws, regulations and procedures concerning hours of work, public holidays and leave.

Long-term plan: Factory will continuously reduce the overtime hours. The factory is trying to meet the legal working hours for December and will meet the local legal requirement on January 9th, 2009.

Supplier CAP 06/30/2009

Date:

Action 1st follow-up audit on January 29th, 2009:

Taken:

- Based on management discussions: the factory management confirmed that all the records provided were authentic and accurate.
- Based on worker interviews and document review (daily overtime sheet, summary working hour sheet and payroll records), it was found that:
- Max OT: 4.5 to 5 hours per day and 25.5 hours per week
- Sunday: 1-2 times per month during November and December 2008 (the 14th and 21st of November 2008 and the 30th of December 2008).

Plan No

Complete:

**Plan
Complete**

Date:

Action No

Verified:

Action IEV (October 20th and 21st 2011): Pending: According to the provided attendance records for January to September 2011 for sewing lines 1-13, and for the cutting, packing, and finishing sections, and according to several random printed records of the packing department for the month of October 2011, it was noted that the maximum overtime hours was 7 hours (up to 8.30 PM) on Saturday October 8th 2011 in the packing department. This included at least 22 workers. There were at least 7 workers who worked up to 11 PM or 6.5 hours of overtime on Tuesday, October 6th 2011.

Text:

Action 10/21/2011

Verified

Date:

Hours of Work: 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)

Noncompliance

Explanation: Previous findings (October 23rd and 24th 2008): Due to inconsistent records and information noted during the audit, it has been difficult to fully verify actual working hours and payment. The following things were noticed: The daily overtime sheet and the summary working hours sheet indicated Sunday work and public holiday work, as well as employees working till morning. Work was not recorded on the attendance records provided; a. Sunday work: March 30, 2008 (e.g. cutting workers and sewing workers), April 20, 2008 (e.g. QC workers, finishing workers, cleaning service) June 22, 2008 (e.g. sewing workers), and July 13, 2008 (sample workers). b. Public holiday: May 1, 2008 (sewing workers) c. May 7, 2008: at least 4 packing workers worked till 5:30 AM; May 6, 2008: at least 1 finishing worker worked till 23:00 and 6 packing workers worked till 5:30 AM; May 5, 2008: at least 5 packing workers worked till 5:30 AM. The meeting records between the management and the worker's representative indicated that there is concern from the workers to the management about the overtime payments for working till they are finished, which sometimes means till morning (This type of work is called 'SS').

**Plan Of
Action:**

**Deadline
Date:**

**Action
Taken:**

Plan Complete: No

**Plan Complete
Date:**

Action Verified: No



Action Verified Text: IEV (October 20th and 21st 2011): Completed: According to the provided records: Attendance records: January – September 2011; Payroll: January – September 2011; Production records: January – September 2011; Overtime forms: January – September 2011 In addition to worker interviews, all of the above records have been verified and all the information that has been gathered indicates that the records are consistent with 1 another. No Sunday work was found and worker and management interviews supported the data in the document.

Action Verified Date: 10/21/2011

Hours of Work: Overtime/Positive Incentives

HOW.9 Employers shall use positive incentive schemes to induce overtime and shall ensure such incentive schemes are known by workers. (P)

Noncompliance

Explanation: There were no positive incentive schemes used to induce overtime.

Plan Of Action: Hbl will ensure that the supplier has a positive incentive scheme to induce OT. Also, the supplier should make sure all employees are well informed of the incentive scheme.

Deadline Date: 03/31/2009

Supplier CAP: Factory will establish a positive incentive scheme for inducing overtime by January 1, 2009.

Supplier CAP Date: 01/31/2009

Action Taken: 1st follow-up audit on January 29th, 2009 by Hbl auditor: The positive incentive scheme was not yet available in the factory.

Plan Complete: No

Plan Complete Date:

Action Verified: No

Action Verified Text: IEV (October 20th and 21st 2011): Ongoing: According to the provided document and management interviews, the factory will reward the sewing line workers with a group production target bonus – IDR 200,000 when the sewing line successfully achieves the target of the day. However, the production target bonus was not based on normal working hours, so it may encourage the workers to work overtime in order to achieve the daily production target set.

Action Verified Date: 10/21/2011
