

SCAN INSIGHT

The Quarterly Newsletter from Supplier Compliance Audit Network Association



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MESSAGE FROM THE CHAIR

Jennifer Kissner | Newell Brands

I hope everyone is having a wonderful summer as we return to some sense of normalcy recovering from COVID.

Welcome to our new SCAN members Floor & Decor, Ferguson Enterprises, REI, Hasbro Inc., and Spin Master. I am also excited to welcome Jodi Nesbitt (Meijer) as the IT Committee Chair and Vicky Fletcher (Floor & Decor) as the Membership Committee Chair. It is refreshing to have members join committees with new insight, ideas and enthusiasm. Please consider joining any of the SCAN committees, it's a great way to meet colleagues and benchmark with other members.

The SCAN Board has been hard at work and we will be announcing, deploying or releasing the following:

- A "Members Only" section to the SCAN website, we will announce once this is deployed
- Survey Monkey will be used to periodically survey the membership to better serve you
- Stay tuned for a new QA process

We will be hosting our 3rd Open Members meeting in September, a save the date will be sent in late July.

Read further to learn about exciting enhancements, important information and useful tips on self- assessments, blockchain, SCAN's immersive audit program and more.

Cheers to a Happy Summer!

Jen

MESSAGE FROM THE VICE CHAIR

Ken McElroy | Home Depot

GETTING THE MOST OUT OF YOUR SCAN MEMBERSHIP

The Upgrade by BSI and SCAN to blockchain the audit result details gives members a large leg up on developing your annual risk assessment and also in providing audit details in a concise and organized format if a foreign validation or re-validation is scheduled. The QR Code on a submitted report can be scanned and used to determine the validity of the audit report. Accessing the blockchain results from the factory list in the repository enables benchmarking of a single factory against all the factories of a country and all the factories in the repository overall. And most importantly, the actual cover sheet, when drilling into the factory list, details all of the CTPAT audit categories results and the location details allowing for a concise and complete snapshot of the security details as audited at a specific location. This detail allows for you to highlight the best of your locations and identify locations that might need some remediation.

Upcoming improvements in blockchain part 2A will add a connection to the actual auditor who conducted the audit in question. Later this year, a green color highlight will indicate if the auditor listed on the audit report has an up-to-date level of SCAN audit training. A yellow color highlight will indicate that the auditor's training certification has expired. And a grey color highlight will indicate that the auditor did not have the required training certification.

Part 2B upgrades could include the ability to share blockchain results with regulatory agencies such as CBP and AEO organizations. This is a TBD item and something that will require approval by the membership prior to implementation.

IMMERSIVE AUDITS

The audit committee and our partner BSI have been working diligently to review and enroll our service providers in the use of immersive technologies to conduct audits. In Q2, thirty four (34) immersive audits were completed. Amongst the observations are that the immersive audits are in some instances resulting in lower compliance scores when compared to previously conducted on-site audits. This is unclear whether this is a result of the new MCS requirements or simply a more acute observation of details. Additionally, you the members have the opportunity to observe these immersive audits from your location. To date Target, Newell Brands, Canadian Tire, J.C. Penny and The Home Depot have participated in observed audits. If you have an offshore team this could be a great opportunity to demonstrate additional and elevated oversight to your supply chain security program.

Thanks,

Ken

EXECUTIVE SUMMARY

Dave Blackorby | Executive Director

SCAN continues their exciting growth and progressive engagements in the supply chain environments. Their recent deployments, such as the blockchain verification programs, supplier-initiated audits and self-assessment reviews have proven to be very receptive by the supply chain community.

The Board's Membership Committee, partnering with their BSI Support Team, currently are developing a members quality review program where executive members will be asked to review quarterly a completed audit pursuant to questions in a survey monkey questionnaire. The feedback from these surveys will be utilized as part of the quarterly assessment reviews of our seven (7) Audit Service Providers (ASPs). Assessment reviews will not only be for the review of the ASPs but also of how the CAPA process is being managed. This is to really assess the full audit / capa program and obtain that feedback from the membership.

SCAN's Logistics Service Provider (LSP) Committee is close to completing a transportation/logistics assessment that can be used by an LSP to evaluate, following CTPAT guidelines, their security protocols.

The ASP Committee has been requested by the Board to review country coverage by SCAN audits. SCAN's current contract with each ASP requires them to provide global country audit coverage, though they are allowed to opt out of up to five (5) countries at the time of contract renewal. This global requirement places a leverage issue into SCAN's pricing negotiations with the ASPs who must address their higher costs for country audits in less frequented and/or more remote locations. Since its inception, SCAN has conducted audits in 80 countries where fewer than five (5) audits were executed in 28 countries and nine (9) of these countries have had no audits initiated in the last 32 months.

To address this issue the Board is considering an exception to the current requirement that all audit assignments must be rotational across the seven (7) ASPs and no facility can be audited by the same ASP consecutively. The exception would allow one or more designated ASPs to commit to conducting all audits in the less active specified countries at a modified pricing structure where necessary. SCAN would provide training and support to these selected ASPs to assure they are set up for success and their audit standards are maintained. Before moving forward in implementing this audit assignment exception, the Board needs the input from SCAN's membership; the recipients of our audit programs.

Please take a few minutes to provide feedback to myself or any Board member.

Thanks

Dave

SCAN BOARD OF DIRECTORS & COMMITTEE CHAIRS



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Jennifer Kissner | Newell Brands



Vice Chair

Ken McElroy | The Home Depot



Past Chair

Lisa Schulte | Target



Treasurer

Pat Cerisano | Husky Injection Molding



Secretary

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Ryan Klath | Target



Committee Chair: IT

Jodi Nesbitt | Meijer



Committee Chair: Service Providers

Yvette Estrada | Trinity Industries



Committee Chair: Logistics Service Provider (LSP)

Donna Neil | Canadian Tire Family of Companies



Committee Chair: Membership/Public Relations

Vicky Fletcher | Floor & Decor



Member At Large

Troy Haynes | Lowe's



Open



Executive Director

Dave Blackorby



Coordinator

Summer Backstrom

SCAN NEWS UPDATES

AUDIT PROGRAM UPDATES

Ryan Klath | Audit Committee Chair

With our Self-Assessments officially rolled out I wanted to take a moment to highlight some examples of when a Self-Assessment may be used. It is always up to the individual SCAN member as to whether or not the choose to accept any SCAN assessment. Some ideas for allowing you to accept a Self-Assessment in lieu of an onsite or immersive audit may include:

- A supplier in a new low-risk origin (based on risk) where you are unsure of the longevity of the relationship.
- As a reward for a location that has had several onsite audits and has maintained or improved their score.
- In place of an immersive audit if technology isn't available at the facility or if travel is restricted.
- As a replacement for a member's current self-audit strategy.

As a reminder, SCAN Self-Assessments may be requested the same way our onsite audits are today. If there are any ideas for improvement or feedback on the overall Self-Assessment strategy please let me know.

Thanks,

Ryan

INTEL SUMMARY

Christopher Tomas | Lead Intelligence Analyst, BSI Supply Chain Services & Solutions

CHANGING SOURCING LOCATIONS REQUIRES THOROUGH AND ONGOING RISK ASSESSMENTS. HERE'S WHY

The unique worldwide events of the past year and a half have arguably led organizations to ponder the global distribution of the supply chain and where business partners are located. Organizations are increasingly considering shifting supply chains to a more diversified model to mitigate potential disruptions. As these considerations are made, it is important to conduct risk assessments for a new sourcing location to prepare for the different threats to the supply chain and enhanced regulatory restrictions.

ASSESSING UNIQUE RISKS WHEN ENTERING A NEW LOCATION

A primary example in Mexico is the significant risk of cargo theft in the form of truck hijackings, which accounts for most incidents in the country. Compared to cargo theft trends in Asia, where thieves tend to capitalize on poor access controls at facilities, thieves in Mexico are not opposed to carrying out armed hijackings of in-transit cargo trucks.

These factors combined had significant ramifications for supply chains as cartels increasingly looked to exploit corrupt individuals or to infiltrate supply chains deemed essential to replace this restricted transportation route. This shows how not just an initial risk assessment is key to a resilient supply chain, but also following up to remain current on shifting risks.

OTHER KEY FACTORS: NATURAL DISASTERS AND MAN-MADE DISRUPTION

Increasingly, though, natural disasters and man-made disruption are also posing secondary or tertiary continuity challenges that often result in an exposure to security threats such as cargo theft.

SHIFTS IN LABOR RIGHTS AND ENVIRONMENTAL REGULATIONS

With governments in North America and Europe requiring organizations to conduct due diligence and implement efforts to prevent human rights and environmental violations within the supplier network, the United States-Mexico-Canada (USMCA) trade agreement exemplifies this crossover of regulations governing business operations in both trade compliance and labor rights manners. Besides requiring all three countries to ban the entry of goods produced by forced labor, the USMCA also contains provisions aimed at improving the rights of workers in Mexico through labor union reforms. These reforms, and the potential penalties for non-compliant entities, can have detrimental impacts on the continuity of supply chains. This highlights the intersection of regulations and labor rights, a common theme in the increasing array of regulations governing supply chain operations.

Thanks,

Chris

SCAN AUDITS | FREQUENTLY ASKED QUESTIONS

Question: How can a factory directly access/download an audit report?

Response: Please log into SCM portal and go to the 'Report' section (from your left navigation bar). The 'Location Audit' report will be available for your reference. You may also refer to pages 14-15 of the provided user guide to check or download the audit report.

Question: Do the audit reports have an expiration?

Response: Completed audits are required to be completed on a one (1) or two (2) year cadence based on score and overall risk assigned. As SCAN is a shared audit program, some SCAN members may have a more strict requirement so their organizations may have a slight variation on expiration requirements. If you are unsure, please check with the SCAN member that ordered the audit to confirm your audit result directly.

Question: I submitted an audit request last week. When will it be assigned?

Response: All audit requests are handled in weekly batches. Any requests received Monday thru Friday will be assigned the following week. Exceptions to this may be due to an urgent request for an audit that is required to happen sooner than the 45-day normal assignment for SCAN, if recent audits have been located within the repository and shared with the requesting SCAN member or if any necessary information was missing from the audit request. SCAN members may find this audit assignment process on the SCAN website.

QUARTER 2 STATISTICS

\$1.36 TRILLION

Combined annual revenue between membership

Members represent many industries, such as retail, apparel, food, sporting goods, and logistics

52 MEMBERS

AUDITS

From program inception to today

80
countries

55%
shared audits

16,399
conducted audits

21,335
active factories

AUDIT DISTRIBUTION TOP 5 COUNTRIES - Q2 2021

- 34 countries Q2

