



Auditor Guidance for Assessing FC 1.1 and FC 1.2

VERSION 1.1, JULY 1ST, 2018

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Responsibility for these Requirements

The EFI Standards Committee has responsibility for this document, and will periodically review and update it.

Users should verify that they are using the latest version by checking on the EFI website at:

www.equitablefood.org.

Versions Issued

Version No.	Date	Description of Amendment
1.0	September 28 th , 2017	First public-facing version
1.1	July 1 st , 2018	Changes to the premium reporting mechanism.

1. The Context

1.1. Version 1.3 of the EFI Standards introduces through the indicators FC 1.1 & 1.2 an auditable mechanism for workers to receive additional compensation – the “EFI Bonus” - based on sales of EFI-certified product. The purpose of this document is to provide auditors a protocol for auditing FC 1.1 & 1.2 correctly and consistently.

2. FC 1.1

Indicator FC 1.1

The Grower shall account for all monies received from customers that are designated as an EFI Premium.

2.1. Premium Rates per Product

2.1.1 Each certified commodity variety has an assigned per-pound premium that is documented in the EFI Commodity Premium Schedule. This schedule will be updated as new commodity varieties become certified. The latest version can be found on the EFI website.

Definition of a Certificate Holder

The Certificate Holder is the entity that has executed the EFI Certification Program Participation Agreement with EFI that governs the use of the EFI label. In some cases, this entity will be different than the audited operation, referred to here as the Grower. For instance, marketing companies may be the certificate holders for growers in their supply chain.

2.2. Calculating the Total Premium Account (TPA)

2.2.1. EFI shall provide the Certifying Body with reports covering each audited quarter that state the amount of EFI Premium received by the Grower. This amount shall constitute the TPA.

- 2.2.2. Should there be a case where the auditor questions the veracity of the TPA amount as reported through the EFI report, the Auditor may review invoices sent by the Grower to EFI Buying Partners for the sale of certified product in order to cross-check that the TPA is calculated on the correct volume.

2.3. Audited Period

- 2.3.1. The TPA shall be calculated for a period that begins on the relevant date listed in the EFI Commodity Premium Schedule. The end of the period shall correspond to the end of the most recent calendar quarter.
- 2.3.2. If the TPA has been verified during a previous audit, the new audited period may start the day after the previous period.

2.4. Documentation

- 2.4.1. The auditor shall document in the audit report both the value of the TPA and the audited period as part of the supporting evidence for the FC 1.1 finding.

3. FC 1.2

Indicator FC 1.2

The EFI Premium Account shall be allocated to farmworkers in return for the additional responsibilities required of farmworkers on an EFI certified farm.

3.1. Calculating the Net Premium Account (NPA)

- 3.1.1. 10% of the TPA shall be allocated to EFI as a licensing fee.
- 3.1.2. 3% of the TPA shall remain with the Certificate Holder to compensate for the additional administrative expenses associated with allocating the EFI Premium.
- 3.1.3. 87% of the TPA shall be allocated exclusively to additional gross compensation for workers and the resulting additional required deductions borne by the Grower. This amount is referred to as the NPA.

3.2. Allocation of the NPA to Farmworkers

- 3.2.1. The Grower shall determine a formula for distributing the NPA that equitably and consistently recognizes the contribution made to produce certified product. The Grower shall document the job classifications that shall be included and all workers in these classifications shall receive an allocation. Auditors shall verify that this information exists, but this information does not need to be publicly posted.

- 3.2.2. The formula for determining individual allocations shall be determined by the Grower in discussion with the Leadership Team and shall be posted where all workers can access it. Auditors shall verify that this information is posted in a prominent place.
- 3.2.3. Distributions based on the above formula shall appear on paystubs of eligible workers as the “EFI Bonus” or “El bono de EFI”.
- 3.2.4. The auditor shall document the formula and the total amount of NPA paid to workers in the audit report as part of the supporting evidence for the FC 1.2 finding.
- 3.2.5. The Grower shall provide the auditor a report documenting the total dollar value of the EFI Bonus that was paid to workers during the audited period.

3.3. Allocation of the NPA for Compensation Burden

- 3.3.1. The Grower shall provide the auditor a report that documents each employer-borne cost that increases when additional compensation is provided to farmworkers. These costs can only include:
 - 3.3.1.1 Social security payments and other required government payments;
 - 3.3.1.2 Worker’s Compensation insurance;
 - 3.3.1.3 Health plans and other medical benefits; and
 - 3.3.1.4 Employer portion of retirement plans.
- 3.3.2. The total dollar amount of these expenses for each \$1 of compensation shall be calculated by the Grower and provided to the Auditor as a percentage. This percentage is referred to as the Compensation Burden Rate.
- 3.3.3. The Grower shall calculate and provide the auditor the total dollar value of the Compensation Burden attributable to the EFI Bonus by multiplying the Compensation Burden Rate and the NPA.

3.4. Verifying the NPA

- 3.4.1. The auditor shall verify that the sum of the EFI Bonus paid to workers (Section 3.2.5) and the total dollar value of the Compensation Burden (Section 3.3.3) equals the NPA.
- 3.4.2. Auditors shall use the sampling table in the current version of the *EFI Certification Program Requirements* to determine the minimum number of payroll records that will be checked to verify the NPA is being appropriately distributed to workers.

Definition of a Pay Period

A pay period is defined as a one-week cycle that culminates with the issuance of payroll.

3.5. Timing & Adjustment of Distributions

- 3.5.1. Within the first seven calendar days of each month, Growers shall calculate the TPA for the previous month based on sales of certified product.
- 3.5.2. By the end of the second pay period of the month, the appropriate amount of the NPA due to workers (Section 3.2.5) shall have been distributed per the posted formula (Section 3.2.2) to all eligible workers that are on the payroll as of the date of the bonus payment.
- 3.5.3. In the case of a two-week pay period, the allocation of the bonus shall take place by the date of the first payroll after the TPA has been calculated (Section 3.5.1).

4. Pre-Certification Auditing

- 4.1. During initial audits, the Grower shall provide the auditor:
 - 4.1.1. An implementation plan detailing:
 - 4.1.1.1 The conformant distribution formula (Section 3.2.2) they intend to use upon certification,
 - 4.1.1.2 The job classifications within all in-scope production, packing, and distribution operations that will be eligible for the bonus (Section 3.2.1); and
 - 4.1.1.3 The Grower's current Compensation Burden Rate (3.3.2).
- 4.2. These documents shall be recorded by the auditor as the objective evidence to support a finding of conformance with FC 1.1 & 1.2.
- 4.3. If these documents are not available during the audit, the corrective action process shall be used to close the nonconformances.