



SCAN INSIGHT

August 2018





MESSAGE FROM THE BOARD CHAIR

Well we are already in the second half of 2018. We have had a very busy first half at SCAN. I am most excited about our multi-member trip to South China which took place in May. This was a great opportunity for the SCAN Board of Directors to share ideas but also validate our program and experience firsthand how some of our service providers are conducting audits. There is more in this newsletter about that so I will not go on. But suffice to say it was a great trip. Thanks to all who participated or helped to make it happen.

There is a great deal of things happening with CTPAT, including the upcoming minimum-security criteria (MSC) rewrite. The proposal was pushed out to CTPAT members on July 26th. Our board of directors and audit committee have already been meeting to discuss the proposed changes and come up with the best way to implement the changes. As a member of SCAN, you can be sure we will implement the new requirements into our program in a very short time period.

Your SCAN board of directors are currently reviewing the nominees for board positions and committee member positions. The Elections are coming soon but there is still a short window of time to bring forward nominations. 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 further SCAN's mission and provide a positive impact that will directly benefit your company and the import community. Get involved and let us hear from you.

While I would be remiss if I didn't mention the Trump 301 tariffs I know many of you are responsible for both Supply Chain Security and import operations so know that we recognize the additional workload you may be experiencing but hopefully that will be short lived and you will have time to focus back on CTPAT and your supply chain security initiatives.

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

As a SCAN Member, you are critical component to the Association's Shared Audit Concept. We ask for your help in ordering and accepting SCAN audits as your business dictates. Ordering and accepting audits grows the Association's factory pool, a key component to the success of this program and all its members.

This quarter's newsletter focuses on Unmanifested Cargo Introduction and 7 Point Inspections. A new feature of the SCAN Insight Newsletter is the Educational Spotlight, which reflects this newsletter's focus. This information is meant to assist both members and factories.

August brings Board of Directors and Committee Chairs elections! Be sure to watch your inbox for election ballots to be sent around August 10. Completed ballots are due by August 31.

The SCAN audit committee is preparing to modify the existing SCAN audit criteria after the publication of the "Minimum Security Criteria" (MSC). SCAN plans to launch an "Updated" audit template utilizing the "NEW MSC" in the beginning of 2019.

IN THIS ISSUE:

[Q2 Stats](#)

[SCAN BOD First Trip to China](#)

[Educational Spotlight](#)

[BSI Analysis: Unmanifested Cargo Introduction](#)

[Factory Spotlight](#)

[Audit Repository Updates](#)

[SCAN BOD & Committee](#)

[Become a Member](#)

UPCOMING EVENTS:

**TBD
based on
conference
date**

In person member meeting
@ CTPAT Conference

Be sure to check the SCAN
website for dates!

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\(SCAN\)](#)



QUARTER 2 STATISTICS

The SCAN membership includes some of the top fortune 500 industry leaders. These organizations have added 14,012 factories to the SCAN Audit Repository, allowing members and factories to benefit from shared audits. We would like to welcome SCAN's newest member **The Children's Place**.

\$956 Billion

In combined annual revenue
between the membership

28

SCAN Members

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



40% of the conducted audits are shared by more than one SCAN Member.

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

In Q2, audits were conducted in **26** countries. The most audited countries during that quarter were China, Vietnam, India, Bangladesh, and Indonesia.

2,605

Shared Audits

14,012

Active Factories

6,221

Conducted Audits



China – 71%



Vietnam – 6%



India – 4%



Bangladesh – 4%



Indonesia – 3%

SCAN BOARD OF DIRECTORS FIRST TRIP TO CHINA

The SCAN Board of Directors visited factories in Shenzhen and Shanghai in May 2018. The purpose of these factory visits was to conduct validations of 3rd party audit firm processes. Seven factories were selected for review of critical points in the SCAN audit.

During the trip, Board members also hosted Security and Threat Awareness trainings. SCAN factories had the opportunity to learn about the Association, its membership, and key security audit criteria such as 7 point inspections and security and threat awareness. Money raised during these sessions help the SCAN Association's growth and mission to continue reducing audit fatigue for suppliers.



BOD members visited SHENZHEN WINGART ART SUPPLIES CO on May 16th, 2018

While in China, it was clear to the Board members that their visits and trainings helped educate factories to better understand the audit criteria. Also, Board members were able to express why, as an importer, they expect certain security measures to be in place.

The SCAN Association is dedicated to continuing the efforts in educating and guiding factories on security expectations. This will be done through organized onsite and web trainings along with educational articles published in the SCAN Insight Quarterly Newsletter.



BOD members visited Round Tripping T & Y Electric on May 17th, 2018

The China visit proved valuable and beneficial for all as it allowed collaboration between members, factories and the program management team.

EDUCATIONAL SPOTLIGHT: 7 POINT INSPECTION

One of the central aspects of CTPAT and AEO is protecting the global supply chain from smuggling, theft, and the introduction of invasive species. The 7 point inspection of containers is a key component in insuring the integrity of the global supply chain. During the BODs' trip to China, they discovered some factories only understood aspects of how to conduct this inspection and the importance it plays in overall supply chain security. This educational spotlight aims to provide an overview of this important requirement.

Inspection upon arrival

The gate attendant/security officer must walk around the container looking for damage, evidence of tampering, and inspecting the undercarriage with a long stick mirror. This visual inspection should be completed at the entrance to the facility prior to admitting the container. The security officer and the driver should collaboratively walk completely around the container at least twice. The first trip is to review the undercarriage using the stick mirror. The second trip is intended to observe the front back and both sides of the container for damage, repair welding, dirt, seeds, and bugs. This inspection helps to identify any invasive species and attempt to minimize damage to property.

Inspection prior to loading

A designated factory personnel must inspect the inside of the container prior to loading cartons. The first step should be to sweep out the inside of the container looking for debris and evidence of damage/tampering. Next, the inside of the container should be measured using either a measuring tape or a laser distance measurer, and compare the results to expected measurements of the container. Next, a hammer must be used to tap along the sides, ceiling, and floor in every 1-2 meters listening for hollow sounds or sounds that could indicate structural changes. The person conducting the inspections should be using all of his senses during the inspection. Soft spots in the floor, light filtering through cracks in the container, and/or unexpected smells could be evidence of a compromised container.



Final Inspection and sign off

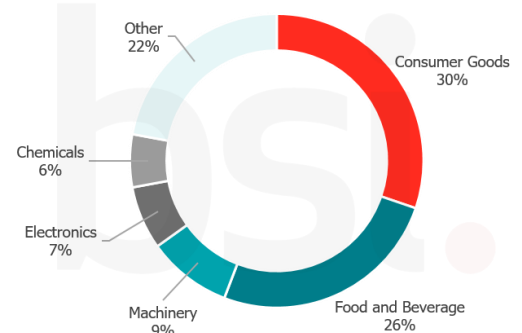
When the container is loaded and pulled away from the dock, a warehouse person/security guard/manager should close and seal the container, ensuring that all door latches are intact. A secondary visual inspection must be made to the outside of the container during another walk around the container. The undercarriage should be inspected again with a long stick mirror a second time if the container was stored after the initial entry inspection.

BSI ANALYSIS: UNMANIFESTED CARGO INTRODUCTION

BSI data demonstrates frequent use of sea container shipments, loads of consumer goods for unmanifested cargo introduction in China

BSI frequently records seizures of illegal drugs, arms and weapons, and stowaways from cargo originating in China. In most incidents of unmanifested cargo introduction originating in China, BSI records the involvement of sea container shipments, representing about 61 percent of events. Smugglers in the country generally target the air and trucking industries less, with those modalities uses in only 22 percent and 17 percent, respectively. Officials most frequently seize unmanifested cargo from shipments of consumer goods, food and beverage, and machinery originating in the country. The threat of unmanifested cargo introduction in China is Elevated.

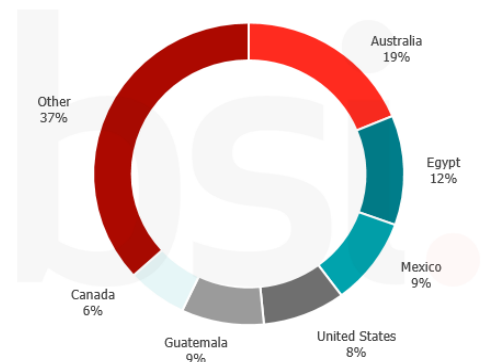
UMC Seizures by Commodity



BSI Analysis: Top Destinations for Unmanifested Cargo Originating in China Include Australia, Mexico, the United States, and Egypt

According to incidents collected by BSI, the top destinations for unmanifested cargo originating in China include Australia, Egypt, Mexico, and the United States. Egypt is of particular note, as BSI has commonly recorded instances of small arms and knife seizures in the country. The BSI threat rating for unmanifested cargo introduction in China is Elevated.

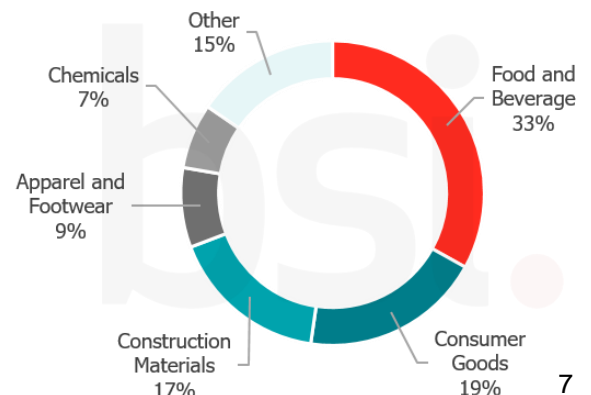
Destination of Seized Unmanifested Cargo Originating in China



BSI Analysis: Officials Most Frequently Seize Unmanifested Cargo from Shipments of Food and Beverage Originating in India

According to incidents recorded by BSI, officials most commonly seize unmanifested cargo from shipments of food and beverage products originating in India, followed by loads of consumer goods, among others. The food and beverage market in India is quite large, making it likely that customs officials pay less attention to the routine shipments of food and beverage goods. Finally, given that

UMC Seizures by Commodity



food and beverage shipments are relatively less expensive, it is likely that these shipments are less secure than other commodities of higher value, making it easier to insert unmanifested cargo into shipments. The threat of unmanifested cargo introduction in India is Elevated.

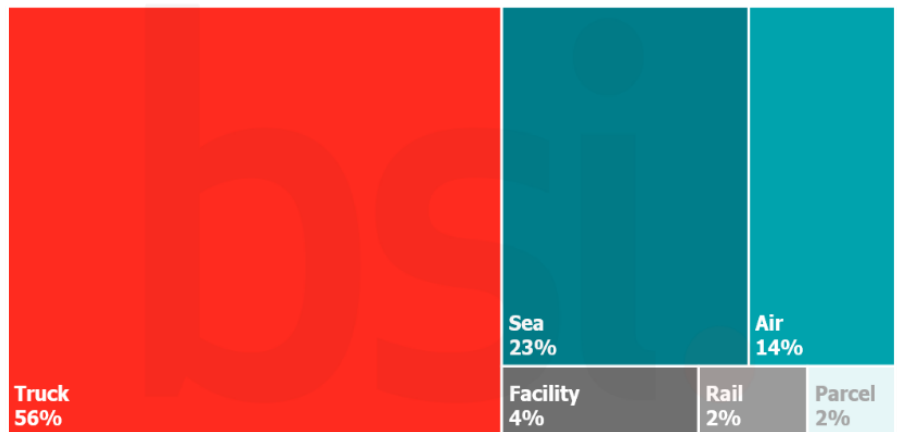
BSI Analysis: Officials Most Frequently Seize Unmanifested Cargo From Trucks, Sea Shipments Originating in India

BSI has noted that officials most frequently seize unmanifested cargo, including illegal drugs, arms and weapons, and stowaways, from cargo trucks and sea container shipments originating in India. This trend among targeted modalities tends to be common in most countries identified as sources of unmanifested cargo introduction, including India which faces an Elevated risk. The ease of inserting contraband into cargo trucks compared to needing to identify an appropriate air or sea shipment and then attempt to infiltrate several additional layers of security or employees in order to accomplish the same introduction partly explains why the trucking modality tends to rank highest in seizures of unmanifested cargo collected by BSI.

However, the dynamics of contraband smuggling in India also has a role in this trend. Besides the need to export contraband to destination markets abroad, smugglers in India also frequently traffic unmanifested cargo

internally for either distribution or, in the case of illegal drugs and precursor chemicals, further refinement before eventually exporting the finished drugs. Companies operating in India should remain aware of the latest trends in unmanifested cargo introduction in India in order to implement proper security measures.

UMC Seizures by Transportation Modality



BSI Analysis: Top Destinations for Unmanifested Cargo Originating in India Include Malaysia, United Arab Emirates, and Libya

According to incidents recorded by BSI, the top destinations for unmanifested cargo originating in India include Malaysia, the United Arab Emirates, Libya, Nigeria, the United States, and Egypt. In incidents of unmanifested cargo destined for Malaysia, smugglers in India most frequently utilize air shipments over sea container consignments. However, BSI recorded one recent instance in which traffickers utilized the sea

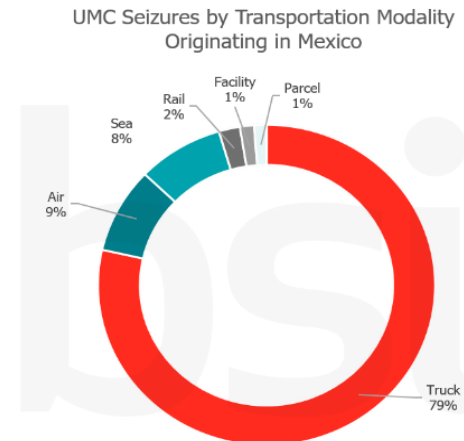
Destination of Seized Unmanifested Cargo Originating in India



shipping modality in an attempt to smuggle approximately 50 kilograms of synthetic drugs to Malaysia in a load of salt. The threat of unmanifested cargo introduction in India is Elevated.

BSI Analysis: Authorities Most Frequently Seize Unmanifested Cargo From Cargo Truck Shipments Originating From Mexico

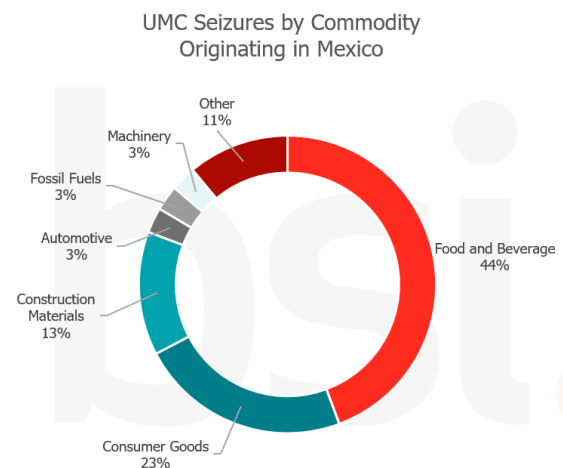
BSI assesses that authorities most frequently seize unmanifested cargo, including illegal drugs, stowaways, and arms and weapons, from cargo trucks over air and sea container shipments originating in Mexico, which faces an overall Severe threat of unmanifested cargo introduction. According to BSI data, officials most frequently seize illegal drugs from false compartments within the floors, walls, and ceilings of cargo trucks or tractor-trailers carrying legitimate ground freight consignments. Smugglers in Mexico most frequently target the trucking modality to transport illicit items due to the vast number of commercial vehicles traveling to the United States and within Mexico and the least likelihood that customs authorities will detect the unmanifested cargo at ports of entry. Smugglers also introduce unmanifested cargo into air and sea container shipments, followed by rail, facility, and parcel modalities.



BSI determines that the frequency of these incidents are likely driven by the presence of drug trafficking organizations (DTO) and organized criminal groups facilitating drug introductions in Mexico. Therefore, the threat of illegal drug introduction into ground and air cargo is likely exacerbated by DTOs coordinating with corrupt security forces and industry employees to also facilitate introductions. The BSI threat rating for unmanifested cargo introduction in Mexico is Severe.

BSI Analysis: Authorities Most Commonly Seize Unmanifested Cargo From Shipments of Food and Beverage, Consumer Goods, and Construction Materials Originating in Mexico

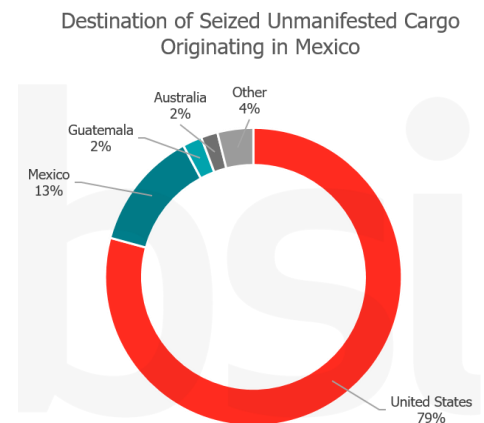
Based on incidents recorded by BSI, authorities most commonly seize unmanifested cargo from shipments of food and beverage, consumer goods, and construction materials originating in Mexico. BSI determines that one of the factors likely driving smugglers to target food commodity shipments is the large volume of these items destined for export.



BSI further assesses that smugglers in Mexico most frequently target shipments of food and beverage, including produce and fruit products, in order to conceal both the presence and smell of illegal drugs, such as marijuana, within a legitimate shipment. In one incident, authorities in Sinaloa, Mexico seized two tonnes of marijuana concealed in a truck shipment of chili peppers bound for Texas. The BSI threat rating for unmanifested cargo introduction in Mexico is Severe.

BSI Analysis: Relatively Frequent Internal Trafficking Underscores the Risk of Unmanifested Cargo Introduction in Mexico

BSI data reveals that officials most frequently seize unmanifested cargo from shipments originating in Mexico and destined for the United States. However, BSI also records relatively frequent cases of internal trafficking of unmanifested cargo, which explains why the country ranks second for destinations of contraband. While smugglers in many of these types of cases are likely still aiming to ultimately traffic unmanifested cargo to the United States, it is likely that they illegal goods are transferred to another mode of transportation. Many of these shipments are also air consignments headed from one airport to another in Mexico.



Other top destinations involving unmanifested cargo from shipments originating in Mexico include Guatemala, Australia, Japan, the United Kingdom, and Canada. In incidents of unmanifested cargo destined for the United States, smugglers in Mexico most typically introduce illegal drugs into cargo trucks and tractor-trailers, followed by air freight shipments. For instance, illegal drug introductions most commonly occurred in vehicles carrying loads of food and beverage products, such as fruit or produce, followed by consumer goods that were destined for the U.S. or Mexico.

This trend is likely further exacerbated by Mexican drug trafficking organizations working in tandem with local U.S. organized criminal groups in the transportation and distribution of drugs into shipments destined for the U.S. BSI also records seizures of illegal drug introduction from air shipments originating in Mexico and destined for the U.S. In one incident, officials in Mexico seized 40 kilograms of marijuana hidden in an air shipment of furniture destined for Bridgeport, Connecticut. The BSI threat rating for unmanifested cargo introduction in Mexico is Severe.

FACTORY SPOTLIGHT

Factory Testimonial

A factory visited by the SCAN Board of Directors in China's Shenzhen City has written the below feedback following their experience with a recent SCAN audit shared by multiple SCAN members:

"Thank you for your coming and gave us the valuable advice which is very important for us to do better of the scan in the future. We are considering it as a practical tool to evaluate the security performance of our factory and did a more systematic and comprehensive counter-terrorism prevention under the Scan's standard after the SCAN audit."

This feedback illustrates the value of the BODs' work during their trip to China in addition to the value of SCAN for factories. Standardizing security requirements industry-wide help factories be successful in their implementation of security requirements.

FACTORY BEST PRACTICES: TOOLS FOR 7 POINT INSPECTIONS

An opportunity identified during BOD's China trip was tools used by factory personnel to conduct 7 point container inspections. On several occasions, improper tools were utilized to conduct these critical inspections. These improper tools suggest that 7 point inspections have not been completed to their fullest extent to ensure the security of containers.

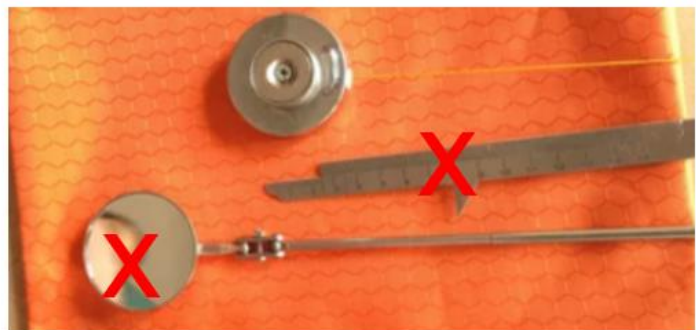
Are your factories using these tools?



(1)



(2)



(3)

The mirrors shown in images 1, 2, and 3 are not sufficient tools for conducting 7 point inspections. Image 1 is a handheld mirror which doesn't have a long enough handle for an employee to efficiently view a container's undercarriage nor is the mirror itself large enough to properly inspect a container. Image 2 is a wardrobe mirror which is too large to hold at the correct angle to view a container's undercarriage properly. Image 3 has a mirror with a long handle; however, the mirror was designed for a bicycle and is too small to accurately inspect a container.

The ruler shown in image 3 is not long enough to measure a container in its entirety. Using a ruler this short to measure a container is cumbersome for the factory employee and opens up the opportunity for incorrect measurements.



Mirror



Tape measurer



Laser distance measurer

Proper tools for conducting 7 Point Inspections are shown above. The mirror for viewing a container's undercarriage must be large and with a long handle. A tape measurer that is long enough to measure a container continuously and/or a laser distance measurer must be used during the 7 point inspection.

Having the proper tools ensures employees can conduct 7 point inspections quickly and accurately, and insure the security and integrity of the containers used to ship product.

AUDIT REPOSTIORY UPDATES: NEW FEATURES AND IMPROVEMENTS

SCAN Audit Repository Users – Access to audit status report

Repository users can now have the ability to view and export an audit status report which displays all audits for factories associated to the member user. In order for a member to be associated to a factory, they must either provide their factory list to the program management team, order an audit or click on the “Add to the shared list” when searching a factory in the audit repository. The functionality will allow users to easily identify new audits ordered at sharing factories and view multiple factory audits in one report. Previously, users could only view audits for one factory at a time. To access the report, users must login to the SCAN Audit Repository and click “All audits status report” as shown on image 1.

Factories can now be added to a user’s shared list by searching a factory name or SCAN ID in the audit repository and clicking on “Add to the shared list” next to the Audit location name and shown on image 2. If the factory is already added to the shared list, “Already added to the shared list” will appear next to the audit location name as shown on image 3. When a factory is added to the shared list, all audits for that factory will show in the users’ audit status report, which is available to download directly from the SCAN Audit Repository.

Image 1: All audits status report

The screenshot shows the top section of the SCAN Audit Repository interface. It includes three search options: 'Country' (a dropdown menu), 'Audit Location' (a text input field with a 'Search' button), and 'SCAN ID' (a text input field with a 'Search' button). Below these is a horizontal line with 'OR' in the center. On the right side, there is a button labeled 'All audits status report' which is circled in red.

Image 2: Add to the shared list

The screenshot shows the results page of the SCAN Audit Repository. At the top, there is a header with the following information: 'SCAN ID: AD2646398VCL', 'Audit Location: Claudia's Boots', and 'Address: Test location drive, Andorra'. Below this is a table with the following columns: 'Reports', 'Audit Status', 'Audit Sub Status', 'Assigned Date', 'Assigned Auditor', 'Scheduled Date', 'Due Date', 'Completed Date', and 'Audit Score'. The first row of data shows 'Audit Assigned', 'Pending Scheduled Date', '05/15/2018', 'Testing', and empty fields for the remaining columns. A button labeled 'Add to the shared list' is circled in red next to the 'Audit Location' header. At the bottom, there is a pagination bar showing '1' of 1 items and a 'Items per page' dropdown set to '20'.

Reports	Audit Status	Audit Sub Status	Assigned Date	Assigned Auditor	Scheduled Date	Due Date	Completed Date	Audit Score
	Audit Assigned	Pending Scheduled Date	05/15/2018	Testing		06/15/2018		

Image 3: Already added to the shared list

SCAN ID: ADZ646398VCL
 Audit Location: Claudia's Booth *Already added to the shared list*
 Address: Test location drive, Andorra

Reports	Audit Status	Audit Sub Status	Assigned Date	Assigned Auditor	Scheduled Date	Due Date	Completed Date	Audit Score
	Audit Assigned	Pending Scheduled Date	05/16/2018	Testing		06/15/2018		

< 1 > 20 items per page 1 - 1 of 1 items

SCAN Audit Repository Users – Ordering member

Repository users now have the ability to see who ordered the audit when viewing the “All audit status report”. Under column “Ordering Member”, the user will see their company name if they ordered the audit or “Other Member” if the audit was ordered by another member as shown in image 4.

Image 4: Ordering member shown in the audit status report

SCAN ID	Address	Assessment Name	Audit Status	Audit Sub Status	Assigned Date	Ordering Member
MX5052K619LI	123 East Street, Lizville, Chihuahua, Mexico	SCAN Security Audit	Audit Reviewed	Closed for Re-audit	08/09/2017	Other Member
IT03DA5990JE	542 E Their, Italy	SCAN Security Audit	Audit Canceled	Pending Scheduled Date	08/09/2017	Other Member
INC31633K8SI	India	SCAN Security Audit	Audit Assigned	Scheduled	08/11/2017	Other Member
CA9Y85389HRE	12345 W, Canada	SCAN Security Audit	Audit Assigned	Scheduled	10/10/2017	Other Member
IT03DA5990JE	542 E Their, Italy	SCAN Security Audit	Audit Reviewed	No Sub Status Selected	10/10/2017	Other Member
ADZ646398VCL	Test location drive, Andorra	SCAN Security Audit	Audit Assigned	Pending Scheduled Date	05/16/2018	Renee Test

SCAN BOARD OF DIRECTORS AND COMMITTEE CHAIRS



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
OPEN



Committee Chair: Service Providers
OPEN



Member-at-Large
Holly Roelofs | Meijer



Member-at-Large
Stella Bray-Conrad | Walmart



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
- Epoca International
- Hallmark Cards, Incorporated
- HEB Grocery
- Husky Injection Molding Systems
- Jarden
- JCPenney
- Levi Strauss & Co
- Meijer, Inc.
- Michaels
- Patagonia, Inc.
- PriceSmart®
- Rawlings Sporting Goods Company
- Revman International
- RMS International
- Target
- The Home Depot, Inc.
- The Children's Place
- 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.