

Social Accountability Audit Training

Dec, 2017



make
people
happy



do the
right
thing



keep it
simple



have
fun



give
back



innovate
and learn



spend
smart



Social Accountability Audit

Training Outline

- * Michaels Social Accountability Program Structure & Overview
- * Social Accountability Audit content and emphasis
 - o Based on COC and SA 8000
 - o Audit Report, audit type and audit rating
 - o Critical and Zero Tolerance Issues
 - o Corrective Action Plans (CAP)
- * How Do We Track Compliance?
- * Important Contacts
- * Open Discussion



Social Accountability Audit

Program Structure

- * **The Michaels Companies Legal Department Establishes Company Policy**
 - o Establishes standardized policies and procedures for all vendors that provide product to The Michaels Companies
- * **The Michaels Companies Product Integrity (PI) Operations and Social Accountability (SA) Team Owns Implementation**
 - o PI Operations Manager is responsible for SA Policy and resolution of escalated SA issues
 - o SA Specialist monitors factory compliance with SA program, maintains SA reports in MiPCS, reviews and dispositions SA reports, manages Corrective Action Plans (CAP) as needed and monitors CAP progress
- * **3rd Party Service Provider (SGS) Owns Execution of Audit**
 - o SGS performs audits
 - o SGS facilitates audit scheduling
 - o SGS tracks annual recertification audits and reaches out to vendor to schedule



Social Accountability Audit

Michaels Social Accountability Program Overview

- * Provide transparent, measurable, verifiable standards for certifying the performance of our private brand vendor's factories in essential areas
- * The audit program is based on the Michaels Code of Conduct and focuses on employee welfare and safety.
- * Factories must be audited annually if there are active POs
- * We do not currently accept audits performed outside of our program or audits performed on behalf of another retailer or organization
- * SGS is the only approved 3rd party audit provider

Social Accountability Audit

The Michaels Companies Private Brands (PB)

Includes the following brands, but is not limited to these brands.

If product makes any other reference to Michaels or Darice, SA is required



Darice Brands





Social Accountability Audit

Based on The Michaels Companies Code of Conduct and SA 8000

- * Our audit focuses on worker welfare and safety
- * Our audit is based on SA8000, a leading industry guidance program
- * Our audit follows our Code of Conduct

COC

Vendor Code of Conduct

The Vendor Code of Conduct ("COC") applies to all vendors, suppliers and factories ("Vendors") that provide goods for The Michaels Companies, Inc. or any of its subsidiaries, including, but not limited to, Michaels Stores, Inc., Aaron Brothers, Inc., Artistic, Inc., Danco, Inc., Lerner Ware, Inc., and Pat Catan ("collectively, "Michaels").

Michaels recognizes that our Vendors operate in countries with different laws and cultures. However, Michaels' COC is intended to outline the minimum requirements that all Vendors must meet in order to do business with Michaels.

All Michaels' Vendors supplying merchandise and/or components purchased outside of the United States, including merchandise and/or components originating in the United States territories or possessions, are required to provide the Product Integrity Team (productintegrity@michaels.com) with a copy of their written policy for their foreign factories or suppliers. This policy should encompass the requirements listed below.

Vendors who do not process or manufacture merchandise and/or components from outside of the United States proper must submit a letter stating such. The letter must be an official company letterhead, signed by a principal of the company, and sent to the Product Integrity Team (productintegrity@michaels.com).

In addition, all Vendors are expected to complete an annual inspection of each manufacturing location based on these requirements and maintain a record of the inspections at these headquarters. Michaels reserves the right to review these inspection reports upon request.

Vendors must allow Michaels and its representative unrestricted access to inspect its manufacturing location to ensure compliance with this COC.

Compliance with Applicable Laws: Vendors must comply with the legal requirements and industry standards of the countries in which the Vendors are doing business. Should the legal requirements and industry standards conflict, Vendors must comply with the legal requirements of the country in which the products are manufactured. If, however, the industry standards exceed the country's legal requirements, Michaels will force Vendors who meet the more rigorous industry standards.

Employment: Michaels regards our Vendors as business partners, and we have developed a strong level of teamwork within our vendor community. Michaels expects the spirit of its commitment to be reflected by its Vendors with respect to their employees. At a minimum, Michaels expects its Vendors to comply with the following:

A. Child Labor: The use of child labor is prohibited. Vendors agree to employ only workers who meet the applicable minimum legal age requirement for the country or region where the manufacturing is located, or are at least 15 years of age, whichever is greater. Vendors must maintain records verifying every worker's date of birth. Children under the age of 15 are not permitted in any area of the factory where employees are working, including the production floor and any packaging or assembly areas.

B. Forced Labor: The use of forced labor is prohibited. Vendors must not use any form of prison labor, indentured labor, bonded labor or other similar types of forced labor.

C. Human Rights: Vendors must ensure that every employee is treated with respect and dignity. No employee shall be subjected to any physical, sexual, psychological or verbal harassment or abuse.

Best Practice

Social Accountability Best Practices

Factory Social Accountability compliance is essential to The Michaels Companies vendor relationship. We want to help our vendor and factory partners be successful with our program as well as foster continuous improvement efforts. Although our expectation is that factory partners are always in compliance with our Social Accountability requirements, we are offering this short list of best practices and tips to help our partners prepare for the annual Social Accountability audit. This list is not comprehensive - it should be used as a guideline for best Social Accountability best practices.

Follow and Post The Michaels Companies Code of Conduct:
Vendor partners must review the Code of Conduct with their factories. Please be sure factory partners understand the Michaels Code of Conduct and are in compliance at all times.

Emergency Exit Lighting and Signs:
Factory partners must regularly inspect emergency exit lighting and signage to be sure it is functional and present in all required locations.

Emergency Exits:
Factory partners must monitor all emergency exits to ensure they remain unlocked and unobstructed. Vendor partners should assist the factory with implementing a daily process for verifying that all emergency exits are unlocked and free of obstructions.

Maintain Clear Aisles and Pathways:
All pathways and aisles should remain clear of obstructions including materials, pallets, and finished goods. Factories should perform inspections throughout the day to confirm that aisles and pathways remain clear.

Record Keeping:
Review factory record keeping. Be sure the factory has a robust record keeping system to document attendance, wages, social insurance, certifications, and safety records. Record retention is an essential part of social compliance and our vendor partners should ensure factories have these records available for review at all times.



Social Accountability Audit

SA Reporting

- * Michaels has an established audit format and all audits will be conducted and communicated using the standard format
 - Includes a cover page with factory and vendor details
 - Includes the audit, auditor observations and comments as well as scoring for each evaluation point
 - Includes a Corrective Action Plan page
 - The Michaels Companies Team receives a copy of all audit reports



Social Accountability Audit

SA Reporting

FACTORY INFORMATION					
Audit Number:					
Factory Name (all CAPS):					
Factory Address (include Country & Postal Code):					
Factory GPS coordinates:				Factory ID No.:	
Factory Phone:			Fax:		
E-mail:			Website:		
Business Registration Number:			Agent: NA		
Number of Management:		Number of QC/QA Staff:		Annual Turnover in USD:	
Number of Workers:					
Minimum wage for standard hours:		RMB 1860 per month, RMB 10.69 per hour			
Vendor Name:		Vendor Contact:		Vendor Number:	
Assessment Type:		<input type="checkbox"/> Initial Assessment <input checked="" type="checkbox"/> Recertification Assessment <input type="checkbox"/> CAP Follow Up Assessment <input type="checkbox"/> Other (List on line below) <input type="checkbox"/> Recertification - Factory Relocation			
Other:					
Date of Evaluation:		11/17/17		Auditor(s): Irene Chen	
Previous SA Score:		84.40%		Previous SA Date: 6/13/16	



Social Accountability Audit

SA Type

- * **Initial Audit** – refers to the first time a factory is audited for Michaels
- * **Recertification Audit** – refers to the annual audit.
- * **Re-audit** – refers to a Corrective Action Plan (CAP) follow up audit.
 - o **CAP** – refers to the detailed plan of how and by when non-conformances will be corrected.
 - o Re-audits are always unannounced
- * **Unannounced Audit** – Michaels reserve the right to conduct unannounced audits at any time



Social Accountability Audit

SA Reporting

ASSESSMENT RESULTS			
Area of Evaluation	Maximum Score	Actual Score	Percentage
Child Labor	70	70	100.0%
Forced Labor	110	110	100.0%
Management Practices	60	60	100.0%
Freedom of Association & Right to Collective Bargaining	20	20	100.0%
Subcontractors	50	50	100.0%
Discrimination	20	20	100.0%
Disciplinary Practices	50	50	100.0%
Working Hours	40	20	50.0%
Wage Benefits	70	60	85.7%
Environmental Protection	20	20	100.0%
Health & Safety	290	280	96.6%
Health & Safety: Dormitory/Eating Area	80	80	100.0%
Total Score:	880	840	95.5%
Final Audit Result:	<input checked="" type="checkbox"/> Exceptional <input type="checkbox"/> Acceptable <input type="checkbox"/> Unacceptable Total Score <input type="checkbox"/> Unacceptable: Critical Failure		



Social Accountability Audit

SA Reporting

All audits must be conducted by SGS. No alternate audit forms will be accepted in lieu.

Result Key:

Darice Global Sourcing SaRL reserves the right to conduct announced and unannounced factory audits at any time, regardless of prior Social Accountability audit scores. Factories that receive passing Social Accountability audit scores that may still be audited without prior notice.

Indicates that the factory will be allowed to correct the item while the auditors are at the factory. If 11.1 is corrected at the time of the audit with the auditors present, it will no longer be considered a critical violation; however, the points will still be lost/deducted for that line item.

Failures on these items are considered **CRITICAL** failures.

80-100% with NO CRITICALS - Exceptional Rating - Next Audit will be conducted within 1 year.

50-79% with NO CRITICALS - Acceptable Rating - Next Audit will be conducted within 1 year.

<50% with NO CRITICALS - Unacceptable Rating - Next Audit to be conducted within 2 months.

Any score that includes a **CRITICAL failure** - Unacceptable Rating - Next Audit to be conducted within 2 months for Critical Failures not including Child/Forced Labor. For Critical Failures including Child/Forced Labor, the factory will be immediately contacted for further instruction.



Social Accountability Audit

SA Reporting

	Health and Safety			290	220	TOTAL	
	The Facility has an appropriate number of fire exits in both the production and living areas. All are unlocked, clear of obstacles and equipped with appropriate signage and emergency lighting.	11.1	No CAP required.	2017/9/18	30	30	
	The Facility has an appropriate number of fire alarms in both the production and living areas.	11.2	No CAP required.	2017/10/11	20	20	
	The facility practices fire safety training at least once every six months in both the production and living areas and provides training for all shifts.	11.3	No CAP required.	2017/10/11	20	20	
	The facility has an appropriate number of fire extinguishers in the production area and living area. All are charged, visible, accessible to all workers and are inspected for functionality on a regular basis.	11.4	No CAP required.	2017/10/11	20	20	
	Proper evacuation plans are displayed within the Facility and living area.	11.5	No CAP required.	2017/10/11	10	10	
	Walkways (including stairs, aisles, etc.) are free of obstruction.	11.6	No CAP required.	2017/10/11	10	10	
	The working conditions in the Facility are acceptable. (e.g. noise level, temperature, ventilation, humidity and lighting).	11.7	Facility will ensure working conditions are acceptable in relation to noise level, temperature, ventilation, humidity and lighting and will correct any such issues that cause poor working conditions. Based on reviewing the noise and air quality test report of workshop, it was 85.4dB(A) which exceeded local law limited (85dB) in crushed and mixing workshop. Moreover, the factory did not provide occupational disease health examination for hazardous (the noise of crushed and mixing) operators on a regular basis (once per year), the latest was 19 Jul, 2016.	2017/10/11	10	0	
	The facility has appointed a senior management representative responsible for the health and safety of all personnel.	11.8	No CAP required.	2017/10/11	10	10	
	All electrical equipment (e.g. wiring, plugs, junction boxes, etc.) used in the Facility are properly marked and in safe condition	11.9	No CAP required.	2017/10/11	10	10	



Social Accountability Audit

Typical Challenges and Opportunities

- * Factories usually have the most opportunity for improvement in the following audit areas:
 - o Health and Safety
 - o Emergency Exit Lighting and Signage
 - o Working Hours and Wage Benefits
 - o Factory must provide accurate attendance and wage records
 - o Required Social Insurances



Social Accountability Audit

SA Audit Ratings

- * **Exceptional** – score of 80% –100% with NO CRITICALS.
 - Next audit to be conducted within 1 year unless otherwise directed by The Michaels Companies
- * **Acceptable** – score of 50% – 79% with NO CRITICALS
 - Next audit to be conducted within 1 year unless otherwise directed by The Michaels Companies
- * **Unacceptable** – score of less than 50%
 - Next audit to be conducted within 2 months unless otherwise directed by The Michaels Companies
- * **Critical** – any rating combined with a critical issue or zero tolerance issue
 - Next audit to be conducted within 2 months or timeline determined by PI Operations Manager

The Michaels Companies reserves the right to conduct unannounced audits at any time.



Social Accountability Audit

Critical and Zero Tolerance Issues

- * Child Labor or Human Trafficking (Zero Tolerance)
- * Attempted Bribery (Zero Tolerance)
- * Corporal Punishment, Physical, Verbal or Mental Abuse (Zero Tolerance)
- * Missing Business License or Permit to Operate
- * Unauthorized Subcontracting
- * Emergency Exits and Appropriate Lighting & Signage

Any allegations of Zero Tolerance or Critical Issues will be escalated to Product Integrity Operations Manager immediately.



Social Accountability Audit

Subcontracting

- * We require audits for subcontracting facilities if:
 - o The subcontracting facility is in possession of items or component parts that reference Darice or Michaels private brands

- * Vendors/Factories must disclose ALL subcontracting situations
 - o Failure to disclose subcontracting situations can result in shipment delays. These delays are costly and we must work to prevent delays due to unauthorized subcontracting
 - o If you are unsure if there is a subcontracting situation that requires an audit, please reach out to us!



Social Accountability Audit

Subcontracting

In some cases, a process is conducted outside of the production facility, however, it may be a manufacturing step that does not require an SA audit. Below are a few of examples of off site manufacturing steps that do not require an SA audit:

- *Printing Facility (packaging printing)
- *Carton Manufacturing
- *Packaging Warehouse (where items are stored for shipment or inspection)
- *Cottage or Village Manufacturing



Social Accountability Audit

Subcontracting – Example

* Factory ABC produces Michaels private brand frames. The factory subcontracts the painting process for the frame turnbuckles. The same painted turnbuckles are used in all of the frames produced at Factory ABC. The turnbuckles have no reference to The Michaels Companies or any of The Michaels Companies private brands. The turnbuckles are also not specific to Michaels production. Factory ABC simply has all of their turnbuckles painted at the off-site facility. Is an audit required?

* **Answer:** No, because the subcontractor does not have items that reference Michaels or a Michaels private brand.



Social Accountability Audit

Subcontracting – Example

- * Factory ABC subcontracts the screen printing process for a Recollections brand pen. The pen barrels are sent to the subcontracting facility where a screen print of The Michaels Companies private brand name "Recollections" is applied. The pen barrels are then returned to the primary manufacturing facility where they are assembled, packaged, and shipped. Is an audit required?

- * **Answer:** Yes! Because the subcontracting facility is in possession of an item that bears reference to one of The Michaels Companies private brand names.



Social Accountability Audit

Corrective Action Plans

- * A Corrective Action Plan (CAP) may be required when factories do not meet our audit requirements
- * CAP may be required for audits of any rating
- * CAP is ALWAYS required when the total audit score is 75% or lower, or, if a Critical or Zero Tolerance violation is observed
- * CAP may or may not require a follow up re-audit
- * The SA Team monitors CAP progress to help our factories stay on track and be successful with our audit program – continuous improvement is key!



Social Accountability Audit

Corrective Action Plans

- * Corrective Action Plans must address all non-conformances noted on the report
- * CAP should state the individual responsible for ensuring the correction is made
- * CAP must state the root cause of the non-conformance
- * CAP must detail actions taken to correct the non-conformance
- * CAP must detail actions taken to ensure the non-conformance does not occur in the future
- * CAP must include photo evidence of corrections
- * The most common format for Corrective Action Plans is either Excel or Power Point format. Not bigger than 5MB.



Social Accountability Audit

How Do We Track Compliance?

- * Michaels Product Compliance System (MiPCS) provides visibility to factory base
 - o Vendors associate their vendor number with factory
 - o Vendors associate their items with factory
- * SA audit reports are stored in MiPCS for easy compliance tracking
- * Custom query alerts SA team when any items on open POs are associated with factories that do not have a current passing audit on file
- * SGS monitors audit anniversaries and will reach out to the vendor to schedule the recertification audit prior to the expiration of the current audit



Social Accountability Audit

Program Contact Information

PI Operations Manager, based in US, Michaels:

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Social Accountability Audit

Open Discussion

Q&A ?

Thank you!