

# Fraud

Detection and prevention

The Sherlock Program

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# Multiple Choice Question

- 25% of the organic products on the retail shelf contain at least one fraudulent ingredient
- 5% of the organic products on the retail shelf contain at least one fraudulent ingredient
- 15% of the organic products on the retail shelf contain at least one fraudulent ingredient

# And the answer is.....

- We will never ever know how much fraud is occurring
- The amount of fraud in the market is inversely proportionate to the cases uncovered
- As long as there is a premium there will be fraud

- IOAS and NCGA came together to conduct study

- Increasing cases and increasing concern of traders in Europe-AFI
- Continuing pressure on the supply chain
- Longer and more global supply chains
- Concern over specific countries

# What is fraud ?

- The crime of deliberately deceiving another .....for financial or other gain
- Deliberate use of prohibited substances ?? or false labeling of conventional produce as organic.
- Systematic Fraud / Circumstantial fraud
- Prevention/ detection .....doing something

# Reactions to mention of the subject – the f word



FRAUD? WHAT FRAUD ??

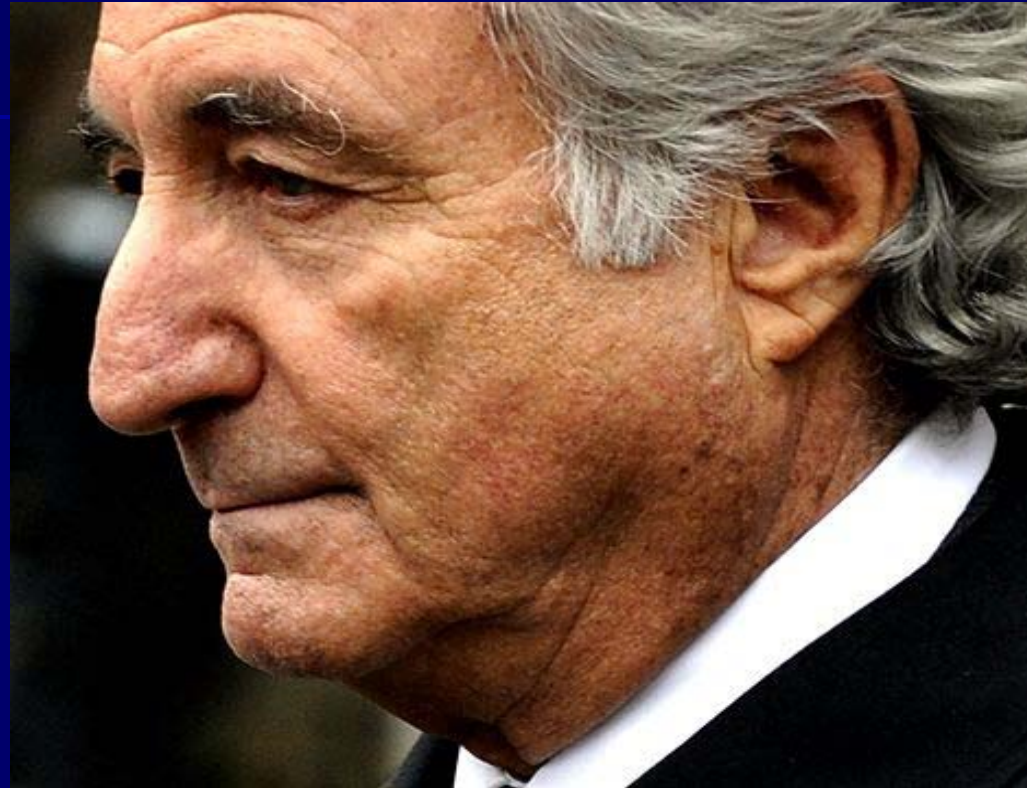


SHHHHH !!!!

- "I don't have a problem I know my suppliers. They are all long term committed organic people."
- German poultry case.
  - 16 years in operation – poultry pioneer
  - 3.000 tons of conventional feedingstuff
  - Caught by chance



I am worried about organic



fraud in China not the US

# What to do? The measures

**Unannounced visits**

**Input/output balance**

**Trace-back with cross-check**

**Spot check  
uncertified entities**

**Residue testing at shelf**

**CB cooperation**

**Centralized complaints rumors system**

**Upgrading inspector quality**

**Fraud proof certificates**

# Unannounced visits

- Highly effective fraud measure – both farm level and handlers –CB survey
- Costly
  - Should result in being mostly risk based. Fraud and certification criteria differ
  - Unfortunately too often logistic basis
- With no mandatory minimum or subsidy – cost becomes competitive factor

# Input /Output reconciliation or mass balance



# Mass balance

- In case of suspected fraud need to do complex time consuming calculations
- CB instructions
- Never conclusive ??
- Cross checking with accounts
- IRS vs your accountant

# Upstream crosschecks

- Extremely simple check
- Valuable as conclusive
- Is not time consuming /languages
- A number of actual cases could have been uncovered with this measure

# Spot check uncertified entities

- Exclusions of some handlers under 205.101.b.1. of the Rule
- Egg example
- EU importers
- Broken chain of custody
- Anyone that issues an invoice

# Additional program elements

- CB signing of Code of Conduct
- Centralized complaints/rumors mechanism
  - Own investigation – potentially global
  - Shared results
- Residue testing at shelf
  - Own investigation – potentially global
  - Shared results



# How to deliver

- Really not about certification
- Light weight but sharp
- Onerous but only to the suspected bad apples not everyone
- Market place taking responsibility

A silhouette of a man wearing a hat and a trench coat, holding a pipe, set against a background of a cloudy sky. The man is shown in profile, facing right. The sky is light and filled with soft, white clouds.

# The Sherlock Program

# The Basics

- Retailer /brand owner /distributor driven program – Collective quality assurance system
- Requires simple on-line registration of the organic supply chains
- Applies the auditing measures to small sample on risk basis – micro & macro

# The Players

- Retailers /brand owners /distributors – the drivers, sponsors, owners
- Certification bodies – Carry out some of the auditing work
- Sherlock entity – oversight and more forensic auditing

# How it works

- Retailers require their total organic supply chain to register
- Certification bodies apply some of the measures to registered suppliers on a sample basis
- Most may be applied at time of normal inspection
- Some measures to be implemented by retailers themselves (residue analysis)

# Role of Sherlock

- Carries out random checks on CBs globally to ensure program implementation
- Coordinates centralized complaints system
- Coordinates investigation of residue tests above defined limits
- Acts as registrar of suppliers and certification bodies

# 3 Supply chain identification

- Suppliers required to complete a simple registration
- Certification bodies required to complete simple registration
- Web based system

# 3 Supply chain identification

- New suppliers will have time period for registration so sourcing unaffected
- System will generate coded registration numbers
- Suppliers required to use numbers on invoices
- Annual update system.



Basic  
contact  
details

## Supplier registration

**Name of company**

Unwholesome Grains Inc

**Current CB**

**Contact person**

Shady Sam

**Address**

In The middle of Nowhere  
South Dakota

**Country**

USA

**E-mail**

Shady @daknet.net

**Category**

Farmer  
Manufacturer  
Trader/broker

If your current CB does not appear on this list please inform them that you need them to register at the following web address: [www.cbregister.com](http://www.cbregister.com). Once they have registered they will appear in this list and you will be able to complete your registration

# Supplier registration

Can only  
choose from  
registered CBs

**Name of company**

Unwholesome Grains Inc

**Contact person**

Shady Sam

**Address**

In The middle of Nowhere  
South Dakota

**Country**

USA

**E-mail**

Shady @daknet.net

**Category**

**Current CB**

  
Good Cert  
Easy Cert  
Best Cert  
Very Easy Cert Inc  
Slick Cert

If your current CB does not appear on this list please inform them that you need them to register at the following web address: [www.cbregister.com](http://www.cbregister.com). Once they have registered they will appear in this list and you will be able to complete your registration

Before continuing please click one of the buttons to read the document "measures undertaken under the Supply chain integrity enhancement program"

English

Spanish

French

Mandarin

German

**In selecting the Yes button below we agree**

- 1) That we have read the document "measures undertaken under the Supply chain integrity enhancement program"
- 2) That we accept that our certification body may apply these measures to our operation and will provide all necessary access for that purpose.
- 3) That in the course of investigation of complaints representatives of the program may find it necessary to inspect your premises and/or review your records and that you will provide all necessary access for that purpose.
- 4) That we will use our supply chain ID number (you will be provided the number on completing this form) on all invoices of produce that might enter the supply chain covered by this program
- 5) That failure to fulfill these obligations may result in your operation being deregistered and your buyers being informed that product sold by you may not enter the supply chain

**I AGREE**

**Once you have clicked the agreement button you will be sent your ID number plus more information on the program**

# Certification Body registration

Certification body name

Contact person

Shady Sam

Address

In The middle of Nowhere  
South Dakota

E-mail

Shady @daknet.net

Country

USA

Existing Accreditation/approvals

National accreditation body  
IOAS  
My government authority  
NOP  
None

If more than one choose any one of them

**Certification bodies  
with no oversight of  
any description will  
not be registered**

- The registration = CB name and category of operation – no trading information
- For the vast majority of operators this is all they will have to do
- The system will inform the CB which of their operators are registered under Sherlock
- The CB applies the measures they are responsible for on risk basis

# The other elements

- Common complaints mechanism for all sponsors
- Mostly direct investigation by Sherlock
- Can be based on rumors, marketplace information & other macro risk
- Results shared between sponsors

# The other measures

- Certification bodies required to sign a code of conduct to register
- Residue testing undertaken at retail level
  - Information from Sherlock to assist in targeting the testing
  - Joint bulk purchase of lab services

# Enforcement

- Sherlock is not an enforcement agent
- De-registration
- Passing evidence to authorities



# Finances

- Not fully decided – want to work with sponsors in determining
- CB will be paid for work but economies by piggy backing
- Suppliers and traders will have registration fee but not significant. Producers will not.

# Who benefits

- Protection of consumer /of operators from unfair competition
- Protection to the middlemen's own supply chain
- Protection of sponsors from litigation. Pre-emptive defense
- Free certifiers from having to become detective agencies

Thanks for your time

# Upgrading inspector quality -survey

- Quality improved over last 5/10 years
- None of them required inspectors to be accredited
- Only 1 required accounting experience and 2 others provided training
- Ave estimate of 55% inspectors able for complex input/output

# Fraud proof certificates

- Transaction certificates may in fact enable fraud more than prevent it
- Many cases of forged certificates
- Tamper proof paper is available.
- Closed systems – dual certification
- Better to find alternative systems

# 3 Supply chain identification

- Suppliers required to complete a simple registration
- Certification bodies required to complete simple registration
- Web based system with fallback for LDC suppliers