

		Factory: Ocean Sky Apparel (SV), S.A. de C.V.	Name of Auditor(s): COVERCO, Guatemala			

No.	Standard	Findings	Remediation Plan	Completion Date	Auditor Accepted (Case Closed) Yes OR No
1	Wages & Benefits	<p><u>Tardiness or late arrivals:</u> The criterion of COVERCO is that the procedure used by the company is vulnerable, since all the workers need to ask their supervisors for acceptance of their tardiness justification. When there is not an adequate protocol or procedure, there is a chance of subjectiveness from Supervisors.</p>	<p>With immediate effect, Human Resources Department (HR Dept) has now been tasked to manage workers' personal leaves, medical permits, tardiness, and to follow up on absenteeism cases daily. To further improve the workflow, workers can now provide their justifications directly to HR Dept, which will review them based on the procedures to determine next steps. In the event that workers, for unknown reasons, do not present any proof to HR Dept, HR Dept will follow up with the workers directly within 3 days of their last day of absence to ask for the reason(s) behind the tardiness or absenteeism; it will study their cases to ensure there is no subjectivity from supervisors.</p> <p>Ocean Sky Apparel is to describe its commitment to abide by legal and Code of Conduct requirements for reviewing personal leaves, medical permits, tardiness and proper payment. Company will create specific procedures on how to handle personal leaves and tardiness, indicating steps workers can take to a) request personal leaves and b) communicate the reasons for their late arrival. Company will inform workers of the different channels they can use. Company is committed to communicating policy and procedure.</p> <p>All training materials/records, including parameters, will be documented and matched against case studies for more effective follow up.</p>	<p>Immediate action to prevent subjectivity and policy/procedure development and training to be completed by April 30, 2011</p>	
2		<p><u>Pay slips:</u> Regarding the pay slips for workers to take home, it was noted that they do not have sufficient information regarding income and wage deductions.</p>	<p>The requested changes were communicated to the IT Team in the Singapore headquarters. The computer software has since been successfully upgraded, programmed and tested to include additional information in the pay slip receipt. The receipt now includes the number of worked hours, the rate for each category of worked hours (Normal, Overtime, Night Overtime, Holiday, etc.), Incentive bonuses, Allowances, Pension fund carriers contributions (AFP), Social Security deduction (ISSS) and other deductions, if any. Following current practices, workers will verify the pay out details before the actual pay out date, and clarify with HR Dept should they have questions.</p> <p>Since March 10, 2011, the Company has communicated to all workers, including supervisors, leaders and clerks, information on the updated pay slip information. CSR staff will consult workers on their understanding of how wages and benefits are calculated; it will use that information for worker training opportunities throughout the year.</p>	<p>March 10, 2011</p>	
3	Forced Labor	<p><u>Worker Contracts:</u> There is a clause whose writing is not adequate enough to guarantee workers the freedom to decide voluntarily about overtime.</p>	<p>Starting March 7, 2011, Ocean Sky Apparel has eliminated the following clause from the Labor contract: "Due to the nature of the work carried out, your work shift will be, without further notice, subject to voluntary overtime work according to the needs of the company, whenever this is required..." New contracts will no longer include this clause.</p> <p>In the case of existing worker contracts, the Company will seek the Ministry of Labor's advice and implement their recommendations. Target to be completed by April 30, 2011.</p>	<p>Immediate for new contracts; April 30, 2011 for existing contracts</p>	

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4		<u>Overtime Form</u> : The mechanism used for performing overtime, which is through a collective overtime form instead an individual form, is not a guarantee of a worker's individual decision to perform or not perform work.	Ocean Sky Apparel's overtime forms state that all overtime is voluntary, and now indicates that anyone found to be coercing (leaders/supervisors coercing workers, workers coercing workers, or workers coercing leaders/supervisors) for overtime work shall be disciplined accordingly. Repeat offenders, despite counseling, may face termination of employment. Furthermore, HR Dept has been tasked to monitor closely when there is any overtime work to be done; they shall be conducting random checks on both the worker and leader/supervisor levels for possible violations. The message that there will be no repercussion for declining overtime work will be sent periodically over the PA (announcement) system starting March 2011. Additionally, factory management is to include and communicate the overtime policy to supervisors and workers during ongoing training exercises throughout the year.	Immediate	
5	Harassment & Abuse	<u>Verbal Harassment</u> : 29% of the workers interviewed by Coverco confirmed that Supervisors use inadequate vocabulary, a high tone of voice and are hostile. They mentioned that Supervisors may prevent them from going to lunch if they don't reach production targets; they also feel pressure from Supervisors to perform overtime.	All supervisors were informed, by senior staff, to put an immediate stop to any form of verbal harassment. Consequences of such actions have been thoroughly communicated to all supervisors and leaders. On March 9, 2011, all supervisors signed their commitment to stop any form of harassment in the workplace. In addition to the ongoing oversight, Ocean Sky Apparel is seeking a consultant that will further enforce training of leadership/effective communication skills to supervisors and leaders, followed by close monitoring of workers' feedback. In addition to the weekly random checks, HR and CSR Departments will select a group of workers every quarter, starting April 2011, for individual interviews to measure workplace environment. The Company will also implement the newly created Non-Retaliation Policy and Procedures by March 2011. Along with the Grievance Procedure currently in place and the (zero tolerance) Harassment or Abuse standard in the Code of Conduct, training will be conducted annually. Furthermore, during worker orientation, the Company will seek progressive improvements through education, working towards 100% adherence of this policy.	Immediate action to stop hostility, with training, by May 31, 2011	
6	Freedom of Association	<u>Union perception</u> : 59% of the interviewed workers by Coverco indicated that they would face some problems if they tried to form a Union. When they were asked about what would happen, they mentioned worker termination, retaliation and becoming blacklisted. 5% mentioned that they have been trained by the Company about labor rights, but they do not remember if it included the subject of Freedom of Association.	The Company has reinforced its Freedom of Association standards, based on the Code of Conduct, by providing worker training. Furthermore, the Company has provided orientation about the Code of Conduct, including all standards, during the annual training of "Code of Conduct, Policies & Procedures" for the workers, which was completed March 4, 2011. The course covered additional areas, including: Occupational Health & Safety, Work Hours, Freedom of Association, Non-Discrimination, Wages & Benefits and others. Emphasis has been placed on Freedom of Association during the induction process as well.	March 4, 2011	
7		<u>Temperature</u> : During the investigation, the temperature of the three buildings was measured; the minimum temperature was 28.2°C and the maximum was 31.7°C. Based on these results, there is a physical risk.	Company works closely with the Ministry of Labor, which assists in monitoring the temperatures of our workplace by making random visits to take measurements. The last two visits were June 22, 2010 and February 14, 2011. To further reduce heat, we will also install more ventilators in both plants B1 and B2 by the end of March 2011. Where there may be obstructions to airflow, we have already removed the obstructions to better ventilate the area. We will continue to explore ways to better ventilate the workplace and maintain local recommended temperature regulation levels (27.5°C). Temperatures will continue to be taken randomly through the year and Health & Safety Committee will review this on an ongoing basis.	March 31, 2011	

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8		<p><u>PPE:</u> It was noted that the workers in the Spot Cleaning areas do not use PPE. During the visual inspection and interviews it was confirmed that some sewing machines are without needle guards. Workers mentioned that they take them out, as they affect the smooth pass of the fabric/cut panels and affect quality.</p>	<p>Company will improve the extraction system in the Spot Cleaning Areas by the end of March 2011. A new cleaning process is being developed to a) consider the total elimination of chemical usage or b) minimize exposure to any chemicals used with improved PPE.</p> <p>Regarding sewing machine's needle guards, the Company has re-installed them in all sewing machines; it will continue to upkeep and maintain them. Additionally, department heads, supervisors and leaders, will (on a daily operational basis) continue to remind workers of the benefits of guard usage and will answer why they should not be removed.</p> <p>Health & Safety Committee will continue to review the effectiveness of the ongoing reminders for progressive improvements.</p>	March 31, 2011	
9		<p><u>Drinking Water:</u> Workers mentioned that they used to take water from the hand washers installed inside the toilets, instead of getting it from the designated source of drinking water.</p>	<p>An independent and recognized laboratory associated with the Department of Process Engineering and Environmental Sciences of the Universidad Centroamericana "José Simeón Cañas" (UCA), has conducted water tests and studied all water sources in the factory compound. The water samples were drawn on February 23, 2011, and the results were released on March 16, 2011, showing high bacterial count for several water sources. Ocean Sky Apparel has since reached out to the experts of the Department of Process Engineering and Environmental Sciences to work in collaboration on a plan for a Water Safety Plan (WSP) for water potability improvement, which we target to put in place by April 2011. The following are some immediate action items to improve water potability in the factory:</p> <ol style="list-style-type: none"> 1. A comprehensive cleaning of water pipes at Water Tank 1 and Water Tank 2. Develop a written cleaning procedure, indicating how often the cleaning would take place and provide worker training on newly created procedures. 2. Normalize the chlorination procedure for the water tank, including the concentration of added chlorine, application method and verification of the effectiveness of the chlorination. Physicochemical controls such as residual chlorine, pH and turbidity to be established. 3. Evaluate the filtration system at each point of water's input and output: before and after the carbon filter; in the water reservoir; 4. Evaluate and normalize the useful life of the filters and UV lamp used in the purification system. Likewise, establish procedures for filter replacement. 5. Consider an installation of an industrial filter at the water source entering the meal preparation area. 6. Provide training in Good Manufacturing Practices for kitchen and food service providers. 7. Consider purified water in bathroom sinks as an area where workers wash their bottles or designate a bottle washing area where workers can wash their bottles. 8. Normalize the cleaning and periodicity of water coolers and type of water used for cleaning. <p>Ocean Sky Apparel, in collaboration with the Department of Process Engineering and Environmental Sciences, is to further assess the effectiveness of the WSP.</p> <p>Health & Safety Committee will be reviewing the effectiveness of the WSP.</p>	Immediate	
10	Health & Safety	<p><u>Toilets:</u> During worker interviews, (mostly male) workers mentioned that the toilet paper provided by the company is not enough and that asking for more is not an option.</p>	<p>Company has increased the number of toilet paper rolls issued to individual workers starting from February 21, 2011. If there should be any ad hoc needs, workers may approach HR Dept for additional roll(s). An internal communication memo has also been issued to advise all workers.</p> <p>Health & Safety Committee will be reviewing the records of the ad hoc withdrawals to ensure the measure is effectively practiced.</p>	February 21, 2011	

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11		<u>Ironing Table:</u> The flat design of the tables for ironing is not adequate. This situation could cause physical risks and work accidents.	Company has begun testing the various options which may be done to improve the ergonomics of the ironing tables. By the end of March 2011, we will have the ironing tables tilted toward the workers in an effort to reduce fatigue and to avoid possible physical risks. Health & Safety Committee will review the effectiveness of the measure by getting regular feedback from the workers.	March 31, 2011	
12		<u>Packing:</u> The repetitive movements are inadequate and there is an obstruction in the packing area.	Ergonomic Mats: Company will affix the ergonomics mats to the floor so that they will not be moved out of the area where workers conduct their work. HR Dept will also retrieve statistics from the medical clinics to address any injury caused by repetitive work motions, if there should be any. Hallway: Company has marked the hallway in order to avoid the blockage with carton boxes. Health & Safety Committee will conduct sporadic checks and continue to review the effectiveness of measures on an ongoing basis.	March 31, 2011	
13		<u>Finished goods storage:</u> There is a high chance of work accidents since the workers move around on the top of the rack without using PPE.	Company has met with the finished goods storage workers and their supervisor to reinforce the mandatory use of PPE prescribed in this area and to also the appropriate work methods, including the mandatory use of the safety harness. Health & Safety Committee to conduct oversight on this area.	March 5, 2011	
14		<u>Health & Safety Committee:</u> The investigation shows that it exists, but it is not performing.	The new Health & Safety Committee has been approved by Ministry of Labor. The members of the committee will meet monthly starting March 2011. Minutes of each meeting will be recorded. Health & Safety Committee has been tasked to review and provide oversight on the workplace health and safety concerns raised, and will work continually to improve the work environment.	Immediate	
15		<u>Factory Clinic:</u> The investigation shows that there are professional doctors handling the clinic, but that they do not keep statistics of the medical cases attended. Such statistics would help measure the frequency of work accidents, helping the company to take preventive actions.	HR/CSR Dept will retrieve the statistics of the attended cases for further study on a monthly basis starting March 2011. With this information (which will be held in confidence) HR/CSR Dept, with the assistance of the Health & Safety Committee, will work to schedule relevant campaigns or trainings as preventive measures. Joint collaborations with external parties for such campaigns will be considered.	Immediate	
16	Code of Conduct	Though the Code of Conducts of buyers are posted in different places in the Company, the interviews (including those with supervisors) show that the workers do not know about them or even whom to contact if necessary.	Company will include Code of Conduct training during worker orientation, and will provide annual orientation to all workers. CSR Dept will conduct random assessments to measure effectiveness of such knowledge transfers, improving on the channels where possible.	June 30, 2011	



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17	Worker Terminations	20% (8 interviews) commented that there were layoffs for denouncing water problems.	Whilst any layoff has always been conducted based on work performance and/or in accordance to production operation needs, Company will put in place a Termination and Retrenchment Policy and Procedure, guided by the FLA, by March 2011.	March 31, 2011	
18	Coaching of Workers	During the interviews, about 37% of the respondents confirmed that at least 3 supervisors recommended that workers <i>"do not say anything bad about the factory because of the Brands working at the factory may leave."</i>	The Company has provided orientation to supervisors about its commitment to transparency and integrity. Counseling has been completed for all supervisory positions. They have also been reminded that any worker coaching will not only run counter to our effort to remain fully transparent, but will also do the Company an injustice.	March 8, 2011	
19	Lunch Time	24% (10) of interviewees commented on having limitations for leaving the facilities at lunch time, because they can't leave the premises unless authorized by the management.	As of February 28, 2011, no exit permit is required to leave the factory compound at lunch time. Workers have been informed of this change and in fact, workers have been taking lunch outside of factory premises. The various individual departments now monitor the security and safety of their workers for the duration of regular work hours.	February 28, 2011	