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**Rainforest
Alliance**

SmartWood Program

Forest Management
2009 Annual audit
Report for:

**Mendocino Redwood
Company**
In
Ukiah CA

Report Finalized: June 11, 2010
Audit Dates: September 15-16
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Certificate code(s): SW-FM/COC-000128
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| Standard Conversions |
|--------------------------------|
| 1 mbf = 5.1 m ³ |
| 1 cord = 2.55 m ³ |
| 1 gallon (US) = 3.78541 liters |
| 1 inch = 2.54 cm |
| 1 foot = 0.3048 m |
| 1 yard = 0.9144 m |
| 1 mile = 1.60934 km |
| 1 acre = 0.404687 hectares |
| 1 pound = 0.4536 kg |
| 1 US ton = 907.185 kg |
| 1 UK ton = 1016.047 kg |

1. INTRODUCTION

The purpose of this report is to document annual audit conformance of Mendocino Redwood Company, hereafter referred to as Forest Management Enterprise (FME). The report presents the findings of SmartWood auditors who have evaluated company systems and performance against FSC forest management standards and policies. Section 2 of this report provides the audit conclusions and any necessary follow-up actions by the company through corrective action requests.

SmartWood audit reports include information which will become public information. Sections 1-3 will be posted on SmartWood's website according to FSC requirements. All appendices will remain confidential.

Dispute resolution: If SmartWood clients encounter organizations or individuals having concerns or comments about Rainforest Alliance / SmartWood and our services, these parties are strongly encouraged to contact SmartWood regional or Headquarters offices directly (see contact information on report cover). Formal complaints or concerns should be sent in writing.

2. AUDIT FINDINGS AND RESULTS

2.1. Audit conclusion

| Based on Company's conformance with FSC and SmartWood requirements, the audit team makes the following recommendation: | |
|--|---|
| <input checked="" type="checkbox"/> | Certification requirements <u>met</u>, certificate maintenance recommended No CAR(s) issued |
| <input type="checkbox"/> | Certification requirements <u>not met</u>: |
| Additional comments: | None |
| Issues identified as controversial or hard to evaluate. | There were no issues that were hard to evaluate |

2.2. Changes in the forest management of the FME and the associated effects on conformance with the standard.

Since the previous annual audit in 2008, staff reductions and furloughs have taken place. Also, 5 employees have been reassigned to Humboldt Redwood Company. Due to these staff reduction, the workload of the remaining employees has increased, and all of the remaining employees have taken a pay reduction. Reduction in staff resulted in reduced avian surveys, frog monitoring, and fire monitoring. Timber harvest plan preparation and marking has also been reduced since the staff reductions. MRC is adding and making adjustments in staff to address gaps in monitoring.

2.3. Stakeholder issues

There were no stakeholder issues identified

2.4. Conformance with applicable corrective action requests

The section below describes the activities of the certificate holder to address each applicable corrective action issued during previous evaluations. For each CAR a finding is presented along with a description of its current status using the following categories. Failure to meet CARs will result in nonconformances being upgraded from minor to major status with conformance required within 3 months with risk of suspension or termination of the SmartWood certificate if Major CARs are not met. The following classification is used to indicate the status of the CAR:

| Status Categories | Explanation |
|-------------------|--|
| Closed | Operation has successfully met the CAR. |
| Open | Operation has either <u>not met</u> or has <u>partially met</u> the CAR. |

Check if N/A (there are no open CARs to review)

| | | |
|---|----------------|--|
| CAR 01/08 | | Reference to Standard: 6.6g |
| Non-conformance | | One of the permissible herbicides currently in use for invasive species control was not included in list of names and quantities of herbicides used on MRC property during the past year. Staff did not follow MRC protocols for herbicide use. |
| Major | Minor X | |
| Corrective Action Request: Staff must follow MRC's herbicide application protocols by reporting all applications of herbicide in management activities, including the name and quantity used, to the reforestation forester. | | |
| Timeline for conformance: | | Prior to next annual audit |
| Evidence to close CAR: | | In response to this car, MRC has developed a process document entitled "Herbicide Application Reporting Process", developed by key staff. This document was shared and distributed to staff involved in the reporting process. Currently, MRC only has one licensed herbicide applicator. New staff will be trained in this reporting process. This process requests that 1) All herbicide application reports are sent to Reforestation Forester and 2) the reforestation forester reviews all reports prior to their publication for any errors. The MRC financial coordinator will receive accumulated reports and track and tally the herbicide usage and prepare an annual report for SW. The report will be separated by sustainability unit, by active ingredient, and list pounds of active ingredient applied and acreage affected. MRC had provided a 2008 report of the quantity and acreage of herbicide applied in 2008 by area. |
| CAR Status: | | Closed |
| Follow-up Actions (if app.): | | |

2.5. New corrective actions issued as a result of this audit

No new Corrective Action Requests were issued as part of the 2009 annual surveillance audit.

2.6. Audit observations

Observations are very minor problems or the early stages of a problem which does not of itself constitute a non-conformance, but which the auditor considers may lead to a future non-conformance if not addressed by the client. An observation may be a warning signal on a particular issue that, if not addressed, could turn into a CAR in the future (or a pre-condition or condition during a 5 year re-assessment).

| | |
|---|---|
| OBS 01/09 | Reference Standard & Requirement: FSC Pacific Coast Standard Indicator 6.5.t |
| <p>On multiple occasions, a neighboring landowner's cattle have entered a riparian area deemed important for a federally listed threatened species, the California red-legged frog. Impacts from cattle can negatively affect riparian habitat for California red-legged frog by impacting stream bank stream channel stability resulting in sedimentation compromised water quality and habitat function. MRC has made several attempts to address issues stemming from this landowner's cattle in the past; however, it appears that the landowner's response has been insufficient for adequate protection of the stream habitat. Since the 2008 audit, MRC has communicated via email and written a letter to the adjacent landowner, suggesting a solution to fix the fencing by applying for a grant. However, the problem still has not been effectively resolved and continues. If this problem continues, the auditors must issue a CAR during subsequent audits</p> | |
| <p>Observation: MRC should pursue stronger control measures to protect this sensitive area so that grazing by domestic animals is controlled to protect the species composition and viability of the riparian vegetation and the banks of the stream channel from erosion.</p> | |

| | |
|---|---|
| OBS 02/09 | Reference Standard & Requirement: FSC Pacific Coast Standard Indicators 6.7.a & b. |
| <p>MRC's fuel spill policy is clear and in conformance with FSC principles and local laws. Measures are required to maintain spill and leaks. However, interviews with private logging contractors in the field revealed that there was no spill kit or other adequate measure on site to apply in case of a spill. Although there was a spill kit is available in the Ukiah forestry office, spill kits should be available on site in order to support the immediate containment of a spill</p> | |
| <p>Observation: In the event of a spill of hazardous material, FME should ensure that policies and practices support the immediate containment of the hazardous material, reporting of the spill as required by applicable regulations, and the engagement of qualified personnel to perform the appropriate removal and remediation.</p> | |

| | |
|---|---|
| OBS 03/09 | Reference Standard & Requirement: FSC Pacific Coast Standard Indicator 7.2.a |
| <p>The MRC management plan has not been updated since August 2000. This management plan is available publically through the MRC website, but needs to be modified and updated. Management plans are modified every 10 years or in accordance with the frequency of harvest for the stand of forest.</p> | |
| <p>Observation: MRC should ensure that Relevant provisions of the management plan are modified: (1) every 10 years or in accordance with the frequency of harvest for the stand or forest, whichever is longer; (2) in response to effects from illegal and/or unauthorized activities (e.g., damage to roads, depletion of timber and non-timber resources), (3) in response to</p> | |

changes caused by natural disturbances.

| | |
|--|---|
| OBS 04/09 | Reference Standard & Requirement: FSC Pacific Coast Standard Indicator 8.1.a |
| Field observations and interviews indicated record keeping could be improved in regards to contractor oversight. There are currently no documents or logs to record daily activities in active logging areas. Daily logs of activities would greatly assist area foresters in monitoring logging activities and ensure tracking of recurring operational problems. | |
| <p>Observation: MRC should improve its record keeping procedures so that they are consistent and replicable over time to allow for comparison of results and modification of policies. MRC should improve its record keeping procedures so that they are consistent and replicable over time to allow for comparison of results and modification of policies. And Implementation of the management plan is periodically monitored to assess:</p> <ul style="list-style-type: none"> · the degree to which management vision, goals, and objectives have been achieved · deviations from the management plan · unexpected effects of management activities · social and environmental effects of management activities | |

| | |
|--|---|
| OBS 05/09 | Reference Standard & Requirement: FSC Pacific Coast Standard Indicator 8.1.b |
| MRC has recently undergone major staffing reductions that may have adversely impacted their ability to conduct monitoring programs. Due to lack of staff, many projects have been reduced in size or postponed. Some watershed restoration and wildlife monitoring projects, such as Coastal Tail Frog monitoring, were not conducted as a result of the staff reductions. | |
| <p>Observation: MRC should ensure that the frequency and intensity of monitoring is adequate to the scale and intensity of forest management operations and relevant ecological indicators (e.g., the status of and capacity for regeneration, habitat qualities of rare species, impacts to the quality of soil and water) are monitored before and after field management activities take place</p> | |

3. AUDIT PROCESS

3.1. Auditors and qualifications:

| | | | |
|-----------------|---|--------------|-------------------------|
| Auditor Name | Foster Dickard | Auditor role | Lead auditor, Ecologist |
| Qualifications: | As senior forester for the SmartWood USA Region, Foster is responsible for providing overall management and leadership for forest management certification portfolio, client recruitment and quality control for all forest management services primarily in southern and western United States. Foster holds a bachelors degree in forestry, a graduate degree in wildlife and extension education from Mississippi State University and has over 25 years of experience as a wildlife biologist and land management forester. Foster has led or participated on numerous SmartWood Forest Management certification evaluations. | | |
| Auditor Name | Dr. Robert J. Hrubes | Auditor role | Co Leader Auditor |

| | | | |
|-----------------|---|--------------|---------|
| Qualifications: | Dr. Hrubes is Senior Vice-President of Scientific Certification Systems. He is a registered professional forester and forest economist with 29 years of professional experience in both public and private forest management issues. He served as team leader for the initial MRC Forest certification evaluation. Dr. Hrubes worked in collaboration with SCS to develop the programmatic protocol that guide all SCS Forest Conservation Program evaluations. Dr. Hrubes has led numerous SCS Forest Conservation Program evaluations of North American (U.S. and Canada) industrial forest ownerships, as well as operations in Scandinavia, Chile, and Japan. He also has professional work experience in Brazil, Germany, Guam (U.S.), Hawaii (U.S.), and Malaysia | | |
| Auditor Name | Amy Hsu | Auditor role | auditor |
| Qualifications: | Amy Hsu has a background in Natural Resource Conservation from the Faculty of Forestry at the University of British Columbia. She has previously worked in the forest industry as a summer intern at the Ministry of Forestry, BC and the California Department of Forestry and Fire Protection. She has worked for Scientific Certification Systems since May, 2009. | | |

3.2. Audit schedule

| Date | Location /Main sites | Principal Activities |
|--------------|---------------------------------------|--|
| September 15 | Ukiah Office | Opening meeting, review documentation and records |
| | Meeting at Big River Entrance | Security Issues: MRC approach to security during period of reduced harvest MRC Inventory summary Geographic Information Systems (GIS)- updates of activities since 2008 audit Map review of Russell Brook Area and HCVF/RSA in Big River tract. |
| | Russell Brook Type I old growth stand | Review of harvesting, T&E species and Old growth management. |
| September 16 | Fort Bragg at MRC Fort Bragg Office | Review 2009 operational updates from staff. |
| | Norden Confluence area | Review forest operations including active and past harvesting operations |
| | Flynn Fire Overlook | Evaluate reforestation effort and post fire emergency harvesting operations. |

Total number of person days used for the audit: 7.5

= number of auditors participating 3 X number of days spent in preparation, on site and post site visit follow-up including stakeholder consultation 2.5

3.3. Sampling methodology:

Field sites were chosen to represent current and active management activities and interviews with pertinent MRC staff. Sites selected were primarily to review forest resource impacts since last audit and the residual effects of wildfires of summer season 2008

Interviews with staff were conducted at formal meetings, during meals, at sites and in vehicles between sites. Auditors separated and interviewed different staff between sites. The director of stewardship was with the audit team at all times.

3.4. Stakeholder consultation process

The auditors contacted stakeholders in order to gather evidence to ensure conformance with the FSC Principles and Criteria. Stakeholders were selected that are familiar with local forestry practices and issues and detailed knowledge of MRC conformance with state forest practices requirements.

| Stakeholder type (i.e. NGO, government, local inhabitant etc.) | Stakeholders notified (#) | Stakeholders consulted or providing input (#) |
|--|-------------------------------------|--|
| Government | 3 | 3 |
| Contractor | 1 | 1 |
| | | |
| | | |

3.5. Changes to Certification Standards

| | |
|---|---|
| Forest stewardship standard used in audit: | FSC Revised Final Pacific Coast Standard (version 9.0) |
| Revisions to the standard since the last audit: | <input checked="" type="checkbox"/> No changes to standard. <input type="checkbox"/> Standard was changed (detail changes below) |
| Changes in standard: | |
| Implications for FME: | No new requirements |