

Audit Trail - Overview

Basic concepts of audit trails and what requirements organic operations have concerning the maintenance of audit trail records.

Audit Trail

DEFINED

What does “audit trail” mean to the general public?

- ❖ In accounting, it refers to documentation of detailed transactions supporting summary ledger entries. This documentation may be on paper or on electronic records.
- ❖ In telecommunication, the term means a record of both completed and attempted accesses and service, or data forming a logical path linking a sequence of events, used to trace the transactions that have affected the contents of a record.
- ❖ In information or communications security, information audit means a chronological record of system activities to enable the reconstruction and examination of the sequence of events and/or changes in an event.
- ❖ In nursing research, it refers to the act of maintaining a running log or journal of decisions relating to a research project, thus making clear the steps taken and changes made to the original protocol.
- ❖ In online proofing, it pertains to the version history of a piece of artwork, design, photograph, video, or web design proof in a project.
- ❖ In clinical research, server based systems call Clinical Trial Management Systems (CTMS) require audit trails. Anything regulatory or QA-QC related also requires audit trails.

A summarized definition of an audit trail is the documentation and maintenance of records to identify actions that occurred in a specific sequence of events and to provide evidence for the justification of and/or to explain the actions that occurred.

In the NOP Regulations, Audit Trail is defined as:

- ❖ **Audit Trail:** Documentation that is sufficient to determine the source, transfer of ownership, and transportation of any agricultural product labeled as “100% organic,” the organic ingredients of any agricultural product labeled as “organic” or “made with organic (specific ingredients)” or the organic ingredients of any agricultural product containing less than 70% organic ingredients identified as organic in an ingredients statement.

7 CFR §205.2 Terms Defined.

NOP definition of Audit Trail, simplified:

Documentation that easily identifies the source, transfer of ownership, and transportation of any agricultural product that is to be sold, labeled or represented as 100% organic, organic, or made with organic ingredients –and – documentation that easily identifies the source, transfer of ownership, and transportation of any ingredient that is labeled as organic in an ingredient statement.

Why does having an audit trail matter in organic certification?

§ 205.103 Recordkeeping by certified operations.

Certified operators must maintain records concerning the production, harvesting, and handling of organic products. The records must:

- ❖ Be well adapted to the business being conducted
- ❖ Disclose all activities and transactions in adequate detail
- ❖ Be maintained for not less than 5 years beyond their creation
- ❖ Be sufficient to demonstrate compliance with Federal regulations

Record availability at time of inspection:

- ❖ §205.103(c) States that records must be available for inspection and copying during normal business hours by authorized representatives of your certifying agent (TDA).



Visual representation of the definition:



How did it get
here?
(1 step back)



What happens
while it's here?



Where does it
go?
(1 step forward)



Audit Trail

TYPES OF AUDIT TRAIL RECORDS FOR PRODUCTION OPERATIONS

Crop Producer Audit Trail Records

- ❖ Field histories (crop rotations and inputs)
- ❖ Input records (purchase; application date, rate, amount)
- ❖ Production activities (planting, cultivation)
- ❖ Harvest records (weight tickets, etc.)
- ❖ Storage records
- ❖ Sales records (invoices, BOL, lot #'s, etc.)
- ❖ Records that do NOT impact organic compliance:
 - ❖ GAP, non-GMO project, etc.
 - ❖ Please do NOT include these with your organic certification application and annual update documents.

Livestock Producer Audit Trail Records

- ❖ Livestock Purchase records
- ❖ Livestock birth and mortality records
- ❖ Livestock product production records
- ❖ Livestock feed production records
- ❖ Livestock feed purchase records
- ❖ Livestock feed usage records
- ❖ Livestock sales records
- ❖ Livestock product sales records

Proof of Organic claim:

- ❖ The only acceptable record to verify that an operation is certified to produce or handle organic product is an organic certificate.
- ❖ Therefore, certified operations and applicants should obtain a copy of the organic certificate from their supplier of seed/planting or organic livestock *prior* to accepting product or animals.
- ❖ Temporary record-place holders when a certificate is not readily available:
 - ❖ Seed tags and packages that identifies the final handler and the handler's certifying agent.

Case Study #1:

- ❖ Background: Mr. Rudy Ramirez has parallel wheat production on his operation, meaning that he produces the same crop in nonorganic and organic form.
- ❖ Issue: Rudy harvested 120 acres of organic wheat and 120 acres of nonorganic wheat. All of Rudy's grain was stored at Stewart Grain Co.
- ❖ Question: What should Rudy do to ensure a complete audit trail for the organic grain?

Case Study #1, Rudy's audit trail records

- ❖ Rudy needs to keep very defined production records, harvest and yield records, scale tickets, and sales records
- ❖ Oops, Rudy was contacted by Inspector Chandler and scheduled his onsite inspection for this afternoon, before he remembered that today is his wedding anniversary. What planning steps can Rudy take to make sure he is able to make his 5:00 dinner reservation?
 - ❖ Rudy should have both the records for the organic wheat production and the nonorganic wheat out and readily available for Inspector Chandler to review during the inspection. The records need to show a clear audit trail for each field of wheat, from the point of production to the sell of the harvested wheat.

Audit Trail

TYPES OF AUDIT TRAIL RECORDS FOR HANDLING OPERATIONS

Handler Audit Trail Records

- ❖ Proof of certification of ingredients
- ❖ Purchase, receipt & storage of ingredients
- ❖ Processing steps: cleaning/refining, blending, altering (blending, cooking, milling, extrusion, etc.), and packaging
- ❖ Warehousing
- ❖ Distribution and sales
- ❖ Records that do NOT impact organic compliance:
 - ❖ HACCP, ServSafe, non-GMO project, etc.
 - ❖ Please do NOT include these with your organic certification application and annual update documents.

Proof of Organic claim:

- ❖ The only acceptable record to verify that an operation is certified to produce or handle organic product is an organic certificate. Therefore, certified operations and applicants should obtain a copy of the organic certificate from their supplier *prior* to accepting product.
- ❖ Current organic certificate from the supplier that identifies the product or ingredient received by operation.
 - ❖ Closely review the certificate issue date to ensure that it corresponds with the product.
 - ❖ It may be possible that an older organic certificate is the correct certificate to correspond with commodities that have a very long shelf life or no expiration date.
 - ❖ Highly perishable commodities should have a certificate that was issued within the past 12 months of the inspection.

Proof of Organic claim continued:

- ❖ Letters of good standing *in conjunction with a current organic certificate -remember that organic certification does not expire under the NOP Regulations; therefore, organic certificates issued in accordance with the NOP Regulations do not have expiration dates. Because of this, many certifying agents will issue letters of good standing when an operation goes more than 12 months without an updated organic certificate.*
- ❖ Other records to support the organic claim of individual lots and shipments are:
 - ❖ Transaction certificates,
 - ❖ Certificates of Inspection, and
 - ❖ Written verification from the certifying agent

Types of Receiving Records used by Handlers:

Incoming product and ingredient records:

- ❖ Purchase invoice
- ❖ Purchase contract
- ❖ Incoming bill of lading (BOL)

What they should tell you:

- ❖ BOLs should show products, amounts, supplier, date purchased, previous lot #
- ❖ All but the organic certificate may detail the transportation of the product to the operation

Types of Receiving Records used by Handlers:

- ❖ Weight tickets
- ❖ Scale tickets
- ❖ Shipment or Sales receipts:
 - ❖ Product received, incoming lot #, date, amount received
- ❖ Internal Inventory receipt records:
 - ❖ Record of receipt of product or incoming ingredients
 - ❖ Record should identify what the product is, amount, and date received.
 - ❖ Processor may assign new lot # to the product or ingredient once it arrives on-site.

Handler In-House Record Types:

- ❖ Processing and Handling
 - ❖ Products and amounts processed by shift, day, or order request
 - ❖ Ingredients, lot # used in batch
 - ❖ Connects ingredient lot #'s w/ finished product lot #
- ❖ Packaging
 - ❖ Product bagged/packed by shift or day
- ❖ Finished product inventory
 - ❖ Warehouse inventory, daily, weekly or monthly
 - ❖ Shipment date
- ❖ Other compliance verification records:
 - ❖ Pest control product application and trap inspection logs.
 - ❖ Health and Food Safety permits and licensing

Handler In-House Record Types – Product Flow

Product Flow records should include most, possibly all of the following information:

- ❖ Identification of organic product and/or ingredient lots selected for processing.
- ❖ Equipment cleaning procedures and/or purge run prior to processing organic product.
- ❖ Documentation of production steps through processing logs.
- ❖ Document the “break” that occurs to separate one lot from the next.
- ❖ Storage of finished product prior to shipment.
- ❖ Transfer/Sales records: records that identify the transfer of custody of the product to another entity. May include shipping/delivery report, shipping BOL, sales invoice, scale ticket, etc.
- ❖ Audit-Control register: table or chart summarizing all records/reports used for trace-back activities

Lot numbering systems

- ❖ Most handling companies use some form of lot numbering system to maintain inventory and track product.
- ❖ Examples of information that a lot number may provide:
 - ❖ Codes that refer to product type, date, processing batch, etc.
 - ❖ Julian date (001-365, for the day of the year) that the product was processed, shipped, etc.
- ❖ New lot numbers may be assigned when lots are combined or ingredients blended – old and new numbers must be recorded on one document

Examples of tracing back the organic claim

Verifies organic claim

- ❖ Distribution center purchased product directly from producer and has copy of organic certificate and purchase receipt as record
- ❖ Coffee roaster has a copy of broker's NOP organic certificate along with a grower group's organic certificate, and an organic transaction certificate completed by an NOP certifying agent for 25 bags of green coffee beans exported from Ethiopia

Not sufficient to verify organic claim

- ❖ Bakery has a copy of a producer's organic certificate for a multi-grain baking mix.
 - ❖ Organic certificate should be from the processor that packaged the grain mix as that would have been the previous handler of the organic product
- ❖ Produce warehouse has a phytosanitary certificate from Mexico for shipment of organic avocados
 - ❖ Phytosanitary certificates are not sufficient to verify organic claim

Case Study #2:

- ❖ Background: Mr. Joe Benavides has grown Joe's Cookies from a country-kitchen to a retail bakery in less than 1 year.
- ❖ Issue: Joe's constant growth has caused him to not keep up with records, now he's having a hard time turning the stacks of orders, invoices, delivery receipts, recipe trial records, etc. into a record system that is auditable.
- ❖ Question: What resources can Joe use to develop an auditable record system?

Case Study #2: Joe's Cookies

Answer: There are several resources available to Joe!

- ❖ § 205.201 of the NOP Regulations! Using this regulation, Joe can classify the different types of records and procedures used in his operation to allow for smooth record auditing!
- ❖ The NOP's guide for Organic Processors
- ❖ The NOP's Sound and Sensible resources on Recordkeeping
- ❖ And any recordkeeping software that can be adapted to Joe's needs!

Don't get tripped up by international documents

TRACE-BACK EXERCISES

What is a transaction certificate?

- ❖ Created by an Accredited Certifying Agent upon request from an operation they certify
 - ❖ There is no standardized format required by NOP, COR, or EU.
- ❖ A transaction certificate is tied to 1 or more specific lots of certified organic product that is expressly identified.
 - ❖ Transaction certificates are not interchangeable!
- ❖ The information provided on the transaction certificate should answer these questions:
 - ❖ What is it?
 - ❖ What organic standard the product is certified to?
 - ❖ Where did it come from?
 - ❖ How much?
 - ❖ And possibly what form (raw, dry, liquid, dehydrated, frozen, etc.)

U.S. International Trade Partners:

Equivalency Arrangements:

- ❖ Canada
- ❖ European Union
- ❖ Switzerland
- ❖ Korea – processed foods (no livestock products)

Recognition Agreements (allows foreign certifying agents to certify operations to the USDA NOP Regulations):

- ❖ India
- ❖ Israel
- ❖ Japan
- ❖ New Zealand

Educate yourself by reading:

- ❖ NOP Policy 2603 on what information must be provided on an organic certificate.
- ❖ NOP's overview on importing organic products to the U.S.
- ❖ NOP Policy Memo 10-3 on the U.S. – Canadian Equivalency Agreement
- ❖ FAQs on U.S. – E.U. equivalency requirements

Stay tuned...

- ❖ As of Spring 2016, USDA AMS and Mexico are in negotiations for some type of organic product trade agreement.
- ❖ Due to Britain's exit from the European Community, USDA AMS must negotiate an organic product trade agreement with Britain.

TRAINING SUMMARY AND EVALUATION QUESTIONS

Summary on the Overview of Audit Trails

- ❖ An operation's audit trail records should show:
 - ❖ Where it came from
 - ❖ How the operation handled each specific crop or lot
 - ❖ Where the harvested crop or finished lot went to after it left the operation
 - ❖ Tracking information such as lot numbers and product flow are especially important when conducting audit trail exercises
- ❖ Organic Certificates are the only acceptable proof of the organic claim on a product or ingredient and should be obtained prior to accepting organic product from a supplier.
- ❖ There are specific requirements for exporting and importing organic product

Evaluation questions for producers:

- ❖ Can your records be easily understood and audited?
- ❖ Are you maintaining a complete set of operation records covering the production, harvesting, and handling of all of your organic crops?
- ❖ Are sales records maintained to ensure a complete audit trail?
- ❖ Do you retain all records applicable to your operation for at least 5 years?

Evaluation questions for handlers:

- ❖ Can your records be easily understood and audited?
- ❖ Are records maintained to ensure a complete audit trail?
- ❖ Does your recordkeeping system permit accurate tracking though sales?
- ❖ Do you retain all records applicable to your operation for at least 5 years?

Evaluation questions for handlers:

- ❖ Are the following records complete and readily available?
 - ❖ Purchasing invoices
 - ❖ Purchase orders
 - ❖ Weight tickets
 - ❖ Storage records (ingredients)
 - ❖ Production records
 - ❖ Batch records
 - ❖ Processing reports
 - ❖ Storage records (finished products)
 - ❖ Sales invoices
 - ❖ Shipping records
 - ❖ Bills of Lading (BOL)
 - ❖ Annual sales totals