2018 is moving along pretty fast. It's hard to believe we are nearing the end of the first quarter already. We have had a very busy first quarter at SCAN. We were able to conduct our Member’s meeting on February 6th where we had CBP as a special guest. SCAN was mentioned as a best practice at an ICPA event in one of the breakout sessions. All great ways for us to get the word out about the great benefits to being a member.

There is a great deal of things happening with CTPAT, including the upcoming minimum security criteria (MSC) rewrite. Our board of directors and audit committee have been discussing the best way for SCAN to be ready it. As a member of SCAN, you can be sure we will implement the new requirements into our program in a very short time period. We anticipate that many of the new requirements are already a part of our program as “shoulds”.

I don’t want to imply that we won’t have some work to do. However, SCAN’s rigorous program will put us in a great place. Leveraging SCAN and the systems we have available will reduce the effort required by each individual company in incorporating these new standards in their security programs.

I would like to take this opportunity to invite our members to help us continue to create a great association that works hard for our members. The best way to do this is by joining one of our committees. We have both committee chair and board of directors positions open. Having your voice heard in the association is the best way to build SCAN to help your company. Get involved and let us hear from you.

As a SCAN member, you will always have an advantage. In the fight against terrorism and ensuring cargo security, we are all in this together.

Kendra Hobbs
SCAN Chairman
EXECUTIVE SUMMARY

The Open Members meeting on February 6th included special guest Liz Schmelzinger, Director of CTPAT. Schmelzinger reinforced CBP’s support of SCAN as a best practice. Schmelzinger also provided a sneak peek at the Minimum Security Criteria (MSC) rewrite. More information about the MSC rewrite can be found on SCAN’s Website.

Members represented SCAN at this year’s IPCA conference in March. Dan Purtell of BSI provided an educational presentation on SCAN while Beth Unger shared Columbia’s experience as a SCAN member. SCAN also had a table at the conference where Ryan Klath of Target and Renee Tulloch of BSI demonstrated how SCM works and shared the benefits of SCAN.

Reaudit Training has begun for service providers. As SCAN begins to lead the reaudit process for SCAN audits, service providers will play a role in recognizing factories’ compliance with previous audits and CAPAs.

The SCAN Association wants to ensure that the SCAN Audit Repository hold valid audits for its members and factories. This approach allows members to reduce their workload and helps the association continuously maintain valid audits without relying on its members to trigger audits. On April 10th, SCAN began a pilot of 60 re-audits ordered on behalf of the SCAN Association. Further information regarding the re-audit process can be found in the audit committee update section of this newsletter.

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CONNECT WITH SCAN:

- info@scanassociation.com
- www.scanassociation.com
- Supplier Compliance Audit Network (SCAN)

UPCOMING EVENTS:

June 5th, 2018
SCAN Member Meeting
Watch your inbox for meeting invitation and agenda
QUARTER 1 STATISTICS

The SCAN membership includes some of the top fortune 500 industry leaders. These organizations have added 12,844 to the SCAN Audit Repository, allowing members and factories to benefit from shared audits. We would like to welcome SCAN’s newest member PriceSmart.

$935 Billion
In combined annual revenue between the membership

27
SCAN Members
Representing Multiple Industries: Retail, Apparel, Food and Sporting Goods.

41% of the conducted audits are shared by more than one SCAN Member. The shared audits have increased by 3% since Q4 2017.

19% of factories in the SCAN Audit Repository are shared by more than one SCAN member.

In Q1, audits were conducted in 23 countries. The most audited countries during that quarter were China, India, Bangladesh, Vietnam, and the United States of America.

2,243
Shared Audits

12,844
Active Factories

5,501
Conducted Audits

China – 65%
India – 7%
Bangladesh – 6%
Vietnam – 6%
USA – 4%
AUDIT COMMITTEE UPDATE

Ken McElroy | Manager Global Trade Risk & Export Compliance | The Home Depot

In an effort to better serve our membership, the SCAN Association has implemented a new re-audit process which began on April 10th. This process ensures that audits in the SCAN Audit Repository are valid, and will benefit both our members and factories. Factories that have already been audited in the SCAN Program will now be audited every year or every two years based on the criteria below.

Each member has the right to request a re-audit at any time due to member risk tolerances. Factories’ country risk will be reviewed every quarter by SCAN Program Management to determine if there is a change to audit cycle. If the re-audit cycle has changed, an email will be sent from SCM to notify the factory.

The SCAN Program Management team may be in contact with SCAN Members that share factories when assistance is needed. Your support in the re-audit process is crucial to the success of the program.

Reaudit every 2 years

- Audit score equal to or greater than 75%, and
- Country risk is Low, Guarded, or Elevated, and
- CAPA process was completed

Reaudit every year

- Audit score less than 75% and country risk is Low, Guarded, or Elevated, or
- Country risk is High or Severe, or
- CAPA process was not completed (CAPA Incomplete substatus in SCM)
FACTORY SPOTLIGHT

A SCAN factory in China’s Guangdong Province provided comments following his experience with a recent SCAN audit shared with another SCAN member:

“Thanks for the nice help on security compliance management in our supply chain. We did take it as a practical tool to evaluate the security performance of our factory and to exempt various audits from different customers on security compliance. And we always hope SCAN could invite more and more Retailers/Customers/Brands join in the program as a SCAN member.”

By participating in the SCAN Program, factories are given a standardized corrective action plan for consistent factory improvement expectations. The corrective action process allows factories to make the recommended changes in order to help improve SCAN members’ results while improving the security at their facilities.

SCAN’s audit statistics illustrate advancement towards facility security improvements and effectiveness of the shared audit concept.

![Audit Statistics Diagram]
FACTORY FAQs

SCAN has received many questions from factories regarding the SCAN audit process. A list of the most frequently asked questions are compiled here. If you are receiving similar inquiries, refer to these FAQs to aid in answering factories’ questions.

1. How can we apply for a SCAN audit?

   Currently, SCAN only accepts audit requests initiated by SCAN members. If you want to apply for a SCAN audit, please contact one of our SCAN members for assistance. In the future, SCAN is committed to develop a factory/ supplier level in the SCM platform allowing factories/suppliers to order audits directly.

2. Where can we get the audit result?

   Your audit results can be viewed in the SCM portal. When your audit is scheduled, you are sent an invitation email to setup your SCM portal. Within 10 days of the conducted audit, you will be notified that your audit results are available to view and download in the portal.

3. What should we do before/after the audit to help improve our supply chain security?

   **Pre-Audit:** You can ask for a copy of SCAN Pre-Audit Checklist from the audit firm in advance to prepare the required documentary files such as procedures & records of implementation.

   **Post-Audit:** Complete the corrective actions assigned to you after the audit. By completing the corrective actions, you have the ability to improve your score.

4. Is it necessary to us to complete the CAPAs?

   The answer will always be **YES.** The CAPA process offers you an additional opportunity to have your compliance score improved. SCAN is a shared audit program allowing SCAN members to access your audit report. **It is imperative** for you to complete CAPAs assigned to you in the SCM portal in order to show your efforts in helping reduce risk in the supply chain for SCAN members. Audit results and CAPA completion are factors in determining when your next audit will take place.
SCAN COUNTRY RISK HIGHLIGHT: CHINA

SCAN’s risk-based audit approach uses BSI’s SCREEN Intelligence to incorporate geographical threats as part of the supplier risk assessment. SCAN’s approach has been noted by CTPAT as an industry best practice and uses three risk variables to quantify local threats:

1. Unmanifested Cargo Introduction
2. Anti-Western Terrorism, and
3. Supply Chain Terrorism

The threat of cargo disruption in China is **Elevated**. While cargo thieves occasionally engage in partial and whole shipment theft, pilferage of goods from cargo trucks and warehouses is more common. The production and exportation of counterfeit goods in China are great concerns to companies, as the country has seen little progress in the enforcement of Intellectual Property Rights (IPR) legal protections.

China has a **High** threat for illegal drug introduction into legitimate cargo shipments. China has witnessed an increased demand in the production of synthetic drugs, and traffickers have been known to introduce illicit drugs into exported freight.

The threat of anti-Western Terrorism in China is **Guarded**. The majority of China’s terrorist activity occurs in the northwestern region of the country.

The threat of supply chain terrorism in China is **Low**. While occasional bombing attacks from these groups could cause potential disruptions to the local supply chain, such incidents are rare in China.

| 4,039 | 73% | 89% |
| SCAN audits conducted in China since program inception | China’s portion of total SCAN audits conducted since program inception | Average SCAN compliance score in China |

www.scanassociation.com
SCAN MEMBER TESTIMONIAL

Holly Clouse | Customs Compliance Manager | Meijer

The Supplier Compliance Audit Network (SCAN) was first introduced to us by one of our suppliers. As we investigated the program and spoke with other suppliers, we found they supported the idea of a shared audit platform.

SCAN has been able to standardize the format and content of supply chain security audits, while providing a method of sharing results and limiting the number of audits our foreign business partners are required to undergo. This has been a big win for us and our suppliers as the SCAN repository allows us to easily assess the onsite audit, and quickly make our risk assessments.

The shared audit platform has grown faster than we had expected and provides quick access to the audit results. As our supply chain has to adjust to market trends rapidly, SCAN allows us to save time and focus our attention on serving our customers. As more and more companies join SCAN, the audit repository will only continue to grow, further saving us and our suppliers’ time and money.

SCAN BOARD OF DIRECTORS AND COMMITTEE CHAIRMEN

Board Chair
Kendra Hobbs | The Home Depot

Vice Chair
Lisa Schulte | Target

Treasurer
Pat Cerisano | Husky Injection Molding

Secretary
Jennifer Kissner | Newell Brands

Committee Chair: Audit
Ken McElroy | The Home Depot

Committee Chair: IT
Beth Unger | Columbia Sportswear

Committee Chair: Marketing/PR
Ryan Klath | Target

Committee Chair: Membership
Yvette Estrada | JC Penney

Committee Chair: Service Providers
Open

Member-at-Large
Holly Clouse | Meijer

Member-at-Large
Stella Bray-Conrad | Walmart
POTENTIAL SCAN MEMBER FAQS

Are you thinking about becoming a SCAN member, or know a company that is? SCAN compiled a list of frequently asked questions regarding membership and its benefits. Take a look at what SCAN membership offers below!

Why should I become a member?

The SCAN Association is a nonprofit shared audit program which allows members to share supply chain security audits. SCAN eliminates audit fatigue at the supplier level and allows members to reduce costs in their supply chain.

By joining the SCAN Association, you become a partner with other supply chain security thought leaders. You may compete on the shelves but, collectively as SCAN Members, you share a common goal to secure the global supply chain.

In April 2018, SCAN will be automatically re-auditing factories on a year or two year basis depending on the compliance score and risk of the country the factory is located. This process will allow members to save more time, effort, and will result in reduced supply chain costs.

What kind of benefits will the SCAN Association give me?

- Confidential method to share audit results
- Consistent and fully managed corrective action plan
- SCAN Audit criteria aligns with future CTPAT rewrite
- Risk based audit approach
- Customized audit management platform SCM Supplier Compliance Manager
- Ability to reduce resources dedicated to your audit program

What is included in the SCAN membership?

- Training for your selected users on SCAN Processes & SCAN Audit Repository
- Access to the SCAN Audit Repository to search for factories and audits
- An onboarding package which includes:
  - a SCAN letter to be sent to your factories to explain the SCAN Program and your participation in SCAN
  - your factories researched to identify shared factories and audits available in the SCAN Audit Repository
- Standardized corrective action process managed by SCAN
- Quarterly SCAN Insight Newsletter
- Potential to be a SCAN committee member to help drive strategy in SCAN Association
How do I know if my supplier has conducted a SCAN audit?

- You are given access to the SCAN Audit Repository where you have the ability to search by the factory’s unique SCAN ID or by entering the country and the first 5 characters of the factory name
- During onboarding, you have the opportunity to have your factory list crossed checked against existing factories and audits in the SCAN Audit Repository
- When communicating with your factories, you can ask them to share their SCAN ID if they have conducted a SCAN audit to help you locate their audit in the SCAN Audit Repository

How should I incorporate SCAN in my supply chain?

- Discuss the program internally to determine if the SCAN is right for your company. Reach out to info@scanassociation.com for more information
- When becoming a member, ensure to utilize the resources provided in your onboarding package. Send the SCAN letter to your factories to explain the program and expectations.
- Review audits that you share and determine if you can accept the audit to help reduce audit fatigue at your factories
- Begin by ordering a small number of audits to help get familiar with the process
- Make updates to your internal processes accordingly and move out of your pilot program
BECOME A MEMBER!

Join various industry leaders, such as the members listed below, in becoming an official SCAN Member! Contact to learn more about the association, membership options, and the shared audit repository! Contact us at info@scanassociation.com.

- Associated Premium
- Barnes & Noble, Inc.
- Cabela’s
- Canadian Tire
- Carter’s, Inc.
- Coleman Company, Inc.
- Columbia Sportswear Company
- Costco
- Hallmark Cards, Incorporated
- Husky Injection Molding Systems
- Jarden
- JCPenney
- Kroger
- Levi Strauss & Co
- Meijer, Inc.
- Michaels
- Patagonia, Inc.
- PriceSmart
- Rawlings Sporting Goods Company
- Renfro Corporation
- Revman International
- RMS International
- Target
- The Home Depot, Inc.
- Walmart
- Wolverine Worldwide

Visit our website to learn more about the SCAN Association, www.scanassociation.com

SCAN Anti-Trust Statement

Our association understands the importance of anti-trust compliance. Our goal is to avoid the appearance of impropriety. We make every effort to avoid any discussion of prices, pricing policies, terms and conditions of doing business, or, of course, any sort of market allocation. We also avoid any discussion that might be perceived as suggesting that anyone should cease doing business with a particular factory or customer, or any other discussion that might be viewed as coercive or exclusionary toward another company.

We encourage our members, should they feel uncomfortable about any subject of discussion or have any questions, to please speak up and bring their concerns to the attention of any board member, who will stop the conversation until we can provide legal guidance.