

Supply Chain Transparency

Written by Nick Sanders

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Our long-time readers know that we have a “special place” in our hearts for supply chain management. Our efforts advising program teams have convinced us that effective management of the program supply chain is the single most important key to program success. We’ve also ranted and raved about supply chain security and making sure counterfeit parts are excluded from qualified parts.

But we’ve never linked supply chain management with human trafficking.

Like many compliance professionals, we know about the FAR’s [prohibition](#) on engaging in such abhorrent activities. We’ve opined before that the FAR prohibition goes too far, actually making engagement in legal commercial sex transactions a contract violation that could lead to contract termination.

But did you know that on January 1, 2012, the California [Transparency in Supply Chains Act](#) becomes effective? The attorneys at Venable LLP knew it, and they wrote up a summary [right here](#)

. According to Venable, the new California law applies to retailers and manufactures doing business in California, if they have total annual sales of at least \$100 million.

The Venable summary reports that the law requires covered companies to report on five areas, as follows—

1. Disclose the extent to which the company engages in verification of product supply chains to evaluate and address risks of human trafficking and slavery. The disclosure shall specify if the verification was not conducted by a third party.
2. Disclose the extent to which the company conducts audits of suppliers to evaluate supplier compliance with company standards for trafficking and slavery in supply chains. The disclosure shall specify if the verification was not an independent, unannounced audit.
3. Disclose the extent to which the company requires direct suppliers to certify that materials incorporated into the product comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business.
4. Disclose the extent to which the company maintains internal accountability standards and procedures for employees or contractors failing to meet company standards regarding slavery

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and trafficking.

5. Disclose the extent to which the company provides company employees and management, who have direct responsibility for supply chain management, training on human trafficking and slavery, particularly with respect to mitigating risks within the supply chains of products.

Whew! That's quite a lot of disclosing to do. As Venable notes, "while compliance with the new law is simple insofar as all that is technically required is disclosure of what a company is doing to combat slavery in its distribution chain, the type of meaningful compliance necessary to enable a company to certify that it has met, and continues to meet, each of the five requirements noted above may require substantial effort."

We continue to believe that effective management of suppliers/subcontractors is the key to program execution success. That being said, we recognize that, in this era of budget pressures and cost-consciousness, it's perhaps unpleasant to have to contemplate adding staff and increasing the scope of activities in the realm of "supply chain management." But with DCAA being "under-resourced" and hence unwilling and/or unable to perform its historical role in auditing subcontractors, the burden now falls more heavily on the primes and upper-tier subcontractors to "get their hands dirty" by auditing their lower-tier subcontractors' pricing, business systems, CAS compliance, compliance with the Foreign Corrupt Practices Act, and other matters.

And now, we can all add compliance with California SB 657 to the list of things with which to be concerned.

What are you doing about adequately managing compliance risk in your supply chain? We bet it's not enough.