



COMPANY: **Delta Apparel, Inc**
COUNTRY: **China**
ASSESSMENT DATE: **09/21/15**
MONITOR: **SMT-Global**
PRODUCTS: **Apparel**
PROCESSES: **Cut, Sew, Packing, Knitting, Pressing/Ironing**
NUMBER OF WORKERS: **500**
NUMBER OF WORKERS INTERVIEWED: **40**
ASSESSMENT NUMBER: **AA0000001884**

FLA Comments

"This report was submitted to the FLA and the FLA affiliated company by the assessor. Despite deadline reminders and extensions for submission of a corrective action plan, the FLA has not received a plan to address the risks and noncompliances raised in the report. Therefore, the report is posted in its current state and will be updated once a corrective action plan has been submitted to and reviewed by the FLA."

What's Included in this Report

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Understanding this Assessment Report

This is a report of a workplace assessment conducted by Fair Labor Association assessors following FLA's Sustainable Compliance methodology (SCI), which evaluates a facility's performance in upholding fair labor standards through effective management practices throughout the entire employment life cycle.

This report identifies violations and risks of noncompliance with the Fair Labor Association Workplace Code of Conduct in its assessment of the employment functions, and includes a description of the root causes of violations, recommendations for sustainable and immediate improvement, and the corrective action plan for each risk or violation as submitted by the company. This document is not a static report; rather, it reflects the most recent progress updates on remediation in the "Progress Update" section for each finding.

Glossary

De minimis: A de minimis factory is a factory (1) with which the Company contracts for production for six months or less in any 24-month period; or (2) in which the Company accounts for 10% or less of the annual production of such facility. The FLA Charter states that in no event shall de minimis facilities constitute more than 15% of the total of all facilities of a Company, and the list of facilities designated as de minimis by a Company is subject to the approval of the FLA. Please note that collegiate-producing factories cannot count as de minimis.

Facility performance: how a facility rates in terms of a particular employment or management function, with 100% being the best possible score.

Fair labor standards: the minimum requirement for how workers should be treated in a workplace, as outlined in the [FLA Workplace Code of Conduct](#).

Employment life cycle: all aspects of an employee's relationship with the employer, from date of hire to termination or end of employment.

Code violation: failure to meet standards outlined in the FLA Workplace Code of Conduct in the workplace implementation of employment or management functions.

Employment Functions: The different components of the relationship between management and employees in a factory. An employment function is a process regulating an aspect of the employment relationship, such as the recruitment of workers. All employment functions together constitute the employment relationship between an employer and an employee.

1. Recruitment, Hiring & Personnel Development (e.g., performance reviews)
2. Compensation (e.g., wages, health care)
3. Hours of Work (e.g., overtime, documentation of working hours)
4. Industrial Relations (e.g., collective bargaining agreements)
5. Grievance System (e.g., worker communication with management)
6. Workplace Conduct & Discipline (e.g., discrimination, harassment)
7. Termination & Worker Retrenchment (e.g., downsizing, resignation)
8. Health & Safety (e.g., exposure to chemicals)
9. Environmental Protection (e.g., energy saving)

Management functions: violations or risks related to an employment function could be caused by the absence – or a problem in the operation – of any one of the management functions or in more than one.

1. Policy
2. Procedure
3. Responsibility & Accountability
4. Review Process
5. Training
6. Implementation
7. Communication & Worker Involvement
8. Support & Resources (only for the in-depth level)

Finding: indicators of potential gaps between desired and actual performance of the workplace on different employment functions.

Finding type

- **Immediate action required:** discoveries or findings at the workplace that need immediate action because they not only constitute an imminent danger, risk the workers' basic rights, threaten their safety and well-being or pose a clear hazard to

the environment, but also are clear non-compliances with the FLA Workplace Code of Conduct and local laws. Examples include a finding by the assessor that crucial fire safety elements are not in place or that there is underpayment of wages and/or worker entitlements or that there is direct discharge of waste water, etc.

- *Sustainable improvement required*: findings that require sustainable and systematic actions. The factory will be asked to tackle the underlying root causes and to do so in a long-term and systematic manner to bridge the gap between actual and desired performance. Examples include a finding by the assessor that there is lack of termination policies and procedures in the workplace, lack of grievance system, etc.
- *Notable feature*: indicates a remarkable feature or best practice at a workplace. Examples might include workers' wages and benefits that are significantly above the industry average, or community benefits such as free daycare.

Local law or Code Requirement: applicable regulations and standards in a workplace, which serve as the basis for an assessment, as per local law or FLA Workplace Code of Conduct. When these two do not concur, the stricter of the two standards applies.

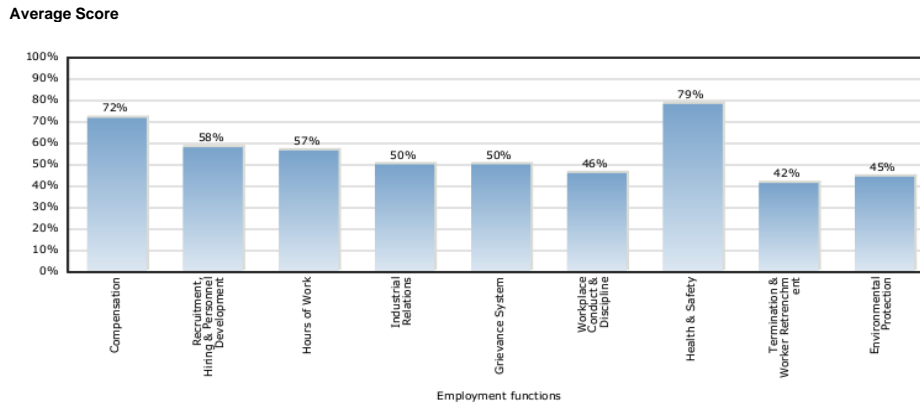
Root causes: a systemic failure within an employment function, resulting in a "finding." Findings are symptoms of underlying problems or "root causes." Consider, for example, the case of workers not wearing hearing protection equipment in a high noise area. The most expedient conclusion might be that the worker did not use the hearing protection equipment because such equipment was not provided by management. However, upon a more thorough evaluation of available information, the assessor might find that the worker was indeed supplied with hearing protection equipment and with written information about the importance of wearing hearing protection, but was not trained on how to use the equipment and that use of the equipment was not enforced in a consistent manner by management.

Company action plan: a detailed set of activities outlined by the sourcing company and/or direct employer to address FLA findings.

Factory Profile

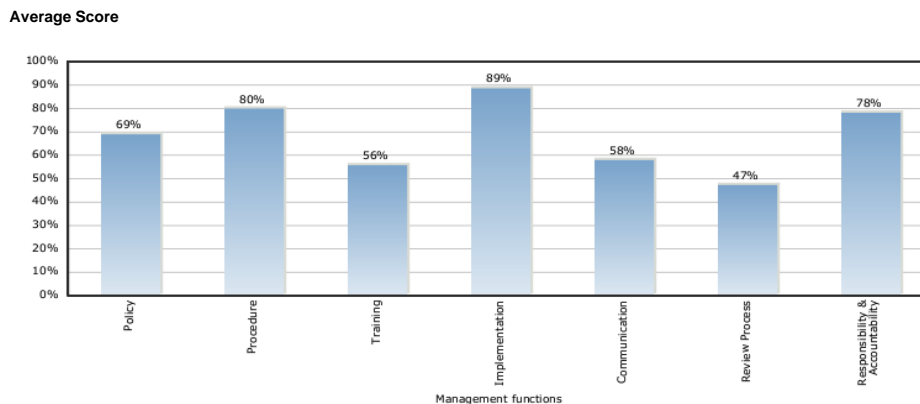
Score by Employment Function

Scores indicate a factory's performance related to a specific employment function based on an FLA assessment. A score of 100 percent indicates flawless operation of an employment function. A score of less than 100 percent indicates need for improvement.



Score by Management Function

Scores indicate a factory's performance related to a specific management function based on an assessment conducted for FLA by independent, accredited assessors. A score of 100 percent indicates flawless operation of a management function. A score of less than 100 percent indicates need for improvement.



Score Summary

Scores indicate the strength of management functions as they relate to different elements of the employment relationship (employment functions). For example (reading left to right), a score of 100 percent in the cell on the top left corner would indicate the existence of appropriate policies related to recruitment, hiring and personnel development.

Management Functions	Recruitment, Hiring & Personnel Development	Compensation	Hours of Work	Industrial Relations	Grievance System	Workplace Conduct & Discipline	Termination & Worker Retrenchment	Health & Safety	Environmental Protection
Policy	46.6%	44.33%	75%	50%	75%	37.5%	31.25%	50%	75%
Procedure	89%	77.67%	62.5%	100%	87.5%	90%	41.67%	79.63%	90%
Responsibility & Accountability	54.25%	54.25%	69.5%	39%	54.25%	54.25%	54.25%	50%	39%
Review Process	50%	0%	50%	0%	50%	50%	50%	66.67%	66.67%
Training	57.14%	66.67%	33.33%	0%	66.67%	25%	33.33%	85%	33.33%
Implementation	88.97%	94.5%	82.26%	82.14%	100%	81.25%	100%	92.02%	72.73%
Communication	66.67%	87.5%	75%	0%	50%	41.67%	50%	87.5%	0%

Summary of Code Violations

Companies that join the FLA agree to uphold the FLA Workplace Code of Conduct throughout their entire supply chain. The Code of Conduct is based on International Labour Organization (ILO) standards, and defines labor standards that aim to achieve decent and humane working conditions.

While it is important to note when violations of the FLA Workplace Code of Conduct occur, the purpose of these assessments is not simply to test compliance against a particular benchmark, but rather to develop an understanding of where and how improvements can be made to achieve sustainable compliance. Code of Conduct violations can be found throughout the course of an assessment of the employment and management functions, and are addressed in companies' action plans.

FLA Code Element	Number of Violations	Violations
Compensation	3	Compensation Receipt Record Maintenance Workers Awareness and Understanding of Compensation
Employment Relationship	16	General/Human Resource Management Systems Terms and Conditions/Contract, Contingent or Temporary Workers Terms and Conditions/New Employee Orientation Terms and Conditions/Communication Terms and Conditions/Supervisor Training Administration of Compensation/Termination Payouts General/Documentation and Inspection Administration of Fringe Benefits/Holidays, Leave, Legal Social Benefits and Bonuses Administration of Hours/Time Recording System Administration of Hours/Production and Incentive Schemes Industrial Relations Work Rules and Discipline Skills Development/Management of Performance Reviews Skills Development/Promotion, Demotion and Job Reassignment Health, Safety, and Environmental Management System/Policies and Procedures Termination and Retrenchment/General Policies and Procedures
Freedom of Association and Collective Bargaining	6	Employer Interference Employer Interference/Constitution, Elections, Administration, Activities and Programs Employer Interference/Registration Employer Interference/Favoritism Employer Interference/Police and Military Forces Right to Freely Associate
Harassment and Abuse	1	Discipline/Monetary Fines and Penalties
Hours of Work	1	Forced Overtime/Exceptional Circumstances
Health, Safety and Environment	3	General Compliance Health, Safety, and Environment Proper Use of Machinery Ergonomics

Findings and Action Plans

FINDING NO.1

RECRUITMENT, HIRING & PERSONNEL DEVELOPMENT

FINDING TYPE: Immediate Action Required

Finding Explanation

The factory lacks complete policies and procedures for Recruitment, Hiring and Personnel Development Employment Function:

1. There are no written policies and procedures regulating the Recruitment, Hiring & Personnel Development of contract, contingent, and temporary workers. The factory does not have guidelines in place for the contract workers, such as security guards, canteen staff, and cleaning staff who work at the factory.
2. There are 18 contract workers in the factory, including six security guards, five canteen staff, and seven cleaning staff, that are hired and paid by the property management company and catering service provider directly. However, the factory does not maintain either personnel files or employment agreements for any contract workers. The factory does not keep on file any proof-of-age documents for the contract workers, except for those of security guards.
3. The factory does not have policies and procedures on performance reviews.

Local Law or Code Requirement

The PRC Employment Contract Law, Article 10; The Regulations of Banning Child Labor Recruitment, Article 4; FLA Workplace Code (Employment Relationship Benchmarks ER.1.1, ER.4.1, ER.7.2, ER.11.3, ER.11.5, ER.11.6, ER.19.1, ER.27.1, ER.28.1, ER.29.1, ER.31.2, and ER.32.1)

Recommendations for Immediate Action

1. Maintain personnel files with proof-of-age documentation and copies of employment agreements for all contract workers.

FINDING NO.2

TRAINING (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

The factory does not conduct adequate training activities for all Employment Functions, including orientation training, supervisor training and on-going training:

1. The factory provides orientation training to new workers at the time of hiring, but does not include Freedom of Association and Environmental Protection. Moreover, the factory does not provide workers with written documentation substantiating all issues covered in orientation briefings.
2. The policies and procedures on trainings do not include ongoing personnel development training for all workers with the goal of raising or broadening skills in order to advance workers' careers.
3. The factory only trains managerial staff members responsible for administration and human resources on some recruitment policies, grievance procedures, and termination procedures. However, the trainings do not contain all necessary information such as applicable national laws, regulations, the FLA Workplace Code, workplace rules, disciplinary system, and requirements for management practices. In addition, the factory does not involve production managerial staff in any training. None of the basic-level and production managerial staff are familiar with the workplace rules and disciplinary system, applicable national law, grievance procedure, and FLA workplace code.
4. The factory does not provide on-going training to regular workers and managerial staff on updated factory policies, procedures, or legal requirements. Furthermore, the factory does not provide on-going training to any workers with the goal of raising or broadening skill in order to advance their careers.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.15.2, ER.15.3, ER.17.1, ER.17.3, ER.27, and ER.28.2)

FINDING NO.3

COMMUNICATION & WORKERS' INTEGRATION (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory does not formally communicate its policies and procedures for most Employment Functions to the general workforce and management staff. Although the factory introduces some factory rules and practices to workers during orientation trainings and posts relevant policies and procedures on site, such communication is not effective and comprehensive. All interviewees roughly understand some points, but lack understanding of the details, like exact wage calculation, working hours control policy, escalating disciplinary measures, and the tracking system for complaints. The factory has no follow-up procedure to communicate updates and legal revisions to its policies and procedures.
2. The worker integration component is missing for all Employment Functions. The factory has not established procedures for receiving worker input/feedback on the creation, implementation, and revision of its policies and procedures. Also, workers are neither systematically integrated nor consulted in the decision-making processes.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.2, ER.1.3, ER.16.1 ER.25.1, ER.25.2, ER.27.3, ER.29, ER.30, and ER.32; Compensation Benchmark C.17)

FINDING NO.4

REVIEW PROCESS (MACRO)

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory management does not periodically review its policies and procedures for any of the Employment Functions. Some policies and procedures are not updated according to the factory's actual practices.
2. The factory has not revised and updated the basic information in the Factory Social Responsibility Manual according to the current capacity of the factory, including number of employees, production scale and management positions.
3. The factory does not revise its policies on wages in accordance with the current practice including the calculation method of payment.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.1.3, ER.30.2, and ER 31.2)

FINDING NO.5

COMPENSATION

FINDING TYPE: Immediate Action Required

Finding Explanation

1. Workers are not fully provided with the five types of legally mandatory social insurances or the Housing Provident Fund.
 - a) According to the social insurance receipts provided by the factory, the factory provided only 188 of the 318 (59%) workers with pension, accident, medical, maternity, and unemployment insurance in August 2015. Furthermore, the factory provided commercial accident insurance to 156 out of 318 (49%) workers with a valid period from June 24, 2015 to June 23, 2016. In such circumstance, all workers are provided with either legally mandatory or commercial accident insurance.
 - b) The factory does not calculate social insurances based on workers' actual wages. The social insurances are paid based on the minimum standard of CNY 2550 (USD 402) for all workers, while the actual monthly wages for 147 out of 318 (46%) workers ranged from CNY 2,556 to CNY 7,989 (USD1256).
 - c) The factory provided only 40 out of 318 (13%) workers with the legally required Housing Provident Fund based on CNY 2550, when their actual monthly wages ranged from CNY 2,556 to CNY 7,989.
2. The factory does not maintain payroll records for all contract workers, including 6 security guards, 5 canteen staff, and 7 cleaning staff. Hence, the accuracy of payment for contract workers cannot be verified.

Local Law or Code Requirement

The PRC Labor Law, Articles 72 and 73; Housing Fund Management Regulation, Articles 15 and 17; The Provisional Regulations

Recommendations for Immediate Action

1. Maintain complete payroll records for all contract workers.

FINDING NO.6

HOURS OF WORK

FINDING TYPE: Immediate Action Required

Finding Explanation

1. There is no system to record the working hours for all contract workers, including six security guards, five canteen staff, and seven cleaning staff.
2. The factory sets the production target at a level such that workers need to work 50 to 60 hours per week.

Local Law or Code Requirement

The PRC Labor Law, Articles 38 and 41; The Provisional Regulations for the Payment of Wages, Article 6; FLA Workplace Code (Employment Relationship Benchmarks ER.2.1, ER.23.2, ER.23.3, and ER.24; Hours of Work Benchmarks HOW.1.1 and HOW.8.1)

Recommendations for Immediate Action

1. Adopt a reliable and effective time-keeping system to record working hours for all contract workers.

FINDING NO.7

INDUSTRIAL RELATIONS & FREEDOM OF ASSOCIATION

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. The factory has a trade union under the ACFTU (All China Federation of Trade Unions) that was established on July 8, 2008. However, there are neither records on file that indicate that any elections have been held nor any written operational procedures that pertain to such elections.
2. The factory management automatically enrolls all workers as trade union members without the workers' consent. About 80% of the interviewed workers do not know whether they are members of the trade union or not.
3. Factory management, rather than the workers themselves, pays the union dues.
4. Instead of all union representatives being elected by workers directly, three out of five union representatives were nominated by supervisors from each department and only two union representatives were elected by the workers.
5. The union representatives have agreed to and signed a collective bargaining agreement with the factory which includes the legal minimum wage standard. However, the factory does not provide copies of the collective bargaining agreement to all workers.
6. **FLA Comment:** 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 International Labor Organization (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 stipulates 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.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.2.1 and ER.16.2; Freedom of Association Benchmarks FOA.2, FOA.10, FOA.11, FOA.12, FOA.13, and FOA.14)

FINDING NO.8

WORKPLACE CONDUCT & DISCIPLINE

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The factory uses a monetary fine as a disciplinary measure for poor performance by management staff only. The management staff are fined CNY 20 (USD 3.15) to 50 (USD 7.86) if they do not reach the key performance indicator (KPI) for production or quality control goals defined by the factory.
2. The factory does not apply the disciplinary system in a transparent and open manner:
 - a. The factory does not inform workers when a disciplinary procedure has been initiated against them and only provides a written letter to the worker after the disciplinary decision has been made;
 - b. The workers do not sign the written records of disciplinary actions against them;
 - c. The factory does not maintain records of disciplinary actions in workers' personnel files;
 - d. The disciplinary system does not include a third party witness during the imposition and appeal process.
3. Although there are some written policies and procedures on the disciplinary system in the factory, they do not cover the detailed application rules for escalating disciplinary action, such as issuing verbal warnings, written warnings, and termination.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmarks ER.2, ER.27.1, ER.27.3.1, ER.27.3.3, ER.27.3.4, and ER.27.4; Harassment or Abuse Benchmark H/A.2)

Recommendations for Immediate Action

1. Stop using a monetary fine as a disciplinary measure for poor performance of management staff.
2. Establish escalating disciplinary procedures, rather than using monetary fines.

FINDING NO.9

HEALTH & SAFETY

FINDING TYPE: Immediate Action Required

Finding Explanation

1. The sitting chairs provided to seated workers are not adjustable and do not have backrests to minimize workers' bodily strains.
2. The factory does not provide floor mats to the standing workers except for the workers in the ironing department.
3. The factory does not provide a lifting belt to loading workers.
4. The policies and procedures of Health, Safety & Environment are incomplete. The procedure for notifying the local community authorities in the case of emergencies, the right and obligation of employees relating to Health, Safety & Environment, and the procedure of reporting any accidents by employees and subsequent protection for employees against retaliation are not included.

Local Law or Code Requirement

FLA Workplace Code (Health, Safety & Environment Benchmarks HSE.1, HSE.5.4, HSE.17.1, and HSE.17.2)

Recommendations for Immediate Action

1. Provide lifting belts to loading workers.

FINDING NO.10

TERMINATION & RETRENCHMENT

FINDING TYPE: Sustainable Improvement Required

Finding Explanation

1. Although the factory has some written policies and procedures on Termination & Retrenchment, these policies and procedures do not govern all aspects of this Employment Function. The procedures do not address temporary or permanent layoffs and the process of termination payout calculation for resigned workers.

Local Law or Code Requirement

FLA Workplace Code (Employment Relationship Benchmark ER.1, ER.19, and ER.32)