Corrective Action Verification Audit (CVA) Report

<table>
<thead>
<tr>
<th>Organization:</th>
<th>Open Bay Timber</th>
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<tbody>
<tr>
<td>Cert/Ver/Val Code:</td>
<td>SW-FM/COC-005600</td>
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<tr>
<td>Report Date:</td>
<td>March 27, 2013</td>
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I. AUDIT PROCESS

<table>
<thead>
<tr>
<th>Auditor, Qualifications:</th>
<th>Shane McCarthy (Lead auditor)</th>
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<tbody>
<tr>
<td></td>
<td>Shane McCarthy holds a Master of Science degree in International Forestry, and Bachelors degree in Zoology from the University of Montana, USA. Shane is an ISO-FSC accredited FM and COC auditor and has participated in eight FM-COC audits in Australia and Indonesia. He has thirty years of professional experience in all facets of forestry, agroforestry, natural resource management, and agriculture and including fifteen years of experience working with certification systems such as SAN, Organic, Fair Trade and Starbuck’s CP, during which he assisted or facilitated the certification of thousands of farms, wood lots, processing facilities, and cooperative businesses. Mr. McCarthy lives in Indonesia and works throughout the Asia Pacific region as a certification auditor and project consultant.</td>
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<thead>
<tr>
<th>Audit Date(s):</th>
<th>March 13, 2013</th>
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<tbody>
<tr>
<td>CVA Type:</td>
<td>Desk review □ On-site ☒ Location(s): Open Bay Logging Camp, East New Britain, Papua New Guinea</td>
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Audit Overview:

<table>
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<tr>
<th>Monday March 11:</th>
<th>Tuesday March 12:</th>
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<tr>
<td>Travel from Medan-Singapore-Port Moresby</td>
<td>Arrival in Port Moresby, travel to East New Britain flight cancelled, requiring delay until the following day.</td>
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**Wednesday March 13:**
- Fly from Port Moresby to East New Britain, then travel by car and boat to Open Bay headquarters. Arrival at 12:30 PM.
- Opening meeting held from 13:00 to 15:30 (see attendance list).
- Presentation by FME on corrective action remediation activities.
- Observation visit to main plant nursery, interviews with nursery staff regarding the FME employee complaint system.
- Tour of company compound.
- Document review.

**Thursday March 14:**
- Interviews with local community members (9) regarding RTE species training provided by the FME.
- Interviews with FME employees at the Log Pond regarding RTE species training (4) and the FME employee complaint system (11).
- Interviews with FME employees at the employee health clinic (2) regarding RTE species training and the FME employee complaint system.
- Interview with FME employee (head teacher) at the local primary school regarding RTE species training.
- Presentation and group interview with students at the local secondary school (approximately 75) regarding RTE species training.
- Preparation of audit report
- Honorary tree planting and tour of cacao interplanting plantations
- Closing meeting at 15:00

**Friday March 15:**
- Travel from Open Bay HQ to Kokopo ENB via boat.

**Saturday March 16:**
- Travel from Kokopo ENB to Port Moresby, then to Singapore

**Sunday March 17:**
- Travel from Singapore to Bali

Opening meeting: Wednesday March 13, 13:00-16:00

**Power point presentation and submission of documents relevant to the NCRs.**

**Attendance:**
- Diosdodo Paler Jr. Assistant General Manager/ Env-FSC Unit Manager
- Terry Sakaki Assistant General Manager / Business Unit Manager
- Sawada Akihiro Director /General Manager
- Kenji Ueda Assistant General Manager
- Melissa Melepia Reforestation Supervisor
- Boniface Tallele Forestry Division Supervisor
- Gerard Kaligsa Reforestation Foreman
- David Corpuz Reforestation Unit Manager

Main Plant Nursery staff interviewed: Patricia, Floreta, Johnny

**Changes to Scope since last Audit:** None
II. NON-CONFORMITY REPORT (NCR) EVALUATION

<table>
<thead>
<tr>
<th>MAJOR NCR#</th>
<th>NC Classification:</th>
<th>Major X</th>
<th>Minor</th>
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<td>03/11</td>
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| Standard & Requirement: | FSC National Standards for PNG, Version 1.1, 4.3.2 |
| Report Section:       | Appendix II, Criterion 4.3 |

**Description of Non-conformance and Related Evidence:**

**Assessment 2011:**

OBT forest managers indicated that they encourage their employees to air their views during department or sectional meetings. Interview with several workers confirms that they are satisfied with the employment condition in the FME. However, there are still several workers interviewed said that they had no avenue to air their concern. It is found that they’re not aware that they can be able to air their view during such meetings. Thus, Minor NCR is issued.

**Annual Audit 2012:**

Following two documents were submitted as evidence:

- Procedure for lodging individual complaint issued by the Managing Director on May 14, 2012 and Process Flow: Channel of Communication
- Minutes of FSC team meeting, July 27th, 2011 and July 13, 2012

The procedure presented shows the FME’s decision to collect voices from employees and address their concerns effectively. According to the process flow, any employees have to first talk to their supervisors to resolve the issue. Only when the issue cannot be resolved at the level, it is brought up to a higher level. The interviews with a number of workers at different level confirmed that the employees have good understanding of this system.

However, several women working in the Warakina Nursery stated that despite they had requested equipment such as gloves, rubber boots, and hats for work, the request has never been heard. Their supervisor acknowledged the request and he stated that he had conveyed the request to the management, but there had been no response. There was no record showing that the request was considered or heard.

The audit team considers that despite the effort of FME, the root cause has not been addressed yet. Thus this NCR remains open and is upgraded into a MAJOR NCR.

**Corrective Action Request:**

Organization shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:**

March 2013 (3 months from the finalization of 2012 Annual Audit report in December 2012).

**Evidence Provided by Organization:**

- Flow chart diagram of the new FME employee complaint system. This diagram graphically explains the three available options by which an employee can submit a complaint (see Exhibit 1)
- Employee complaint submission form: a new form which is available to employees wishing to submit a formal complaint (Exhibits 2,3) to the complaint box
- Revised employee complaint data form. Log of all complaints (Exhibit 6)
- Acknowledgement receipt form for complaint submission (Exhibit 5)
- List of employee complaint system training recipients and dates
- Photo documentation of training
- "Complaint boxes” installed at all office buildings  (Exhibit 2)
- Auditor interview with “case study” individual
**Findings for Evaluation of Evidence:**

Testimonies from interviewed employees indicate that there is an adequate level of satisfaction with and understanding of the training that they have recently received pertaining to the FME’s new complaint filing system. The FME has established three options which are available to its employees within its newly modified complaint system:

1) Individual: Discuss the issue directly with the supervisor
2) Participatory: Submit a written complaint to the drop box with identification of the complainant who will then expect and pursue resolution
3) Confidential: Submit a written complaint to the drop box anonymously

Please refer to the flow chart for additional clarification.

Reports are to be reviewed every two weeks, prioritized, delegated to respective management personnel, addressed (mitigated), evaluated, and then closed.

The recent modification was designed to close a “loop” in the original system.

All employees who were interviewed were pleased with the complaint box option as it can alleviate the need for direct confrontation, which many were admittedly uncomfortable with (the local culture is notably hierarchical and non-confrontational).

Due to recent heavy rains the rivers were too high to cross, and it was therefore impossible for the auditor to visit the Warakina nursery and interview the women who had submitted the original complaint, which was the basis of this NCR. The auditor was however able to visit the main nursery and inspect the operations and tools as well as interview the workers there. The findings satisfied the relevant criteria.

One worker, who happened to be the only person to submit a complaint since the modifications were instituted, was interviewed by the auditor regarding his experience with the system thus far and although a bit intimidated by the attention initially, eventually reported that he understood and had faith in the system (Exhibits 4, 5)

Based on this evaluation the auditor considers that the FME has addressed the specific occurrences and the root cause described in the evidence above to eliminate and prevent recurrence of the non-conformance.

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**NCR Status:** CLOSED

**Comments (optional):** The FME’s newly modified complaint filing system has only been in use for about two weeks and has therefore only received one complaint (actually more of a “request”) so has not had ample time to be fully tested for the full cycle of an official complaint yet. But the structure of the system appears to be logically designed and functional.

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**MAJOR NCR#:** 05/11  
**NC Classification:** Major X  
**Standard & Requirement:** FSC National Standards for PNG, Version 1.1, 6.2.2.a  
**Report Section:** Appendix II, Criterion 6.2
**Description of Non-conformance and Related Evidence:**

**Assessment 2011:**
During HCVF Assessment, the team from WWF Papua New Guinea has informally trained several staff on the identification of RTE species. However, there is currently no training available for communities surrounding the FMUs within the scope of certificate and other workers related to RTE species.

**Annual audit 2012:**
The email communication with experts was submitted to demonstrate that the FME had made an effort to invite RTE experts to have training for them. However, the proposed training fee amounts to 19,528.76 PGK, which has prohibited the company from further planning. The training has not been realized.

The audit team confirmed by interviews that the local people are generally aware that they cannot hunt protected species. Yet not many of them had clear idea what is exactly protected species. No evidence was presented to demonstrate that training has taken place. As such, this NCR remains OPEN and upgraded to a MAJOR NCR.

**Corrective Action Request:** Organization shall implement corrective actions to demonstrate conformance with the requirement(s) referenced above. Note: Effective corrective actions focus on addressing the specific occurrence described in evidence above, as well as the root cause to eliminate and prevent recurrence of the non-conformance.

**Timeline for Conformance:** March 2013 (3 months from the finalization of 2012 Annual Audit Report in December 2012)

**Evidence Provided by Organization:**
- Awareness Training Program results summary data sheet
- Report sheet: name lists from trainings (Exhibit 10)
- RTE training notice in English (Exhibit 8) and its translations into Pidgin (Exhibit 9)
- Photo documentation from trainings
- RTE ID billboard for training (Exhibit 11)
- RTE ID wall posters placed at schools, community buildings and company installations (Exhibit 12)
- Interviews with community members, staff, and school children (Exhibit 13)

**Findings for Evaluation of Evidence:**
The auditor was able to verify through interviews with local people, school children, teachers, and FME staff that training on RTE species had been provided and did in most cases increase the level of understanding of its recipients about the definitions and significance of the RTE categories of wildlife. Most community members who were interviewed exhibited a reasonable ability to recognize most RTE species and proclaimed that they understood the importance of conserving these animals and their critical habitats. Many expressed interest in receiving more education about the topic and said that what they would enjoy most would be “field identification” of species and habitats.

Children in particular expressed enthusiasm and seemed to benefit from the didactic materials such as the posters that had been placed near the entrances to many of the FME’s buildings, as well as the Health Clinic and the School.

It was explained by the FME staff that the communities that received the RTE training are prioritized by proximity to HCVs and are within the concession; therefore many of the bordering areas had not yet received the training.
All training materials are provided in both English and Pidgin. The RTE training program is scheduled to continue until the end of 2013.

Based on this evaluation the auditor believes that the FME has addressed the specific occurrences and the root cause described in the evidence above to eliminate and prevent recurrence of the non-conformance.

**NCR Status:** CLOSED

**Comments (optional):** No SOP or future activity schedule has been drafted yet for the provision of continued RTE training, nor has there been any monitoring, recording, or reporting of the results or impact of the trainings (a minor NCR was issued during the 2012 annual audit in relation to monitoring). The FME stated that the HCV staff would begin to do that soon.

### III. CONCLUSIONS

- **NCRs Closed:**  
  - ☑ No follow-up required related to closed NCRs
  - ☐ Original NCRs closed and new NCR(s) issued, see section IV below

- **NCRs Open:**  
  - ☐ Certification/Verification/Validation not approved; conformance with NCRs required
  - ☐ Major NCRs not closed; suspension of certification/verification required
  - ☐ Minor NCRs are upgraded to Major; see section IV below
  - ☐ New NCR(s) issued, see section IV below

**Comments/Follow-up Actions:** Complaint registration system is still new and verification of its functionality may require several more months to complete all stages of a complaint cycle (submission, receipt, mitigation if needed, verification, closing). A follow-up analysis could be conducted during the next annual audit to monitor its effectiveness.

### IV. OPEN NCRs

Newly issued or upgraded NCRs: None

### V. AUDIT REPORT APPROVAL

**Note:** A formal Q-09 Report Review and Approval (RRA) Checklist conducted by an independent, authorized reviewer is required when the CVA results in certificate/verification/validation issuance or suspension/termination, or when there is a change in scope. In all other cases, the report may be approved with the 2nd checkbox below by an authorized RRA reviewer which may be the CVA auditor, or by a Senior Auditor.

- ☐ Refer to separate Q-09 RRA Checklist
- ☑ Report approved by way of this checkbox
  
  **Approved by:** Chisato Tomimura  
  **Date:** March 27, 2013
  
  **Salesforce has been completed with applicable files uploaded, and is updated based on any changes to the Organization details or other areas relevant to the CVA.**
Appendix: Exhibits

Exhibit 1: Complaint Process Flow Chart

Exhibit 2: Complaint Drop Box

Exhibit 3: Employee Complaint Submission
Exhibit 8: RTE Training notice

Exhibit 9: RTE Training notice Pidgin

Exhibit 10: RTE Training Attendance List
Exhibit 13: School kids and RTE ID