

COMPLIANCE ASSURANCE PROGRAM

FRAUD PREVENTION PROJECT

The Compliance Assurance Program is responsible for investigating and inspecting program participants to ensure compliance with the California Beverage Container Recycling and Litter Reduction Act, and related regulations. Investigations are conducted to identify individuals and entities engaged in activities associated with fraudulent claims submitted to the Department.

The Compliance Assurance Program (CAP) has field offices located in Sacramento, Los Angeles and San Diego. We are responsible for a variety of programs that are designed to prevent the improper claiming of program funds and works very closely with the Participant Management Program and the Legal Office to remove participants committing fraud from the recycling program.

The Fraud Prevention Project (FPP) was implemented to ensure that increased California Refund Value (CRV) payments from the California Beverage Container Recycling Fund due to high recycling rates are based on proper claims and eligible material. The Project employs a prepayment approach to fraud. We use the following tools from our functional areas:

- ◆ **Investigations** – The purpose of this program is to minimize the risk of fraudulent claims being paid from the Fund. The staff reviews data and information from certified recycling centers to determine the degree of risk that they pose to the Fund. Recycling centers that pose an unacceptable risk or a significant risk to the Fund are completely investigated and prohibited from submitting false or unverified claims for payment of CRV. Staff recovers any illegal payments made from the Fund, as a result of follow-up fraud prevention investigations performed on high-risk recyclers. Recycling centers that deceptively claim illegal payments of CRV are referred to the Department's Legal Office to revoke their certification and may ultimately be referred to the Department of Justice for criminal prosecution.
- ◆ **Questioned Document Analysis Program** -- This program includes the forensic examination of program required documents produced by recyclers and processors to justify their claims for CRV. This program provides the evidence to successfully stop fraudulent claims from being submitted and assists in removing fraudulent recycling operators from the program. Over the past five years, the detection of fraud by staff in this program has saved the Fund millions of dollars.
- ◆ **Toll-Free Tip Line** - In addition, staff responds to information provided through 1-866-CANLOAD, the Division's toll-free telephone line that allows individuals to report fraudulent activities.

- ◆ **Recycler Load Inspection Program** -- The purpose of this program is to increase recycling centers' compliance with laws and regulations related to payment of CRV on beverage container materials. The program begins at a processor facility with on-site inspections of material submitted by recycling centers to a processor. The loads of materials are inspected along with the associated shipping reports (DR-6), which is the actual document submitted to the processor by the recycler to claim reimbursement of CRV for the load. The material is inspected for eligibility and compared to the DR-6 claim and weight ticket. If the material qualifies for CRV payment, and the documentation is valid and complete, payment is authorized for the load. If ineligible material is detected in the load, the receiving processor is authorized to withhold payment of CRV while the investigator conducts an immediate inspection of the recycling center submitting the load and DR-6. The supporting records, purchase practices and on-hand inventory of the recycling center are also examined at this time.

- ◆ **Recycling Center Inspections** -- Inspections are conducted at recycling centers to verify whether the recycler is properly inspecting consumer loads and making proper payments (segregated, commingled, or scrap).

- ◆ **Prepayment Controls** – Prepayment controls are proactive measures designed to prevent the payment of program funds for ineligible materials. Staff inspects shipments of beverage containers and reviews associated purchase records to ensure that their claims are valid. During investigations of illegal claims on the Fund, recycling centers found to have suspicious claims are placed on our Prepayment Inspection List and are required to call in to have their loads inspected, prior to payment of CRV on those loads.

- ◆ **Fraud Detection Reviews** – Fraud Detection Reviews provide a quick and effective assessment of recycling centers by focusing on components of their physical and recordkeeping operations that may contain indicators of potential fraud. The reviews result in case development only on suspected fraudulent recyclers, increasing the effectiveness of the Compliance Assurance Program (CAP). Fraud Detection Reviews are limited in scope, which enables staff to provide enforcement presence at more recycling centers. Increased presence provides a more preventative approach to the overall objective of fraud prevention.

Fraud Detection Reviews (FDR) are also a vehicle to removing recyclers from the program that are repeat violators of the regulations and have shown no intent to comply. CAP staff will work collaboratively to determine if participants are operating within program requirements and regulations and assess if the scope of the review should be expanded.

- ◆ **Data Analysis Program** – The Data Analysis Unit, within the Investigation’s Office, is responsible for analyzing all recycler and processor data flowing into the Division as a support group to investigators. Data is aggregated and analyzed to find variations and/or anomalies in recycler and processor volumes. This Unit also looks for double claiming on shipping reports or processor reports and analyzes all data from other Division of Recycling units to assist in directing the efforts of investigators.

- ◆ **Consumer Transaction Profiles** – These profiles are done to determine whether or not the volumes of material claimed by a recycling center are valid. These profiles are initiated when investigators suspect that a recycling center is claiming an unrealistic volume of containers. It provides the investigators with a basis for comparing the material redeemed, while the investigators are on-site, with the volumes that have historically been redeemed at that site. This allows the investigator to determine the reasonableness of the volumes reported and claimed by the recycler.

- ◆ **Probationary Reviews** – These reviews require on-site visits to observe operations and review inventory and the records used to support claims to the Department. Findings of non-compliance with the Division’s Act and Regulations are identified and recommendations are made regarding the status of a participant’s certificate (determine whether a certified or registered entity should pass their probationary period, have their probation extended or whether there are significant findings that would warrant the revocation of a participant’s certificate). Reviews that reveal significant findings may be referred for further investigation or in some instances a referral will be made for recycler training.

- ◆ **Recycler Incentive Payment Reviews** – Compliance Assurance Program staff will work collaboratively to determine the eligibility of recycling centers or dropoff or collection programs for recycling incentive payments from an established list provided by the Operations Program of the Division of Recycling. Through data analysis, risk assessment and field visits the list of potential incentive payment recipients will be deemed eligible or be removed from the eligibility list because claimed volumes cannot be substantiated or fraud was found.

- ◆ **Interagency Relationships** - The Department has an ongoing contract with the Department of Justice, and the Attorney General’s office to investigate and prosecute criminal fraud in the Recycling Program. In addition we work collaboratively with local law enforcement agencies (e.g., Sheriff Offices of Los Angeles County and San Bernardino County).