



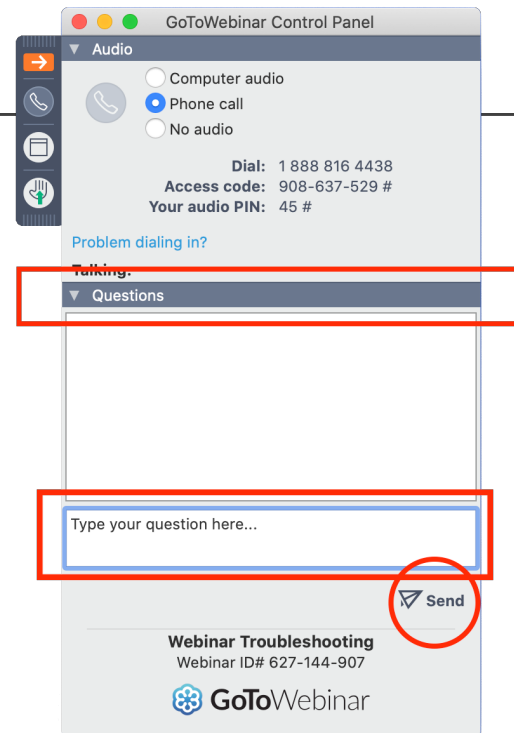
Fraud Annual Update – Preview and List of Concerns

Presented by John W. Spink, Ph.D.,
Assistant Professor (Fixed-Term), Michigan
State University



Housekeeping

- All attendees are muted.
- Q&A after presentation – please use question tab.
- Slides and recording will be available at www.pjrfsi.com after the presentation.
- Reach out to pjrfsi@pjrfsi.com with any additional inquiries.





Since 2013, John has been the Director of the Food Fraud Initiative at Michigan State University. His early research and industry engagement supported the foundation of food fraud prevention including as a member of the GFSI Food Fraud Think Tank that developed their first compliance requirements. He was also the lead author on the article, *Defining the Public Health Threat of Food Fraud*, which is the most widely cited definition of the term. Their Food Fraud Prevention MOOC (free, comprehensive online courses) are one of the most common training resources.

For more, see www.FoodFraudMOOC.com.

John W. Spink, Ph.D., *Assistant Professor (Fixed-Term)*, Michigan State University

Our Speaker



Food Fraud Prevention: Annual Update - Case Studies and Document Fraud

John W Spink, PhD

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Assistant Professor,
Department of Supply Chain Management,
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*2009 Packaging PhD [34th] / Adjunct Professor,
School of Packaging, MSU*



Your Partner For Quality Certification

PJR Webinar

Guest Webinar

Monday, July 22, 2024
1 pm ET

www.FoodFraudPrevention.com

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Food Fraud Prevention Resources

Textbook: Food Fraud Prevention (Spink, 2019)

Massive Open Online Course (MOOC – free, open, online)

- With a '**certificate of completion**' based on **assessments**
- On-demand, ten professional training hours

CORE

1. Food Fraud Prevention Overview MOOC
2. Food Fraud Vulnerability Assessment & Prevention Strategy (VACCP)
3. Food Fraud Supply Chain Management & Procurement MOOC
4. Food Fraud Prevention Audit Guide MOOC

Specialty

1. Food Defense Threat Audit Guide MOOC
2. Food Fraud & Enterprise Risk Management (ERM)
3. Food Fraud Advanced Criminology – Intelligence & Investigations
4. Developing an Organic Fraud Prevention Plan (with OTA)

Also:

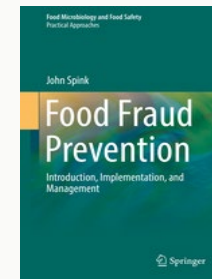
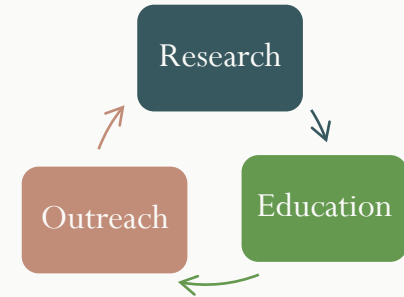
1. USDA NOP – Organic Fraud and the Criminal Mind (See USDA.gov)
2. USDA NOP – Preventing Organic Product Fraud (See USDA.gov)

Master Certificate in FF Prevention: Complete Core and Specialty

Professional Education: Workshops and Events

- **MoocLive: Seven MOOCs in four webinars: June, January, March, April**

Professional Services: Workshops and Consulting including Retainer



Link to Textbook:

<http://www.anrdoezrs.net/links/9101220/type/dlg/https://www.springer.com/us/book/9781493996193>





Our Approach: The Science and Sciences of Food Fraud Prevention





Food Fraud Compliance Requirements: Scope

“Food Fraud Compliance Requirements — The general compliance requirements for Food Fraud prevention are:

1. Conduct a Food Fraud Vulnerability Assessment (Y/N)
2. Written (Y/N)
3. Create a Food Fraud Prevention Strategy (Y/N)
4. Written (Y/N)
5. ***Demonstrate Implementation (Y/N)***
6. ***Executive Level Sign-off (Y/N)***
7. Minimally conduct an annual Food Fraud Incident Review (Y/N)
8. ***Method to review your incidents and general market incidents (Y/N)***
9. Note: Address all types of Food Fraud (Y/N)
10. Note: Address all products from both incoming goods (e.g., ingredients) and outgoing goods (e.g., finished goods) through to the consumer.” (Y/N)



Reference:

Food Safety Magazine, Feb 2017, “Food Fraud Vulnerability Assessment and Prefilter for FSMA, GFSI and SOX Requirements”,

New Food Magazine, Feb 2017: Food Fraud Prevention – how to start and how much is enough?”,

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Case Studies

Organic fertilizer

Horsemeat

Document information fraud



Trends: Chronology

- 2004-2007: Sudan Red, Melamine
- 2013-2017: Horsemeat incident and GFSI examination
- 2018: New FFP compliance requirements (“just get started”)
- 2020: Year two, process improvement and audit maturity
- 2020: COVID = assurance of supply, etc.
- 2022: Inflation, Ukraine-Russia, etc.
- 2023: Cinnamon in Apple Sauce/ Honey in EU and USA
- 2024: Increased focus on Supply Chain Disruptions and related risks
 - Expanded focus on reducing uncertainty.
 - Enterprise Risk Management/ COSO into the front-line operations.
 - ***New risks but the same vulnerabilities (Incidents from fraudsters).***
 - ***The same basic procedures apply (Root causes of vulnerabilities).***
 - ***Auditors are getting more thorough (partially pushed by retailers)***
 - ***It's time to get more formal with policies and a holistic approach.***



USDA NOP — Case Study 3: Review

The case studies are presented to meet several key attributes of **Action**, **Technology**, and **Trigger**:

Case No.	Case Name	Detail	Action	Technology	Trigger
3	Fertilizer	Substitution at source	Market Review	Trace / Authenticate	Suspicious

- **Detail:** Fertilizer supplier switched to non-certified ingredients
- **Action:** Apply a marketplace review, identify suspicious activity
- **Technology:** Focus on mass balance and document traceability
- **Trigger:** Started with known suspicious activity or marketplace reports



Organic Product (Fertilizer) Fraud: Review of Townsley 2012

Goal: This case study is provided to examine public record court documents to:

- Review the charges and prosecution
- Understand the violation that led to prosecution
- Learn details of an organic product fraud act
- Consider the impact on the perpetrator
- Information from: Public Record Court Documents

The court records provide detail of the prosecution, which is important:

1. To the actual court trial details
2. To understand what evidence we can collect or secure
3. To emphasize the formality to potential fraudsters

Examine what type of documentation or assessment was critical to finding the fraud act AND assisting in the successful prosecution.



FBI Press Release of Sentencing and Federal Prison Sentence

“Peter Townsley was sentenced yesterday to serve **364 days in prison** and ordered to pay a fine of **\$125,000** a scheme to defraud his customers in the organic farming industry. Townsley was also ordered to serve six months of community confinement, during which time he must perform 1,000 hours of community service related to organic production.”

- Townsley pleaded guilty ...to two counts of mail fraud
- Townsley admitted that from April 2000 through December 2006 [Note: Sold the business in 2007!]
- During that period, CLF realized more than \$6.5 million in gross sales from the sale of Biolizer XN.

The screenshot shows the FBI San Francisco Division website. At the top is the FBI logo and navigation links: CONTACT US, ABOUT US, MOST WANTED, NEWS, and STATS & INFO. Below the navigation bar is the San Francisco Division header. A breadcrumb trail reads: Home > San Francisco > Press Releases > 2012 > Former President of Organic Fertilizer Company Sentenced to Federal Prison for Selling Synthetic Fertilizer to Organic Farm. An information box states: "This is archived material from the Federal Bureau of Investigation (FBI) website. It may contain outdated information and links may no longer function." Social media links for Twitter, Facebook, and Share are present. The main headline reads: "Former President of Organic Fertilizer Company Sentenced to Federal Prison for Selling Synthetic Fertilizer to Organic Farm". Below the headline is a sub-headline: "Defendant Also Ordered to Volunteer 1,000 Hours at Organic Farms". The text identifies the U.S. Attorney's Office as Northern District of California, dated November 08, 2012, with a phone number (415) 436-7200. The body text of the press release is visible at the bottom, starting with "SAN FRANCISCO—Peter Townsley was sentenced yesterday to serve 364 days in prison and ordered to pay a fine of \$125,000 for a scheme to defraud his customers in the organic farming industry, United States Attorney Melinda Haag announced. Townsley was also ordered to serve six months of community confinement, during which time he must perform 1,000 hours of community service related to organic production."



Case Study: Background

Court documents

- Reviewed the OFPA and NOP regulations
- Grand jury = serious!
- Scheme to defraud

4. The OFPA and NOP regulations established national regulations that controlled, among other things, the production, certification, and labeling of agricultural products that were to be marketed as “organic.” The NOP regulations provided that any agricultural product that was sold, labeled, or represented as “100 percent organic,” “organic,” or “made with organic [specified ingredients or food group(s)],” must be produced and handled in accordance with the NOP regulations. 7 C.F.R. § 205.102. The

SCHEME TO DEFRAUD

11. Beginning at a time unknown to the grand jury, but no later than April 2000, and continuing through in or about December 2006, in the Northern District of California and elsewhere, the defendant,

PETER TOWNSLEY,

Case3:10-cr-00428-CRB Document73 Filed07/07/11 Page3 of 13

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MELINDA HAAG (CABN 132612)
United States Attorney

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

UNITED STATES OF AMERICA,
Plaintiff,
v.
PETER TOWNSLEY,
Defendant.

No.: CR 10 0428 CRB
VIOLATIONS:
18 U.S.C. 1349 – Mail Fraud Conspiracy
18 U.S.C. 1341 – Mail Fraud
18 U.S.C. 2 – Aiding & Abetting
SAN FRANCISCO VENUE

SUPERSEDING INDICTMENT

The Grand Jury charges:

BACKGROUND AND LEGAL FRAMEWORK

At all times relevant to this Indictment:

1. The defendant, PETER TOWNSLEY, was the founder and president of California Liquid Fertilizer (“CLF”), a company that sold products represented to be “organic” fertilizers to farmers throughout California.

2. CLF first maintained an office and manufacturing facility in

SUPERSEDING INDICTMENT (TOWNSLEY)
CR 10 0428 CRB

FILED
2011 JUL -7 P 3:44 PM
RICHARD H. BIEUNING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO

E-filing



Fraud Acts

- “[He] provided information about, among other things, the ingredients and manufacturing process.”
- Stated it was “...a liquid fertilizer composed of ocean-going fish and fish byproducts, feathermeal, and water.”
- “As part of the scheme to defraud... [he] knowingly changed the ingredients” without notifying the certifying body or updating the label.
- The change was made since the product was not meeting the customer’s performance requirements.

12. In November and December 1998, TOWNSLEY signed and submitted applications to OMRI to have a CLF product called “Biolizer XN” reviewed and approved for OMRI listing as an allowed brand name product. TOWNSLEY provided information about, among other things, the ingredients and manufacturing process for Biolizer XN. TOWNSLEY’s final application on behalf of CLF stated that Biolizer XN was a liquid fertilizer composed of ocean-going fish and fish byproducts, feathermeal, and water. In reliance on TOWNSLEY’S representations about Biolizer XN, in February 1999, OMRI approved Biolizer XN as allowed for use in “organic” production. CLF then began marketing Biolizer XN as a fertilizer that was approved by OMRI for use in “organic” production.

13. As part of his scheme to defraud, in approximately April 2000, TOWNSLEY knowingly changed and caused to be changed the ingredients in Biolizer XN without notifying OMRI. After this time, instead of using OMRI-approved fish and fish byproducts, feathermeal, and water, TOWNSLEY and others affiliated with CLF substituted ingredients that did not comply with OMRI’s standards for substances allowed in “organic” agricultural production and were prohibited under the National List. TOWNSLEY and others affiliated with CLF changed the formulation of Biolizer XN in part because the fish and feathermeal were not well suited for drip irrigation (a manner in which growers can apply fertilizer to the soil), and because the fish and feathermeal ingredients did not provide the amount of nitrogen that customers were seeking. Despite



Counts

Count One: “Conspiracy to Commit Mail Fraud” (not “Mail Fraud”)

- “Did conspire to devise a material scheme...”
- “Did use the mails and knowingly cause the mails to be used”
- Mailed the annual renewal
- Specific “Acts” with identified customers.
- An evidence paper trail:
 - Mailed the invoices
 - Mailed the annual renewal

Counts Two to Eight: “Mail Fraud”

- Question: Why not something more seemingly serious?
 - Efficiency of prosecution

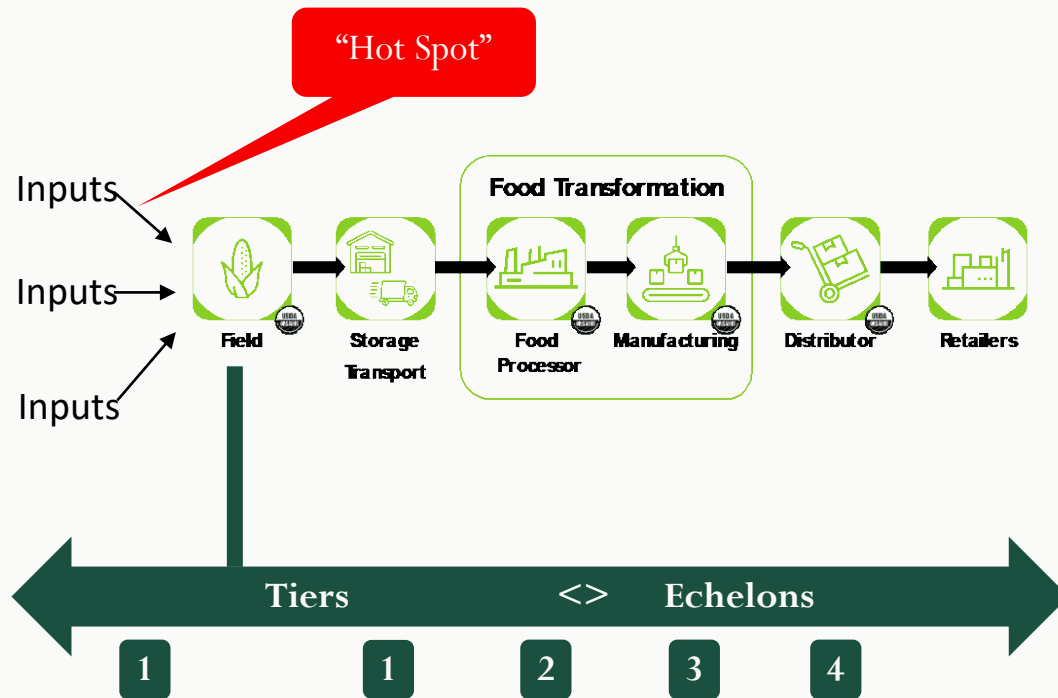
Counts Nine and Ten: “False Statements”

- Occurred during the investigation and discovery
- Using such fertilizer on their crops put the customers at risk of decertification of their status as organic farm...”

Non-Pecuniary Loss: not included, only applied the fertilizer price



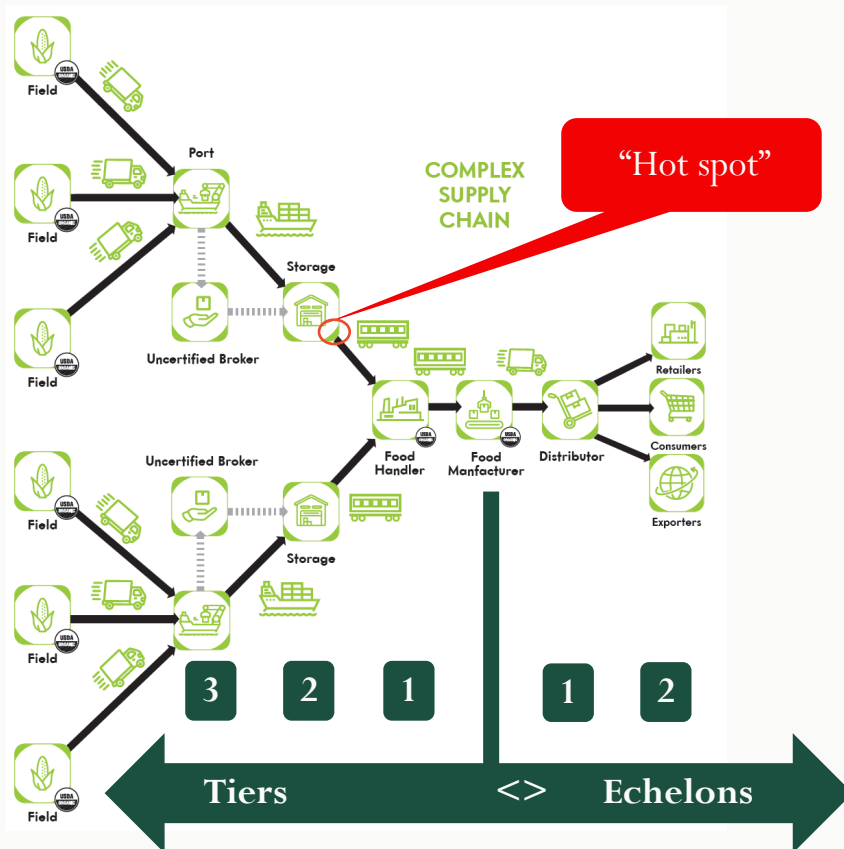
Supply Chain Management: Tiers and Echelons



- The organic fraud opportunity starts at the farm
- We need to think not only about organic ingredients and products, but also about the agricultural inputs that are being used.
- Where are the hot spots?



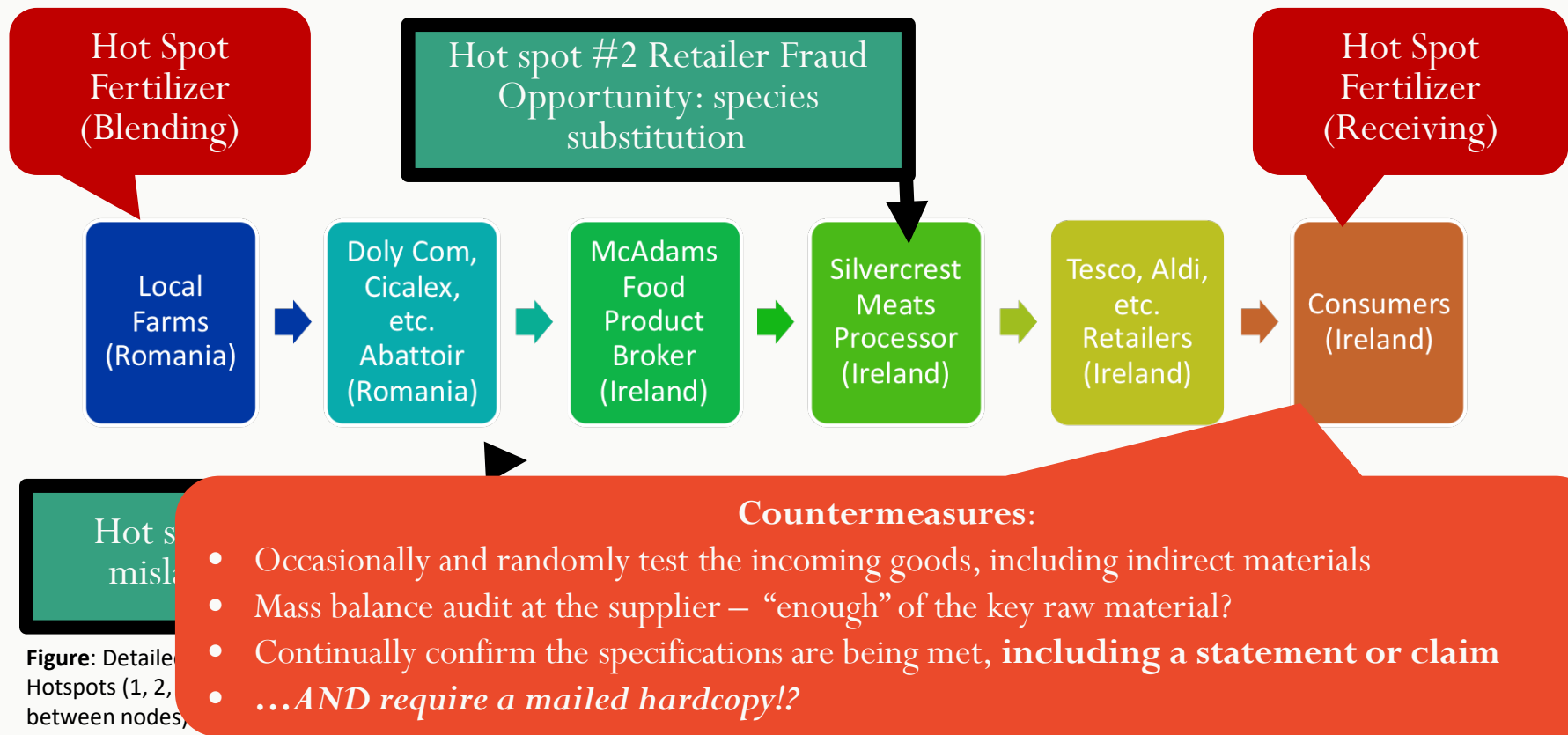
Supply Chain Management: Tiers and Echelons



- Indirect material supplier deceptively changed the ingredients in the approved product.
- A domestic packaging operation and for domestic shipment.
- Action or Countermeasure:
 - Reduce the fraudster's temptation to commit the act
 - Increase the risk of getting caught or the cost of conducting the crime
- Emphasizes reducing the fraud opportunity



Example of Hot Spot Analysis for: *Organic Fertilizer Fraud*





USDA – NOP: Case Study 2: Review

Case studies are presented to meet several key attributes of **Action**, **Technology**, and **Trigger**:

Case No.	Case Name	Detail	Action	Technology	Trigger
2	Horsemeat	Species swapping a producer and blender	Plan / Prevent	Trace / Authenticate	Prevent
	Fertilizer &			Trace /	AS
					e

- **Detail:** Horsemeat intentionally substituted for beef at the producer and also at a blender.
- **Action:** Apply how to plan to prevent the fraud opportunity
- **Technology:** Focus on traceability and authentication
- **Trigger:** Started with an effort on fraud prevention



Case Study 2: Review the Basics... *what is required?*

- HACCP Scope
 - Health hazards that are significant
 - Where control measures can reduce the hazard
 - Within the manufacturing operations
 - FSMA Preventative Controls Scope
 - Health hazards – “known or reasonably foreseeable”
 - Preventative Controls that are facility focused
- HACCP Prerequisite Program
 - “Prerequisite programs: procedures, including GMPs, that provide the basic environmental and operating conditions necessary to support the Food Safety Plan.” (pg. 1-13)
- FSMA Supply-Chain Program
 - “Supply-chain-applied control: a preventative control for a hazard in a raw material or other ingredient when the hazard in the raw material or other ingredient is controlled before its receipt.” (pg. 1-15)

Reference: PCHF Training Manual, Food Safety Preventative Controls Alliance (FSPCA), First Edition, Version 1.2, May 9, 2016



Horsemeat Details

- **Two Incidents: Poland-to-IRE and Europe-to-UK**
- **The Guardian: Co-mingled blocks of frozen meat... deceptive handling...**
 - Huge blocks of frozen meat at a cold store in Northern Ireland, Freeza Foods, which had been quarantined by officials suspicious of its labelling and state of packaging, were found to contain 80% horse.
 - Freeza Foods said the meat blocks had been delivered to its store by meat broker McAdam Foods but that it had rejected them and only continued storing them as a "goodwill" measure for McAdam.
 - McAdam said it in turn had been sold them by a meat trader in Hull, Flexi Foods, which imports from Poland and elsewhere.
 - ABP confirmed it had been supplied materials by McAdam but the two companies have given conflicting accounts of what the deliveries have been.

Reference: Horsemeat – One Year Later, EC, <http://ec.europa.eu/food/food/horsemeat/>

Horsemeat Scandal – The Essential Guide, The Guardian (UK) , <http://www.theguardian.com/uk/2013/feb/15/horsemeat-scandal-the-essential-guide>



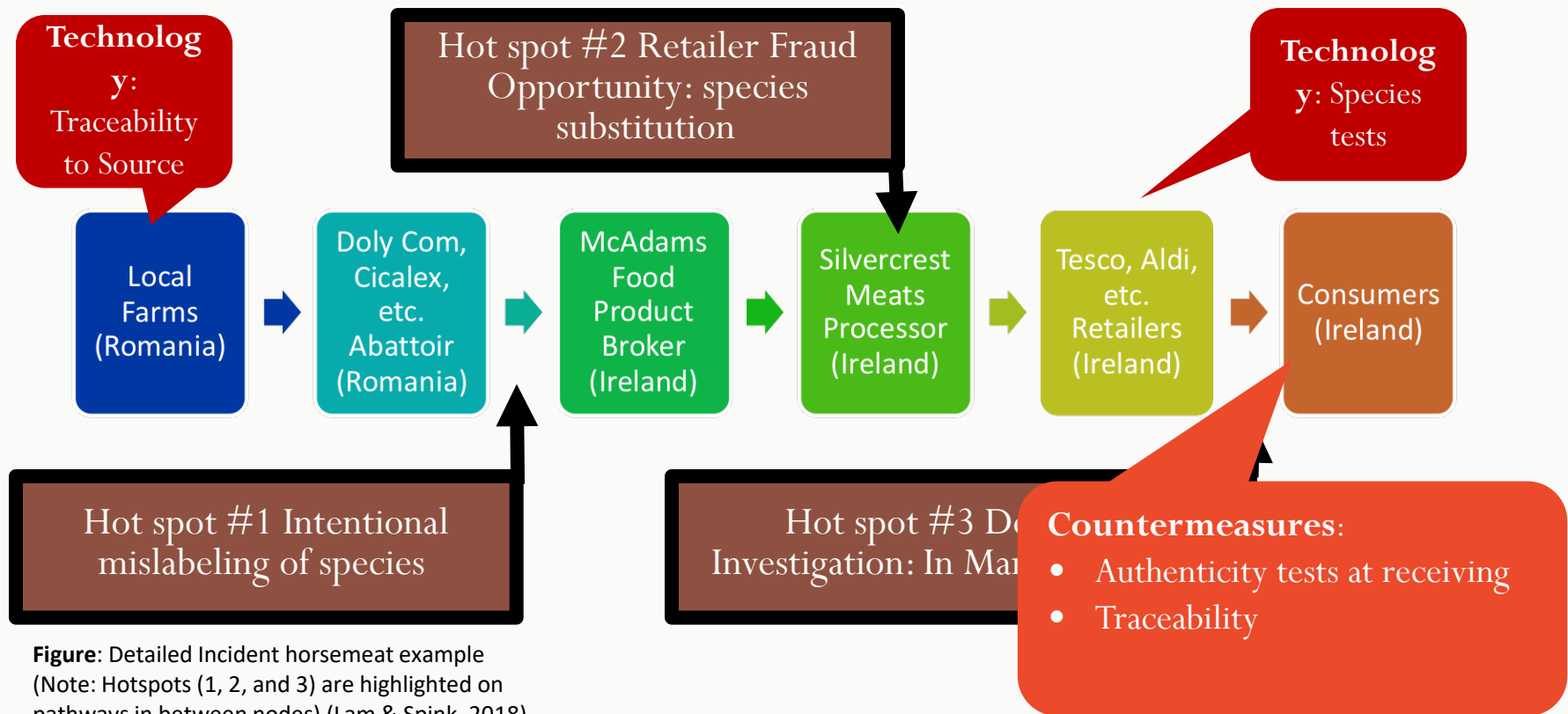
- Complex trading created a ***fraud opportunity*** that was exploited.



Legend of Colors: Red = Internal order, Brown = Broker trading/ invoicing, Blue = Manufacturer



Example of Hot Spot Analysis for: *Horsemeat in Beef*





Case Study: Information (not) on the label

- Scenario -- supply:
 - Lake Superior Whitefish (*Coregonus clupeaformis*)
 - Location, species
 - “The lake whitefish, a fast-growing member of the trout/salmon family Salmonidae, is a mainstay of the commercial catch in the Great Lakes.”
 - Whitefish
 - Species
 - A ‘white fish’
 - ...???
- Scenario – sale:
 - Menu item name
 - Invoice detail

Document Fraud

- 1) Ask for documents that clearly state the product (invoice, etc.)
- 2) Securely store the documents (possibly with access control)
- 3) Occasionally, look at documents (review value add information)



Food Document Fraud Prevention

- Supply Chain Mapping (who do you buy from)
- Transaction details (what do you buy with a focus on specific value-add statements)
- What documents are used to confirm attributes?
- How are the documents reviewed or validated?
- Conduct Supply Chain VULNERABILITY Mapping
- For emerging research see www.FoodFraudPrevention.com



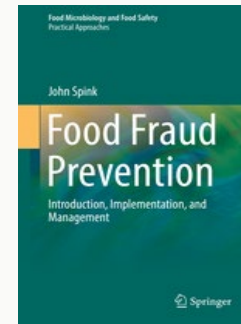
Takeaway Points

- Annual update: start with the gap analysis questions
- Review case studies and YOUR incidents
- Check with your standards and compliance audits – how did you do? Where are your gaps?



Discussion

John Spink, PhD



Link to Textbook::

<http://www.anrdoezrs.net/links/9101220/type/dlg/https://www.springer.com/us/book/9781493996193>

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<https://blog.foodfraudpreventionthinktank.com/subscribe/>

