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This SOC 1 Report is intended only to be used by UPS SCS's existing clients during the period January 1, 2023, through September 30, 2023, and their external auditors (i.e., "user entities") during the period January 1, 2023, through September 30, 2023, and the "user auditors," respectively, as stated in the independent service auditors' report contained in this SOC 1 Report and defined in the American Institute of Certified Public Accountants' Statement on Standards for Attestation Engagements No. 18 and International Auditing and Assurance Standards Board's International Standard on Assurance Engagements (ISAE) 3402 (ISAE 3402) ("Permitted Users"). Deloitte & Touche, the entity that issued the independent service auditors' report contained in this SOC 1 Report, its subsidiaries and subcontractors, and their respective personnel shall have no liability, duties, responsibilities or other obligations to any entity who may obtain this SOC 1 Report who is not a Permitted User, including, without limitation, any entity who obtains this SOC 1 Report in contemplation of contracting for services with UPS SCS.

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UPS Supply Chain Solutions, Inc.

Service Organization Controls Report

REPORT ON THE DESCRIPTION OF ORDER-TO-CASH AND HEALTHCARE DISTRIBUTION CENTER CONTROLS AND THE SUITABILITY OF THE DESIGN AND OPERATING EFFECTIVENESS OF CONTROLS

January 1, 2023 through September 30, 2023

Deloitte.

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information and use of management of UPS SCS, user entities of the UPS SCS system related to order to cash and healthcare distribution center controls at the Company's various distribution and finance centers during some or all of the period January 1, 2023 to September 30, 2023, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

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Section I:
Independent Service Auditor’s Report

Deloitte & Touche LLP

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Independent Service Auditor's Report

UPS Supply Chain Solutions, Inc.
12380 Morris Road
Alpharetta, GA 30005

Scope

We have examined the description of the system of Management of UPS Supply Chain Solutions, Inc. (the "Service Organization" or "UPS SCS" or the "Company") related to order to cash and healthcare distribution center controls at the Company's various distribution and finance centers for processing user entities' transactions throughout the period January 1, 2023 to September 30, 2023, included in Section 3, "Description of the System" (the "Description") and the suitability of the design and the operating effectiveness of controls included in the Description to achieve the related control objectives stated in the Description, based on the criteria identified in management of UPS SCS' assertion. The controls and control objectives included in the Description are those that management of UPS SCS believes are likely to be relevant to user entities' internal control over financial reporting, and the Description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting.

The Description indicates that certain control objectives specified in the Description can be achieved only if complementary user entity controls contemplated in the design of the Service Organization's controls are suitably designed and operating effectively, along with related controls at the Service Organization. Our examination did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

The underlying information systems environment for the Company's order to cash and healthcare distribution center system is supported by the UPS Application Infrastructure and Operations group. The accompanying description does not include control objectives and related controls of the UPS Application Infrastructure and Operations group. We have also examined, in accordance with the attestation standards established by the American Institute of Certified Public Accountants (AICPA), and International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*, issued by the International Auditing and Assurance Standards Board, the description of the system related to the UPS Application Infrastructure and Operations group. Our report on the UPS Application Infrastructure and Operations group should be read in conjunction with this report.

Service Organization's responsibilities

In Section 2, "Management's Assertion," management of the Service Organization has provided an assertion about the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the Description. Management of the Service Organization is responsible for preparing the Description and its assertion, including the completeness, accuracy, and method of presentation of the Description and the assertion, providing the services covered by the Description, specifying the control objectives and stating them in the Description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the Description.

Service Auditor's responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the Description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the Description, based on our examination. Our examination was conducted in accordance with

attestation standards established by the American Institute of Certified Public Accountants (AICPA) and International Standard on Assurance Engagements (ISAE) 3402, Assurance Reports on Controls at a Service Organization, issued by the International Auditing and Assurance Standards Board (IAASB). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, the Description is fairly presented, and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the Description throughout the period January 1, 2023 to September 30, 2023. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a Description of a service organization's system and the suitability of the design and operating effectiveness of controls involves:

- Performing procedures to obtain evidence about the fairness of the presentation of the Description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the Description, based on the criteria in management's assertion.
- Assessing the risks that the Description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the Description.
- Testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the Description were achieved.
- Evaluating the overall presentation of the Description, suitability of the control objectives stated therein, and suitability of the criteria specified by the service organization in its assertion.

Service Auditor's Independence and Quality Control

We are required to be independent and to meet our other ethical responsibilities in accordance with the Code of Professional Conduct established by the AICPA. We have complied with those requirements. We applied the Statements on Quality Control Standards established by the AICPA and, accordingly, maintain a comprehensive system of quality control.

Inherent limitations

The Description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and therefore may not include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the Description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Description of tests of controls

The specific controls tested, and the nature, timing, and results of those tests are listed in Section 4, "Management's Description of Its Control Objectives and Related Controls, and Independent Service Auditor's Description of Tests of Controls and Results."

Opinion

In our opinion, in all material respects, based on the criteria described in management of Service organization's assertion:

a. The Description fairly presents the system related to order to cash and healthcare distribution center controls at the Company's various distribution and finance centers that was designed and implemented throughout the period January 1, 2023 to September 30, 2023.

b. The controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period January 1, 2023 to September 30, 2023, and user entities applied the complementary controls assumed in the design of the Service Organization's controls throughout the period January 1, 2023 to September 30, 2023

c. The controls operated effectively to provide reasonable assurance that the control objectives stated in the Description were achieved throughout the period January 1, 2023 to September 30, 2023, and if complementary user entity controls assumed in the design of the Service Organization's controls operated effectively throughout the period January 1, 2023 to September 30, 2023.

Restricted use

This report, including the description of tests of controls and results in Section 4, is intended solely for the information and use of management the Service Organization, user entities of the Service Organization's system related to order to cash and healthcare distribution center controls at the Company's various distribution and finance centers during some or all of the period January 1, 2023 to September 30, 2023, and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

December 8, 2023

Section II:
Management's Assertion

UPS Supply Chain Solutions, Inc.
12380 Morris Road
Alpharetta, Georgia 30005

Management of UPS Supply Chain Solutions Inc.'s Assertion

For the period January 1, 2023 through September 30, 2023

We have prepared the description of the system of Management of UPS SCS (the "Service Organization" or "UPS SCS", "SCS", the "Company") relating to its order-to-cash and healthcare distribution center controls at the Company's various distribution and finance centers throughout the period January 1, 2023 to September 30, 2023 included in Section 3, "Management of UPS SCS's Description of Its System" (the "Description"), for user entities of the system during some or all of the period January 1, 2023 to September 30, 2023 and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, including information about controls implemented by the user entities of the system themselves, when assessing the risks of material misstatements of user entities' financial statements.

The Description indicates that certain control objectives specified in the Description can be achieved only if complementary user entity controls assumed in the design of UPS SCS's controls are suitably designed and operating effectively, along with related controls at UPS SCS. The Description does not extend to controls of the user entities.

The underlying information systems environment for the SCS technology is supported by the UPS Application Infrastructure and Operations group. A separate service auditors' report and our associated assertion on the UPS Application Infrastructure and Operations group covers the relevant applications and technology and should be read in conjunction with this report.

We confirm, to the best of our knowledge and belief, that:

1. The Description fairly presents the order to cash and healthcare distribution center controls at the Company's various distribution and finance centers system made available to user entities of the system during some or all of the period January 1, 2023 to September 30, 2023 for processing their transactions as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the Description:

   a. Presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable:

      i. The types of services provided including, as appropriate, the classes of transactions processed.

      ii. The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.

      iii. The information used in the performance of the procedures, including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.

      iv. How the system captures and addresses significant events and conditions other than transactions.

v. The process used to prepare reports and other information provided for user entities.

vi. Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them.

vii. The specified control objectives and controls designed to achieve those objectives including, as applicable, complementary user entity controls assumed in the design of the service organization's controls.

viii. Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.

b. Includes relevant details of changes to the service organization's system during the period covered by the Description.

c. Does not omit or distort information relevant to the service organization's system, while acknowledging that the Description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors and may not, therefore, include every aspect of the system that each individual user entity of the system and its user auditor may consider important in its own particular environment.

2. The controls related to the control objectives stated in the Description were suitably designed and operated effectively throughout the period January 1, 2023 to September 30, 2023 to achieve those control objectives if the user entities applied the complementary controls assumed in the design of UPS SCS's controls throughout the period January 1, 2023 to September 30, 2023. The criteria we used in making this assertion were that:

a. The risks that threaten the achievement of the control objectives stated in the Description have been identified by management of UPS SCS.

b. The controls identified in the Description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the Description from being achieved.

c. The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Section III:
Description of the System

Section III:
Description of the System

Description of United Parcel Service, Inc. and UPS Supply Chain Solutions, Inc.

United Parcel Service, Inc. (UPS) and UPS Supply Chain Solutions, Inc. (UPS SCS or SCS) Overview

As a global leader in logistics, UPS creates value for our customers through solutions that lower costs, improve service and provide highly customizable supply chain control and visibility. Supply chain complexities have created demand for a global service offering that incorporates transportation, distribution and international trade and brokerage services, with financial and information services. We meet this demand by offering a broad array of supply chain services in over 195 countries and territories.

The following is a description of UPS service offerings:

Logistics and Distribution: Comprehensive global supply chain solutions that assist clients in reducing costs, improving client service, reducing inventory investments, and speeding up product delivery to help clients enhance business performance.

- Supply chain management
- Order and inventory management
- Distribution center management
- Order-to-Cash healthcare products distribution

Transportation and Freight: Freight Transportation network includes all modes of transportation for all sizes of shipments, including small parcels and flats. Transportation specialists design, plan, and operate networks to assist in optimizing costs, increasing efficiencies, and enhancing client service.

- International and domestic air
- Ocean
- Ground freight
- UPS Trade Direct

International Trade and Brokerage: Solutions that expedite delivery times and offer cost savings that help clients manage their flow of information. We provide our customers with customs clearance, trade management and international trade consulting services.

- Freight forwarding
- Full service brokerage

Goods flow

Increasingly, businesses find they can gain efficiency and contain costs by outsourcing supply chain functions related to product movement. SCS supports the movement of products by managing activities throughout the supply chain.

Facilities

SCS offers a global network of facilities that house a variety of operations including: inventory and order management, product configuration, kitting and packaging, critical parts storage, technical diagnostics and repair, trans-border shipment processing, simple subassembly, fulfillment, and returns management.

Transportation

Shipments move in and out of these facilities in a variety of transportation modes. SCS manages complex transportation networks, including ships, planes, trains, and trucks, with the goal to optimize loads, minimize costs, and enhance reliability. SCS also utilizes the UPS package, ground and air cargo network for transportation services.

Information flow

Industry trends demonstrate that companies are approaching day-to-day supply chain business activity more holistically, requiring better connections with buyers and sellers and enhanced overall visibility. UPS provides clients information about their supply chain's performance, product movement, vendors, transportation providers, and other trading partners.

Network design and optimization

Solutions teams utilize sophisticated modeling software to design distribution facilities, transportation networks, and management processes so that supply chains can be re-engineered to improve performance based on client business objectives.

Supply chain management

Information systems help monitor the performance of the entire supply chain, providing visibility so that delays, bottlenecks, and problems can be identified for quick remediation. These systems monitor activity within SCS facilities and beyond, including other transportation carriers, customs offices, client departments and other supply chain participants.

Supplier and vendor monitoring

Performance of vendors and suppliers is captured, reported, and evaluated against pre-established performance metrics via a variety of information technology (IT) systems.

Healthcare overview

SCS currently utilizes the following logistics solutions to meet the product distribution needs of Healthcare manufacturers: SAP Order-to-Cash systems and the GWS and Helix distribution center system. They provide clients with healthcare compliant warehouse space within a network of shared-use facilities and give them the entire inbound inventory, outbound inventory, and fulfillment management services that they need to effectively serve their customers. In addition, the Order-to-Cash system provides warehousing and fulfillment services that are enhanced by active order management and customer service on the front end, and, for some clients, by accounting and receivables service on the back end. SCS can support clients' entire sales process, from order placement to receipt of payment — Order-to-Cash.

SCS provides Healthcare fulfillment solutions to meet the demands of:

- **Pharmaceutical manufacturers** — Corporations producing branded medicines, generic preparations, prescription drugs, and over the counter products.
- **Medical equipment suppliers** — Organizations that sell and support durable medical machines and systems, which frequently require an ongoing flow of consumable material for proper functioning.
- **Medical/Surgical material suppliers** — Companies which sell and distribute disposable medical materials, ranging from bandages and gauze to electrodes and catheters.
- **Biotechnology corporations** — Organizations developing and marketing sophisticated substances to improve quality of life.
- **Nutriceuticals** — Quasi-medical preparations sold via retail channels to the consumer market.
- **Animal health** — Suppliers of veterinary medicinal products and devices to enhance animal quality of life.

Each of these groups has supply chain needs that differ significantly from those of other industries, requiring a focused healthcare-centric solution.

Regulatory agencies exercising direct oversight upon the healthcare supply chain include, but are not limited to:

- U.S.
  – Food and Drug Administration (FDA)
  – Drug Enforcement Administration (DEA)
  – Environmental Protection Agency (EPA)

  – Occupational Safety and Health Administration (OSHA)
  – Transportation Security Administration (TSA)
  – State agency licensing boards

- Canada
  – Health Canada

- Netherlands
  – Ministry of Health, Farmatec

- Singapore
  – Ministry of Health, Health Sciences Authority (HSA)

- Poland
  – Chief Pharmaceutical Inspectorate (GIF)

- India
  – Central Drugs Standard Control Organization (CDSCO)

- Philippines
  – Food and Drug Administration (FDA)

Healthcare distribution frequently includes:

- Environmental control requirements
- End-to-end possession accountability
- Restricted access storage
- Product quarantine
- Expiration based rotation or first expiry/first out (FEFO) based rotation
- Monitoring and reporting

Below is a table summarizing the scope by site and control objective.

Location	Application (s) used/supported	1. Order Processing	2. Accounts Receivable Management	3. Receiving	4. Returns	5. Inventory Maintenance	6. Shipping	7. Physical Security	8. Healthcare Compliance
Alliance Health Care	HELIX			x	X	x	x	x	x
Bourbon KY Healthcare	HELIX			x	X	x	x	x	x
Burlington Finance	SAP	x							
Burlington Building 1 D.C.	GWS, HELIX			x	X	x	x	x	x
Burlington Building 2 D.C.	GWS			x	X	x	x	x	x
Calgary D.C.	GWS			x	X	x	x	x	x
Carol Stream D.C.	GWS			x	X	x	x	x	x
Clark, Phillippines Finance	SAP	X	X						
Duluth D.C.	GWS, HELIX			x	X	x	x	x	x
Fairdale KY Healthcare New Cut	HELIX			x	X	x	x	x	x

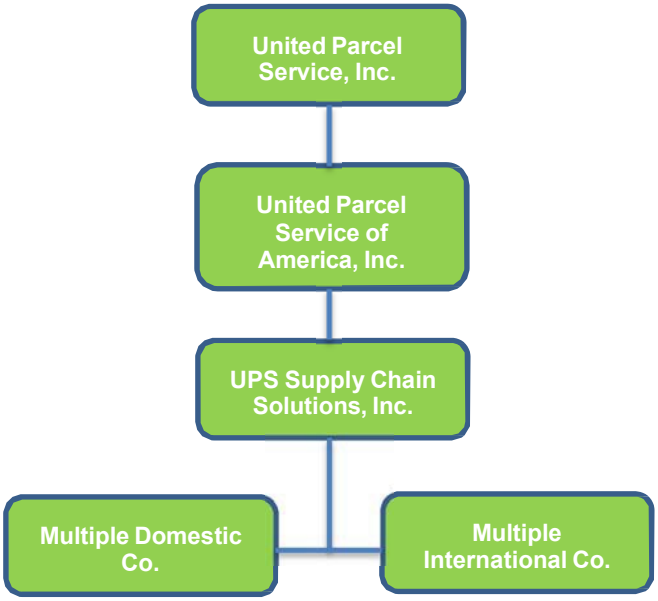
Fort Worth D.C.	GWS			x	X	x	x	x	x
Harrisburg D.C.	GWS, HELIX			x	X	x	x	x	x
Louisville 1840 D.C.	GWS			x	X	x	x	x	x
Louisville 1860 D.C.	GWS, HELIX			x	X	x	x	x	x
Louisville 1920 D.C.	GWS, HELIX			x	X	x	x	x	x
Louisville 2210 D.C.	GWS			x	X	x	x	x	x
Louisville 2260 D.C.	GWS, HELIX			x	X	x	x	x	x
Louisville New Cut D.C.	GWS			x	X	x	x	x	x
Memphis D.C.	GWS, HELIX			x	X	x	x	x	x
Mira Loma D.C. 2	GWS, HELIX			x	X	x	x	x	x
Moreno Valley D.C	GWS			x	X	x	x	x	x
Newark Finance	SAP	x	x						
Pune, India Finance	SAP	X	X						
Reno Aircenter D.C.	GWS, HELIX			x	X	x	x	x	x
Roermond D.C.	GWS			x	X	x	x	x	x
Singapore D.C.	GWS, HELIX			x	X	x	x	x	x
Sydney AU Healthcare	HELIX			x	X	x	x	x	x
Tracy Building 1 D.C.	GWS			x	X	x	x	x	x
Tracy Building 2 D.C.	GWS			x	X	x	x	x	x
Venlo, Netherlands D.C.	GWS			x	X	x	x	x	x
Wroclaw, Poland Finance	SAP	x							

Site Location Detail — Burlington, Ontario; Calgary, Alberta; Carol Stream, Illinois; Columbus, Ohio; Durham, North Carolina; Fort Worth, Texas; Harrisburg, Pennsylvania; Louisville, Kentucky; Memphis, Tennessee; Mira Loma, California; Newark, Delaware; Reno, Nevada; Roermond, Netherlands; Venlo, Netherlands; Wroclaw, Poland, Duluth, Georgia; Singapore, Singapore; Tracy, California; Pune, India; Clark, Philippines.

Relevant aspects of the control environment, risk assessment, information and communications and monitoring

Parent Company — United Parcel Service, Inc.

Overview of the UPS Organization as it relates to UPS SCS.



Senior management overview
As a leading third-party logistics integrator, SCS' senior management is responsible to its clients. Senior management is composed of the department heads of:

- Operations
- IT
- Human Resources (HR)
- Finance and Accounting
- Global Marketing and Business Development.

Control environment

The internal control environment at SCS is designed to remain current and support the needs of the financial services functions with the central component of the control environment being local management. Local management has the responsibility of promoting awareness and monitoring compliance. The policies and standards of SCS are communicated and made available to associates through orientation programs and the Intranet.

UPS's Board of Directors also influences the control environment. The Board of Directors consists of twelve authorized directors who meet quarterly and on an as-needed basis. Management provides a Board presentation during which time the Board challenges management's activities and results as needed. The Board of Directors has also established an Audit Committee to assist the Board in discharging its responsibilities related to accounting, reporting and financial practices of the Company.

The Audit Committee has the powers, duties and responsibilities delegated to it by the Board of Directors as set forth below:

- <u>Services of Independent Auditors</u>

    1) Have sole authority to appoint and oversee a registered public accounting firm.
    2) Oversee the work performed by the Company's independent auditors.

3) Review with the independent auditors the scope of the audit and review the results of the annual audit examination and any reports of the independent auditors with respect to the Company's financial statements or policies.
4) Review with the independent auditors the matters required to be discussed by Auditing Standard 1301, as adopted by the Public Company Accounting Oversight Board ("PCAOB") and amended from time to time.
5) At least annually, consider the independence of the independent auditors, and, consistent with the rules of the PCAOB, obtain and review a report from the independent auditors describing any relationships between the auditors and the Company or individuals in financial reporting oversight roles at the Company, that may reasonably be thought to bear on the independence of the auditors and discuss with the auditors the potential effects of any such relationships on independence.
6) Obtain and review a report by the Company's independent auditors describing: (1) the firm's internal quality control procedures; and (2) any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years.

- Audit Practices and Financial Reporting Matters

1) Meet to review and discuss with management and the independent auditors the Company's annual audited financial statements and quarterly financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and discuss with the independent auditors their judgments as to the quality of the Company's accounting principles. Recommend to the Board of Directors whether the annual audited financial statements should be included in the Annual Report on Form 10-K.
2) Review with management and the independent auditors the results of any significant matters identified as a result of the independent auditors' interim review procedures prior to the filing of each Form 10-Q or as soon thereafter as possible. The Audit Committee Chair may perform this function on behalf of the Audit Committee.
3) Discuss earnings press releases and financial information and earnings guidance provided to analysts and rating agencies.
4) Review the annual program for the Company's internal audits and review audit reports submitted by the internal auditing staff. Approve the annual audit plan and all major changes to the plan. Review the adequacy of the Company's internal controls at least quarterly.
5) Review the activities, staffing, and organizational structure of the internal audit function.
6) Review and discuss with the independent auditors and the internal auditors the integrity of the Company's financial reporting processes (both internal and external) and internal controls (including disclosure controls).
7) Review changes in the accounting policies of the Company and accounting and financial reporting proposals that may have a significant impact on the Company's financial reports and make reports on the foregoing to the Board of Directors.
8) Regularly review with the independent auditors any audit problems or difficulties and management's response, including any restrictions on the scope of the independent auditors' activities or access to information and any significant disagreements with management.
9) Monitor for any unjustified restrictions or limitations on the internal audit function's ability to carry out its responsibilities, and review and concur in the appointment, replacement, or dismissal of the Company's chief audit executive.
10) Meet separately, periodically, with management, internal auditors (or other personnel responsible for the internal audit function), the General Counsel and the independent auditors in connection with the performance of its oversight function.

- Company Governance Policies and Compliance

1) Oversee the preparation of the audit committee report that rules require to be included in the Company's annual proxy statement.
2) Establish clear policies for the Company to follow in hiring employees or former employees of the independent auditors.
3) Discuss with management policies with respect to financial risk assessment and management, including guidelines to govern the process by which major financial and accounting risk assessment and management is undertaken by the Company. Meet periodically with management to review the results of such assessments, including the Company's major financial risk exposures and steps management has taken to monitor and control such exposures.

4) Discuss with management and the Risk Committee the guidelines and policies that govern the process by which enterprise risk assessment and risk management is undertaken.
5) Review the adequacy of this Audit Committee Charter on an annual basis and conduct an annual performance evaluation of the Audit Committee.
6) Review with management and the independent auditors any correspondence with regulators or governmental agencies and any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies. In connection therewith, the Audit Committee shall establish procedures for (1) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing or federal securities law matters, and (2) the confidential, anonymous submission by employees of the Company of concerns regarding such matters.
7) Oversee the Company's Business Conduct and Compliance Program, including the Company's Code of Business Conduct, and, at least annually, meet to review the implementation and effectiveness of the Company's legal and ethical compliance programs with the Company's senior leadership, including any senior leader with day-to-day operational responsibility for compliance, who shall have the authority to communicate directly to the Audit Committee, promptly, about actual and alleged violations of law or the Code, including any matters involving criminal or potential criminal conduct.
8) Establish and periodically review policies and procedures for the review, approval and ratification of related person transactions and review and approve or ratify, as appropriate, any related person transactions.

- General Powers

1) Have the ability (but not the obligation) to conduct or authorize, if it considers appropriate, investigations into any matters within the scope of its responsibilities.
2) Have the authority (without the necessity or requirement of approval from the Board of Directors) to obtain advice, services and assistance from outside legal, accounting or other advisors, as the Audit Committee deems necessary to assist it in carrying out its responsibilities, and to determine the compensation for any such advisors. The Audit Committee shall receive appropriate funding from the Company for payment of compensation to any such advisors and for the payment of ordinary administrative expenses that are necessary or appropriate in carrying out the Audit Committee's duties.
3) Perform such activities consistent with this Charter, the Company's bylaws and applicable law as the Board of Directors or the Audit Committee deems necessary or appropriate.
4) Report regularly to the Board of Directors and make recommendations to the Board of Directors within the scope of its functions.

The Audit Committee will meet as often as it deems necessary or appropriate, in its judgment, either in person or telephonically, and at such times and places as the Audit Committee determines, provided that the Audit Committee will meet at least four times each year. The Committee may from time to time invite to its meetings any director, management of the Company or such other persons as it deems appropriate. The majority of the members of the Audit Committee constitute a quorum.

Human resources

In addition to being "Client Focused," SCS is an "Employee Focused" organization. SCS' continued growth is based on the effective management of and investment in employees. As the company has grown, formal controls and processes have been developed for the strategic and tactical aspects of Human Resources (HR) services. These include recruiting processes to identify and attract qualified candidates to fill SCS' expanding employment needs. Recruiting initiatives include pre-employment physicals, drug testing and background checks which include county, state and federal criminal checks.

SCS has a new hire orientation where specific policies are reviewed with new employees. Included in these policies are sections on protection of both SCS and client confidential information, the use of shredders for destruction of confidential paper data and information security considerations and the need for password protection. SCS also requires employees to complete the following training annually: Insider Trading, Anti-Corruption and Anti-Trust.

SCS provides opportunities for employees to develop their skills and competencies through tuition reimbursement programs and industry-related seminars.

The HR department is responsible for recruiting, compensation, benefits and payroll administration, training and development, communications programs, facilities management for the corporate office, legal compliance, as well as strategic and tactical HR management and planning.

The performance management process includes requirements for an annual formal review of the employee's performance and the setting of goals and expectations for the coming year. A semi-formal review is required at six-month intervals, at a minimum, to provide employees with an understanding of their performance compared to these expectations.

The HR department is responsible for the development and dissemination of policies and procedures. HR acts as the arbitrator of disputes regarding these policies. As the employee advocate, the HR department is charged with the protection of the employee.

SCS has a formal code of ethics that employees are required to acknowledge and live by as a basis of their employment. The company requires the signature of a non-competition agreement by officers, directors and other key employees of the organization.

Healthcare compliance supervision

SCS warehouse facilities are licensed by Health Canada in Canada, Farmatec and the Dutch Ministry of Health in the Netherlands, Singapore Health Sciences Authority in Singapore, Chief Pharmaceutical Inspectorate in Poland, Food and Drug Administration in the Philippines, Central Drugs Standard Control Organization in India, and the DEA, FDA, and appropriate state agencies in the U.S., as applicable. Management members are required to review and comply with all SCS Standard Operating Procedures (SOPs), Work Instructions and Procedures Manuals that have been established for the healthcare warehouses. Approved procedures are centrally controlled and periodically reviewed to increase the assurance that they reflect current practice. Training programs are also in place. Internal audits of quality systems, including those for controlled substances, are conducted. The procedures that occur during order entry, shipping and/or the inventory process provide additional checks and balances and enable reporting detail for lot tracking, inventory reconciliation and required Health Canada, Dutch Ministry of Health, Singapore HSA, Poland GIF, Philippines FDA, India CDSCO, and U.S. Federal and State Government regulations, where applicable.

Demonstrates Commitment to Competence

Where UPS utilizes outsourced service providers, the Company considers expectations for competence as part of the selection process and monitors compliance through service level agreements and executing Third Party Governance controls to monitor compliance with UPS policies. If issues or performance gaps are identified that relate to competencies of individuals, such issues are evaluated and changes are made to address the competencies of those responsible for providing services to the Company

Risk assessment, information and communications, and monitoring activities

SCS uses a risk assessment program to identify and manage risks that could impact the Company's ability to provide contractually agreed upon service offerings. This process requires management to identify significant risks inherent to its services and systems and to identify underlying causes of risks, measure the risk to SCS, establish acceptable risk tolerance levels, and implement measures to monitor and manage these risks. UPS has an Internal Audit department that performs an annual risk assessment for UPS, including SCS. Audits are scheduled and performed based on the results of the risk assessment to increase the assurance that high risk areas are reviewed. The risk assessment process is focused on the facets of SCS' business. The Risk Assessment incorporates interviewing senior management across the organization. The data is input into a model which results in a compliance score and provides information for SCS to channel its audit resources for the upcoming year. The Internal Audit group largely bases its audit schedules and resource allocations on the results of the risk assessment process.

There is a UPS Corporate Intranet site that has overall company information including Policies and Procedures. There is a Policies and Procedures committee that is made up of all business units that is responsible for keeping this section up to date. There is a comments section (with a published due date) that allows employees to input suggestions to the policies and procedures. The Global Finance Group, the Internal Audit team and local managers monitor adherence to these procedures.

Lastly, the warehouse metrics that are monitored are posted throughout each warehouse for employees and management to see. In addition, the information regarding service metrics are communicated by the

Distribution Operations Manager to upper management via the Dynamic Reporting System (DRS). The service metrics contained in DRS include inventory accuracy, location accuracy, fulfillment accuracy (outbound results) and service failures (anything not meeting a customer requirement such as a missing item). Furthermore, key metrics surrounding receiving and shipping, on-time and quality are posted in various locations throughout the distribution centers. Some specific metrics for inventory and its accuracy include cycle counting and physical inventory results. In addition, management and supervisors hold routine meetings to discuss client service issues.

Monitoring of activities is accomplished through a variety of methods. External monitoring includes regulatory compliance audits performed by the DEA, miscellaneous state agencies and sometimes the FDA, as well as drug testing and financial reports preparation and review by SCS.

Depending on the level of risk exposure, SCS carries insurance coverage including commercial general liability, umbrella liability, and warehouseman's legal liability. This coverage is assessed annually to provide coverage for the upcoming policy period.

Overview of operations

General information

Description of the primary applications

UPS SCS utilizes the following systems to provide order-to-cash processing and inventory management services for our healthcare clients:

- Global Healthcare Office Services (GHOS) is an integrated solution which utilizes Global Warehouse System (GWS)/Healthcare Enterprise Logistics Information and eXecution (HELIX),warehouse management systems (WMS) and interfaces with SAP, an enterprise resource planning system, to offer full order processing, accounts receivable, and inventory management functionality.

Herein, the GWS/HELIX system may be referenced as 'WMS' when referring to shared descriptions of processes and control activities applicable to the system.

Applications and computer hardware

Information technology used in Order-to-Cash processing is primarily supported by the UPS SCS IT Portfolio, located in Alpharetta, Georgia. Collectively, the primary applications used in Order-to-Cash processing are referred to as:

- GWS, which runs on servers using the Linux operating system and an Oracle database.
- HELIX, which runs on servers using Windows operating system and an Oracle database.
- SAP, which is a suite of applications that run on servers using W2k8 operating system and SQL Server database.

The hardware environment is managed by the Technology Management Group's Distributed Computing team, and network administration and maintenance is the responsibility of the Telecommunications and Network Operations Command Center. Personnel at the warehouse distribution centers process orders, receive and ship client products using PC's and Symbol Radio Frequency (RF) Units.

The below table summarizes the SCS technology relevant to the report:

Application Name	Modules	Database	Operating System	Network	Application/Module Description
I2-TMS (Canada Only)	N/A	DB2	AS/400	Windows AD	Transportation Management System ("TMS")
GWS	WMS	Oracle	Linux	Windows AD	Warehouse Management System
HELIX	WMS	Oracle	Linux	Cloud Hosted	Warehouse Management System

GHOS (SAP ECC)	SAP S&D	SQL Server	Windows	Windows AD	Order Management
	SAP Vistex	SQL Server	Windows	Windows AD	Contracts & Pricing
	SAP FI/CO	SQL Server	Windows	Windows AD	Financial Services

The underlying information systems environment for the SCS technology noted in the table above is supported by the UPS Application Infrastructure and Operations group. A separate service auditor's report on the UPS Application Infrastructure and Operations group covers the relevant applications and technology and should be read in conjunction with this report.

Inventory and order processing systems

SCS distribution centers utilize the WMS application to maintain client inventory. GWS functions as a WMS, which is licensed by Manhattan Associates. HELIX functions as another WMS, which is a SaaS application hosted and maintained by Softeon. For order processing, WMS interfaces with SAP.

WMS/SAP maintains customer master files, vendor master files, inventory control, pricing, online and inbound EDI sales order entry, online and inbound EDI purchase order (PO) receipt entry, accounts receivables (A/R), DEA/ARCOS (Automation of Reports and Consolidated Orders System) reportable records and online and inbound EDI returns entry, and Advanced Shipment Notification (ASN) processing.

The WMS system processes warehousing functions; such as, inbound receiving and returns processing, inventory put away, order picking, order shipping, inventory adjustments/status changes, bin replenishments and cycle counts. WMS is mainly driven through either the use of Radio Frequency bar code technology and/or online workstation entry. The WMS is interfaced with Transportation Management Systems (TMS) – I2TMS for Canada and UTMS for US, EU, LATAM and APAC regions.

Healthcare compliance

SCS warehouse facility compliance with Health Canada, Dutch Ministry of Health, Singapore Health Sciences Authority, Poland Chief Pharmaceutical Inspectorate, Philippines Food and Drug Administration Philippines, India Central Drugs Standard Control Organization, and the U.S. Prescription Drug Marketing Act (PDMA), DEA, and FDA requirements are monitored and audited by the QA/RA team, as applicable. SCS is licensed by Health Canada, Dutch Ministry of Health, Singapore HSA, Poland GIF, Philippines FDA, India CDSCO, or the appropriate U.S. State and/or Federal Agencies, depending on jurisdiction and activities performed. Management members at each facility are required to review and ensure compliance with internally developed healthcare policies, Standard Operating Procedures (SOPs), and work instructions (WIs). Members of the Healthcare Compliance and Corporate Internal Audit teams conduct periodic Internal Audits/Assessments of the healthcare facilities. The audits are comprehensive and include a review of procedure checks, storage facilities, appropriate licensing, and documentation requirements. The edits that occur during order entry, shipping and/or the inventory processes provide checks/balances and increase the assurance of a high level of data integrity for reporting detail on lot tracking, inventory control/reconciliation, and Health Canada, Dutch Ministry of Health, Singapore HSA, Poland GIF, Philippines FDA, India CDSCO, or U.S. Federal and/or State Government reporting requirements, as applicable.

Governmental reporting requirements

In Canada, there is a monthly sales report forwarded to the Office of Controlled Substances, covering transactions of Narcotic and Controlled Reportable Substances. Controlled drugs (raw material, bulk material, finished products, etc.) in the possession of the licensed dealer at the close of a fiscal year-end must be reported, except for controlled drugs that are destined for disposal. The quantities reported must be expressed using the total weight of the controlled substance and must include finished and bulk products.

In the Netherlands, the Ministry of Health regulates the healthcare industry. The organization has given authority to Farmatec for monitoring and licensing. A Good Distribution Practice (GDP) license is required for storage and distribution of pharmaceutical products; Good Manufacturing Practice License (GMP) is required for secondary packaging activities of pharmaceutical products; Controlled substances license is required for storage of controlled substances (two types: List I products license or List II products license).

In Singapore, UPS holds certain medical device importer and wholesaler licenses and also manages relevant import for re-export special authorization licenses issued by Health Sciences Authority Medical Device Branch,

on behalf of our clients. In the U.S., Quality/Regulatory representatives also generate monthly, quarterly and annual reports that are required by the U.S. government and/or clients. ARCOS (Automation of Reports and Consolidated Orders System) lists U.S. government required Schedule 2 drugs and some Schedule 3 drugs, received and shipped by SCS. The ARCOS report is uploaded to the DEA website quarterly from GWS. U.S. State governments require monthly, hard copy or electronic reports for all controlled substances. Other ad hoc reporting is provided as requested by various agencies and for license renewal applications.

In Poland, pharmaceutical law is enforced by the Chief Pharmaceutical Inspectorate (GIF), as the central government administration authority. The tasks of the pharmaceutical inspection are fulfilled by Inspectors located in each state of Poland. GIF ensures the safety of patients through supervising and controlling the manufacture of and trade in medicinal products.

In India, the Central Drugs Standard Control Organization (CDSCO) is responsible for the standards and approval of drugs, quality control of imported drugs, conduct of clinical trials, and coordination of State drug control organizations by providing expert advice with to enforce the Drugs and Cosmetics Act. The CDSCO along with state regulators are jointly responsible for granting licenses of certain specialized categories of critical drugs.

In the Philippines, The Food and Drug Administration (FDA) is mandated to ensure the safety, efficacy or quality of health products which include food, drugs, cosmetics, devices, biologicals, vaccines, in-vitro diagnostic reagents, radiation-emitting devices or equipment, and household/urban hazardous substances, including pesticides and toys, or consumer products that may have an effect on health which require regulations.

Complementary User Entity Controls

UPS SCS' controls were designed with the assumption that certain controls would be placed in operation at user entities. The application of such controls by user entities is necessary to achieve certain control objectives identified in this report. In addition, there may be control objectives and related controls that are not identified in this report that would be appropriate for the processing of user entity transactions. This section describes additional controls that should be in operation at user entities to complement the controls at UPS SCS.

1. Clients are responsible for reviewing and approving the Contract Summary of any new or extended contract between the client and their contracted customers, or any contract that the client is honoring. (Section 4: Control Objective — 1, 2)
2. Clients are responsible for reviewing and approving the Work Instructions or Procedures Manuals and communicating any discrepancies back to SCS. (Section 4: Control Objective — 1, 2, 3, 4, 5, 6, 7, 8)
3. Clients are responsible for reviewing and approving the Client Master Data Report, which indicates how the Clients' system rules are configured in WMS/SAP. (Section 4: Control Objective — 1, 2)
4. Clients are responsible for notifying SCS of any changes to product master files. (Section 4: Control Objective — 1, 2)
5. Clients are responsible for reviewing new customer data and ultimately responsible for approving new customers and customer credit limits. (Section 4: Control Objective — 1)
6. Clients are responsible for approving their customers' requests for returns, as specified in the Work Instructions or Procedures Manuals. (Section 4: Control Objective — 1, 4)
7. Clients that participate in sending electronic (EDI) files are responsible for reviewing any transmission reports sent from SCS regarding any processing errors documented (e.g. 997 transaction sets). (Section 4: Control Objective — 1, 2, 3, 4, 6)
8. Clients should ensure that all data transmissions and communications to SCS (e.g., customer orders, Purchase Orders, notifications of shipment, item master updates) are complete and accurate. (Section 4: Control Objective — 1, 2, 3)
9. Clients are provided the warehouse receiving report upon completion of receipts and are responsible for reviewing the report to validate that correct products and quantities were received. (Section 4: Control Objective — 3)
10. Clients are responsible for determining and authorizing the disposition of returned and damaged goods. (Section 4: Control Objective — 4, 6)

11. For clients who do not notify UPS SCS regarding the quantity of an expected return, it is the client's responsibility to verify the quantity returned into stock matches the quantity expected. (Section 4: Control Objective — 4, 6)
12. Clients are responsible for recording journal entries based on inventory transaction data provided by SCS. (Section 4: Control Objective — 1, 2)
13. Clients with orders consolidated for shipment are responsible for requesting period-end reports to determine the appropriate period in which to recognize the inventory and revenue transactions. (Section 4: Control Objective — 5, 6)
14. Clients are responsible for reconciling perpetual inventory records at SCS with their financial records. (Section 4: Control Objective — 2, 5)
15. Clients are responsible for establishing controls that ensure contents of containers are consistent with containers' external labeling (e.g., Universal Product Code (UPC), part description, quantity per, etc.). (Section 4: Control Objective — 3, 4, 5, 6)
16. Clients are responsible for maintaining records of backorders related to short shipments by SCS and resubmitting the backorders to SCS if it needs to be filled at a later date. (Section 4: Control Objective — 5, 6)
17. Clients are responsible for ensuring that vendor invoices agree with inventory receipts. (Section 4: Control Objective — 3)
18. Clients are responsible for reviewing and approving customer Account Information Sheets and related credit limits. (Section 4: Control Objective — 1, 2)
19. Clients should reconcile inventory shipped to SCS against inventory receipts reported by SCS. (Section 4: Control Objective — 3)
20. Clients are responsible for reviewing SAP and A/R reports and for reporting discrepancies to SCS. (Section 4: Control Objective — 1, 2)
21. Clients who choose to maintain their own product master files are responsible for monitoring SAP to ascertain contract, product, and pricing information is up to date and accurately reflected in the system (Section 4: Control Objective 1).
22. Clients are responsible for providing SCS with updates to group membership access lists. Once modifications have been made, clients approve access for group membership from information provided by SCS. (Section 4: Control Objective — 1)
23. Clients are responsible for deleting from membership lists the classes of trade that do not pertain to the contract. (Section 4: Control Objective — 1)
24. Clients who use SCS invoicing services are responsible for reviewing and approving new prices and price changes as well as communicating discrepancies to SCS. (Section 4: Control Objective — 1, 2)
25. Clients are responsible for reviewing the copies of the customer invoices which they receive from SCS to ensure that product prices charged to customers as well as "no-charge" orders are accurate. (Section 4: Control Objective — 1, 2)
26. Clients are responsible for reconciling inventory and financial records associated with orders manually entered into SCS's GWS system. Manual orders are not permitted in HELIX system as they are interfaced from SAP. (Section 4: Control Objective — 1, 2)
27. Clients should ensure that service agreements and related work instructions provide for appropriate segregation of duties. (Section 4: Control Objective — 1, 2, 3, 4, 5, 6)
28. Clients that participate in receiving electronic (EDI) files for inventory adjustments are responsible for reviewing the transmission reports and following up with SCS, as necessary, to ascertain the adjustments are appropriate and made in accordance with client instruction. (Section 4: Control Objective – 5)
29. Clients who choose to maintain their own SAP system for order processing are responsible for reviewing orders placed on hold (Section 4: Control Objective — 1)
30. Clients who utilize SCS invoicing services are responsible for determining whether or not a completed sale is recognized upon shipment or delivery, and for adjusting any sales recognized by the client upon

delivery for goods shipped but undelivered by the end of the client's reporting period. (Section 4: Control Objective — 1, 2)

31. Clients who choose to maintain their own customer credit limits are responsible for establishing, monitoring and updating customer credit limits, as needed. (Section 4: Control Objective – 1)
32. Clients who choose to maintain their own customer pricing are responsible for establishing, monitoring, and updating customer pricing, as needed. (Section 4: Control Objective – 1)
33. Clients who utilize SCS Accounts Receivable services are responsible for maintaining their own lock boxes. (Section 4: Control Objective – 2)
34. Clients who utilize SCS Order Processing services but do not utilize SCS for Accounts Receivable Services are responsible for establishing and maintaining their own controls related to credit and age holds. (Section 4: Control Objective 1)
35. Clients who utilize SCS Order Processing services are responsible for communicating customer risk categories to UPS through customer setup and updates. (Section 4: Control Objective 1)
36. Clients that direct SCS to utilize their own SAP order management system are responsible for the design, implementation, monitoring, and operation of the general IT controls over the SAP system. (Section 4: Control Objective 1)
37. For clients who are granted access to SCS distribution centers, clients are responsible for approving access for client employees as well as notifying SCS if access needs to be removed. (Section 4: Control Objective 7)
38. Clients that direct SCS to utilize their own SAP order management system are responsible for reviewing orders placed by SCS. (Section 4: Control Objective 1)

THIRD PARTIES AND VENDORS

UPS SCS engages third party personnel to perform the capabilities as noted below:

Name of the Subservice Organization or Vendor	**What Service Does the Subservice Organization or Vendor Provide to the Service Organization?**	**Controls of Subservice Organization or Vendor Necessary to Achieve the Control Objectives?**	**Vendor or Subservice Organization?**	**Method to Address Subservice Organization**
Honeywell	Badge Access System software provided for all US, Canada, Netherlands, and Philippines Warehouses and finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Picture Perfect	Badge Access System software provided for the Poland finance center	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Kantech Antrapass Global Edition	Badge Access System software provided for the Singapore warehouses	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Allied Universal	Professional security guard services used onsite at the US and Canada-based warehouses and finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization

Name of the Subservice Organization or Vendor	What Service Does the Subservice Organization or Vendor Provide to the Service Organization?	Controls of Subservice Organization or Vendor Necessary to Achieve the Control Objectives?	Vendor or Subservice Organization?	Method to Address Subservice Organization
Structure Works LLP	Badge Access System software provided for the India finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Securitas Beveiliging BV	Professional security guard services used onsite at the Netherlands-based warehouses	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
GEPARD Security	Professional security guard services used onsite at the Poland-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Union Security Services Pte Ltd	Professional security guard services used onsite at the Singapore-based warehouses	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Cerberus Security	Professional security guard services used onsite at the Philippines-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
G4S Secure Solutions	Professional security guard services used onsite at the India-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Honeywell and GE	Alarm security system services for the Poland-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
Stanley Security Solutions	Alarm security system services for US and Canadian-based warehouses and finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
SPIE Nederland BV	Alarm security system services for Netherland-based warehouses	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
PyroAsia Protection Philippines	Alarm security system services for Philippines-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization
DSC Intruder Alarm	Alarm security system services for Singapore-based warehouses	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization

Name of the Subservice Organization or Vendor	What Service Does the Subservice Organization or Vendor Provide to the Service Organization?	Controls of Subservice Organization or Vendor Necessary to Achieve the Control Objectives?	Vendor or Subservice Organization?	Method to Address Subservice Organization
Fire Fight Safety Solutions	Alarm security system services for India-based finance centers	No. Controls not relevant to achieving in-scope control objectives.	Vendor	N/A – Not a subservice organization

Control objectives and related controls

Operational controls

Order processing

Control objective 1 — order processing

Controls provide reasonable assurance that sales orders are authorized by the client and processed completely, accurately, and on a timely basis.

The U.S., Canada, Poland, India, and the Philippines utilize the SAP system to maintain clients' order processing services.

Sales order processing controls in place in the U.S.

Customer accounts

New customer accounts are set up in SAP in one of two ways. Accounts can be set-up during the implementation process by using flat files or an electronic data interchange (EDI) 101 transaction. EDI 101 is the standard EDI transaction format for sending customer files. Post initial client implementation, customer accounts are set-up using the new customer account set-up process. To set-up a new customer, an Account Information Sheet (AIS) is created by the Master Data Maintenance (MDM) team to capture the information necessary to create a new customer including name, address, billing information and other requirements. If requested by the client, the Accounts Receivable Associate (ARA) conducts a credit check on the prospective customer using the Dun & Bradstreet (D&B) business ratings or a similar service to propose a credit limit. The information (AIS, D&B report and proposed credit limit) is forwarded to the client for approval. Once the client approves the customer along with the credit limit, the MDM associate adds the new customer to the customer master file. Some clients handle the initial client data gathering process internally and simply forward the customer's information to SCS once they have been approved.

All changes to the customer master file receive client approval prior to the change being made. The request for change is completed by the File Maintenance Administrator or the MDM group. The request is then given back to the requestor who is advised that the change has been made. The requestor verifies the accuracy of the change and then forwards the paperwork back to the MDM group for either filing or correcting, as needed.

Sales order processing (US, India and Philippines)

SCS provides differing levels of service for order processing and A/R customers. Additionally, the process for receiving sales orders differs depending on the level of service. For certain clients, SCS functions as the client's customer service department and receives sales orders directly from the client's customers via phone, fax, e-mail or EDI. Other clients choose to maintain their customer service department internally and forward customer orders to SCS via EDI. Regardless of how the order is received, be it through a Customer Service Representative ("CSR") entering the order, or receipt of an EDI, the order goes through several edit checks prior to being dropped to the warehouse for fulfillment. SAP first checks to determine that the customer is valid and has been previously set-up in SAP. SAP will not process sales orders for customers that do not exist in the client's customer master files. However, at the request of the client, manual drop ship orders can be created for customers not in the client's customer master file. In these cases, a ship-to customer number of X10000 is used and the information (customer name, address, and other required information) sent by the client is entered manually. For clients who request UPS to process one-time orders for customers outside of the master file, client approval must be obtained prior to processing orders.

For clients who utilize SCS for Accounts Receivable services, once SAP has determined that the order is for a valid customer, the system runs several checks of the customer's outstanding receivables based on system settings. SAP first determines that the customer does not have outstanding receivables which exceed the credit limit approved by the client and set-up in SAP. The system places sales orders on hold that would cause the customer to exceed its established credit limit in SAP. SAP also determines that the customer does not have receivables that have aged beyond the threshold established by the client. The system places customers on hold who have outstanding receivables that have aged past the threshold determined by the client. Sales Orders that are placed on hold are reviewed daily and resolved timely to prevent orders from remaining in an unnecessary hold status. This activity is performed by collectors assigned to the client and involves reviewing the held orders for a particular customer and the condition of their outstanding receivables. The collector normally places a call to the customer to determine if any payments are in-transit or if they would like to pre-pay for the held orders so the order will be processed. Clients generally grant SCS a draft authority which allows SCS to release orders that exceed the customer's credit limit up to the amount of the draft authority. There is generally a different draft authority granted for both SCS collectors and SCS management. These draft authorities are outlined in the client's agreed upon work instructions. If the collector is satisfied with the customer's payment history and/or the value of the order and the value falls within their draft authority, the collector releases the order. Orders which exceed the collector's draft authority are forwarded to a SCS manager for determination of disposition and approval for release. If the order exceeds the manager's draft authority, it is forwarded to the client with details of the customer's current A/R history and balance. The client then makes a determination as to whether to release the order and forwards SCS approval to release, if applicable. In all instances, appropriate approval, as defined by the client, is obtained prior to orders being released from credit hold.

Once the sales order is entered into SAP and released or the order is received by the client's business system in SAP and released, the order is forwarded to pickticket inquiry pool in GWS or order pool in HELIX. After the order is picked, packed, and checked (see control objective 6 narrative for a description of the warehouse pick/pack process) the order is noted with a "weighed" status in GWS. It is then labeled for shipment and the packed order is placed in a holding location awaiting carrier pickup. In HELIX after the order is picked, packed, and checked (see control objective 6 narrative for a description of the warehouse pick/pack process) the order is noted with a "pack complete" status, once the cartons are picked up by the carrier, then it is Closed, and the order moves to "Shipment Closed" status.

In GWS, UPS SCS-managed shipments are manifested after the order has been packed and routed and the shipping labels have been printed. The order will remain in a "weighed" status in GWS until it has been picked up by the carrier. Once the carrier has signed the shipping manifest and picked up the shipment, UPS SCS will then dispatch the order in WMS, and the status of the order will change to "shipped/invoiced". For orders which are picked up by the customer or are shipped by non-SCS managed carriers (as requested by the client), the orders will remain in a "weighed" status in GWS until the carrier arrives at the facility. Once the carrier has loaded the shipment on the truck and signed the bill of lading, the order is shipped/dispatched in WMS.

In HELIX, UPS SCS-managed shipments are manifested after the order has been packed and routed and the shipping labels have been printed. The order will remain in a "packed" status until it has been picked up by the carrier. Once the carrier has signed the shipping manifest and picked up the shipment, UPS SCS will then dispatch the order in WMS, and the status of the order will change to "Shipment Closed" status. For orders which are picked up by the customer or are shipped by non-SCS managed carriers (as requested by the client), the orders will remain in a "packed" status until the carrier arrives at the facility. Once the carrier has loaded the shipment on the truck and signed the bill of lading, the order is closed in WMS.

Once orders are dispatched, SAP generates invoices based on the product prices and quantities on the sales orders. In addition, SAP automatically assigns sequential numbers to the invoices generated by the system. Invoices are sent from SCS to the customer in one of two ways, depending on the work instructions from the client. The first is via EDI transmission 810 (EDI standard code for an invoice). The EDI transmission to the customer occurs via batch processing each night. If the customer chooses not to receive EDI transmissions, the invoices are printed and either mailed, faxed, or e-mailed to the customer. For incomplete shipments, only those items that were shipped are invoiced. Items placed on backorder are invoiced separately once they are shipped. To determine invoice amounts, the client sends a front-end pricing contract to SCS via e-mail or fax. A SCS customer management associate (CMA) enters the pricing information into SAP. When the input of pricing information is complete, the CMA runs a report to display what was entered into the system. The pricing information is placed on hold and the report is sent to the client for approval. The client sends approval

back to SCS, and the new pricing is released for use in SAP. Pricing changes are sent to SCS via e-mail or fax and follow the same procedure for approval as front-end contracts.

Each night during the end-of-day processing, the system determines what invoices were created for each shipment dispatched that day and schedules them for printing the next day. End-of-day processing is monitored by IT System Operations. In the event there are errors they are unable to resolve, an issue is submitted to the Global Help Desk for escalation to the appropriate IT support group for resolution.

Sales order processing controls in place in Canada and Poland Customer accounts

Sales order processing (Canada)

The new customer account set-up process for Canadian clients is similar to the U.S. process described above. Most client's in Canada utilize the process of collecting new customer information internally and providing SCS with the information for client set-up once they have been approved along with their associated credit limit. See the U.S. narrative above for additional details regarding the new customer setup process.

Sales order processing in Canada is similar to the U.S. process in that SCS offers differing levels of service to order processing clients. Sales orders are received using the same channels described in the narrative above. Once sales orders are received and entered in SAP, the system determines that the order is for a valid customer. For clients whom SCS performs order processing services, SAP prevents sales orders from being processed for customers that do not exist in the client's Customer Master File. One time order processing also follows the same process as described in the narrative above.

Once the sales order is entered in SAP or sent by the client's system, the order advances to the WMS and then to TMS. TMS validates the order to determine if the shipping service noted on the order is available for the product and that the address is in the correct format. If exceptions arise from this validation, the order is put on hold until the issue is resolved.

After the TMS validation, the order is forwarded to the pickticket inquiry pool in WMS and the order proceeds through the various statuses referenced above until the product is picked. It is then labeled for shipment using TMS. The process of labeling the order in TMS causes it to be forwarded to the Ship Pool in WMS. The packed order is now placed in a holding location awaiting carrier pickup.

When the carrier arrives for pickup, the order is manifested in TMS along with other orders that the carrier is picking up. Manifesting the orders entails printing a report from TMS that lists the orders for pickup. One copy of the report is provided to the carrier and one is retained by SCS. The carrier signs the manifest to exchange custody of the product. Once the orders are manifested, the order is marked as shipped/dispatched in WMS and SAP generates invoices based on the product prices and quantities on the sales order. SAP assigns numbers to invoices generated by the system automatically and sequentially across all customers.

Sales order processing (Poland)

Sales orders processed from Poland are initially received via the same channels described above. Orders are entered into SAP and placed on hold until approval is received from the client to process the order. If a customer does not exist in the client master file, then a one-time customer order can be created only if client approval is received. After receiving client approval, the various shipping service level designation is input into SAP and the order transmits to GWS to be picked, packed & shipped from the UPS SCS Distribution Center.

Accounts receivable management

Control objective 2 — accounts receivable management

Controls provide reasonable assurance that accounts receivable processing and cash collections are authorized, complete, accurate, and remittances are applied accurately on a timely basis.

U.S. operations utilize the SAP systems to maintain clients' A/R. U.S. A/R management is administered from Newark Finance Center in the U.S., as well as Clark Finance Center in the Philippines and Pune Finance Center in India.

Accounts receivable control processes in place

SCS provides, as part of the end-to-end order-to-cash services, certain clients with accounts receivable management services. The scope of A/R services begins after the invoice generation and once a shipment is manifested or shipped. The scope ends with the application of payments and reporting to the client. For clients that elect to use the SCS A/R services, SCS works with the client to create Work Instructions or Procedures manuals to detail each aspect of A/R processing.

Invoicing

SAP is configured to generate invoices once an order is identified as shipped and a systematic "Post Goods Issue" transaction is complete. For clients outsourcing their A/R processes to SCS, SCS creates the invoices. Once an invoice is created through SAP, it is forwarded to the customer via e-mail, fax, standard mail, or EDI transaction 810 (EDI standard code for an invoice). The date of the invoice is the date of the shipment stored in SAP. This is also the date that is used to age the invoice. Invoice amounts are based on the quantity shipped times the system price with applicable shipping charges added.

Cash receipts

A/R clients utilize bank lockboxes to collect cash payments. Payments are sent directly to the bank for deposit, either by check, credit card, EFT or ACH transactions. Each SCS A/R client maintains its own lockbox to which SCS personnel are granted access. For some clients, the bank sends EDI messages throughout the day with details of payments posted to the lockbox. These payments are automatically posted to the customer's A/R account based on the check micro-number and invoice number. Cash that cannot be applied based on these criteria appears on the account as a payment on account (POA) and is researched by the accounts receivable associate (ARA) until resolved. For clients that do not have their payments electronically applied, the ARA applies the payments manually in SAP based on the information downloaded from the lockbox. Regardless of the method of cash application, cash receipts are matched and applied first by customer number and second by invoice number. Once payments are applied, the A/R balance is reduced by the payment amount. Credit card payments are applied either manually by the ARA or in the same manner as the lockbox payments. An ARA performs a reconciliation of credit card transactions to the SAP posting summary on a frequency determined by the client. The frequency required by each client is outlined in their respective work instructions. An ARA also performs a daily reconciliation of posted cash receipts to the advice statement of remittances deposited to the lockbox to determine that remittances posted to the lockbox are posted to the A/R accounts in SAP.

Unapplied payments

When a payment cannot be applied based on the customer/invoice match, the ARA researches the payment to determine the proper treatment. Once the correct customer account is identified, the ARA applies the payment to the customer account. Unapplied cash remains in the unapplied customer account until the ARA is able to resolve discrepancies and appropriately apply the cash. Most of these exceptions involve following up with the customer to determine which invoice a payment should be applied to. Once the ARA completes the research and the proper invoice is identified, the payment is manually applied. A/R associates for each client review unapplied cash on a daily basis to determine that payments are properly applied.

Short/over payments, write-offs and exception handling

The Work Instruction Manual details, on a client-by-client basis, how to treat under/short payments. Though clients differ in the amounts of certain thresholds, the processes are generally the same.
As part of each client's settings in SAP, a tolerance limit is set for short/over payments. The system automatically creates adjustments for short and over payments which fall within the tolerance levels set in SAP at the time of cash application. Clients have generally granted SCS a draft authority to manually write-off short/over-payments exceeding the tolerance limits in SAP with appropriate approval from SCS management, up to certain amounts. Short and over payments exceeding the draft authority are communicated to the client and any subsequent write-offs are approved by the client. The manual write-offs are posted via a miscellaneous discount code by the ARA during cash application. The manual write-offs are performed by the ARA and approved by a Team Lead or the A/R Supervisor.

Collections

As part of the A/R management service package, SCS provides collection services for outstanding invoices in accordance with client specific Work Instructions and Procedures Manuals. Work Instructions and Procedures

Manuals detail when the collection process begins. Collection activity can be via e-mail, phone, fax, letter or customer website. Collection activity continues until either payment is received or the invoice is deemed uncollectible. Once a customer denies payment, the issue is then escalated to the A/R Supervisor and/or client, based on the Work Instructions and Procedures Manuals, to determine if the account should be written-off or if further collection activities should be pursued.

Month end reconciliations

At the end of each month, an ending balance worksheet is created to verify that the total of the previous month's ending A/R balance, current period's sales, cash received, and adjustments/reconciling items agree to the ending A/R balance for the current period. The completed worksheet is reviewed and approved by an A/R Supervisor. Discrepancies are noted and communicated to the client. If the month end worksheet does not balance, the item is put on the roll forward as a reconciling item and provided to the client. The ARA or supervisor continues to research the item to determine resolution. The month end process is not considered complete until the month end roll-forward reconciles. Clients are also provided with daily transaction data by either an overnight file transfer protocol (FTP) feed that is uploaded by the client into its own financial application, or by accessing SAP remotely.

Segregation of duties

SCS collection employees do not have system access to create new sales orders. This segregation of duties is in place because the sales order entry screen can also be used to enter credit memos.

Receiving

Control objective 3 — receiving

Controls provide reasonable assurance that goods received are recorded and reported completely and accurately on a timely basis.

When a shipment is received, a visual inspection of the trailer is performed. This inspection includes visually noting the general condition of the interior and exterior of the truck including a visual check for infestation, temperature inside the trailer for cold storage product as well as whether pallets have tipped over in-transit or other noticeable damage. If the trailer has an intact seal, which may not be the case for less than truck load (LTL) shipments, the receiver also compares the seal number noted on the freight bill to the seal on the trailer to confirm that the contents have not been altered during transit. The shipment is then offloaded to the dock and a visual inspection performed. Visible damage is noted on the carrier's freight bill. The receiver reviews the freight bill and, depending on client work instructions, either performs a count of the product prior to releasing the truck or stamps/signs that the shipment is received, but subject to future count and/or inspection. The shipment is then transferred to a designated warehouse location for processing.

The warehouse associate breaks down the shipment so that each pallet contains only a single product with a single lot number and expiration date. This is done to prevent multiple lots with different expiration dates from being stored in the same bin location. If multiple advanced shipping notices (ASNs) are shipped on the same freight bill, the product is broken down to allow each ASN to be received separately. Once the product has been segregated, the receiver places temporary identification labels (license plate numbers (LPN)/case ID numbers) on each pallet. This allows the receiver to assign a certain product relating to a particular ASN to that specific LPN/case ID so that it can be scanned into a bin location using the RF devices at a future time.

For clients set-up to receive inbound receipt confirmations via EDI transmissions, an EDI receipt (warehouse stock transfer receipt advice) confirmation message is sent to the client when the ASN is closed.

Certain distribution centers house products requiring cold storage. At these facilities, the products are housed in the appropriate temperature-controlled ranges (cooler or freezer) based on client dictated storage conditions. Receiving procedures for cold storage products are the same as noted above with the exception that shipments are not staged outside the appropriate temperature range if the product excursion rates do not permit during the receiving process. Shipments are offloaded and taken directly to the appropriate temperature area, which is dependent on the client work instructions.

Certain distribution centers house DEA schedule drugs. At these facilities, schedules 3 through 5 drugs (controlled substances) are housed in a secure cage area with restricted access. Schedule 2 drugs are housed in a vault within the cage. Receiving procedures for schedule drugs are the same as noted above with the

exception that shipments are not staged outside of the cage/vault area during the receiving process. Shipments are offloaded and taken directly to the appropriate restricted area.

GWS Inbound

The warehouse associate verifies the product and applicable information listed on the packing slip or ASN (via the Inbound Shipment Report in GWS) matches the product physically received. Applicable information can include part number, lot/serial number and expiration date.

Inbound shipments are received in GWS via ASNs or PO (Purchase Orders). For some clients the ASN/PO must be created by the receiver using the bill of lading (BOL)/packing list/advanced communication from client to determine the products expected. For certain clients, the ASN/PO is created in SAP or sent from the client via EDI feed. If there are discrepancies, applicable work instructions are followed. Work instructions may indicate that the ASN/PO is altered to match the packing list or that the discrepant product will be segregated and placed into an exceptions area while awaiting disposition from the client. This allows the receiver to enter information regarding the shipment including the carrier, trailer number, bill of lading number, appointment time and other necessary information. Once this is completed, the ASN/PO is created in WMS for inbound shipments generated in GWS and the shipment can be received either manually or using the RF device.

The receiver creates the case in the system using the ASN receiving function on the RF device. Upon selecting the receiving function, the receiver is prompted to enter an ASN number or scan the Inbound Shipment Report and then the Case ID/License Plate Number ("LPN") label. If the ASN number provided has not been created in WMS, an invalid ASN error message is displayed, and the receiver is prevented from continuing with the receipt until a valid ASN is provided. Once a valid ASN is entered, the receiver creates the case by scanning the LPN placed on the pallet and confirming the batch number and entering the quantity in the RF device, as the SKU, and expiration date are already systematically generated based off of the ASN. GWS will only allow one SKU and one batch from one ASN to be assigned to each LPN. GWS can optionally capture country of origin and pack quantities. The quantity entered is determined by the physical count performed during initial verification. Certain clients' work instructions require that products be received into a hold status. Upon notification of inbound hold requests, which may be established at a client, part or lot number level, SCS has the capability to ensure that the product will automatically be placed on hold by GWS without manual intervention at the time of receipt. In this scenario, a hold code, usually "QH" or "QU," is provided when creating the case in the system. This process is repeated for pallets associated with the ASN. At this point the product is ready to be put away and the receiver prints the ASN variance report (in GWS) which are retained in the receipt documentation. In GWS, the ASN variance report confirms any variances between the products received and products expected and is retained in the receipt documentation along with the Inbound Shipment report.

If a discrepancy is noted between the product received and product expected on the ASN, a second physical count is performed by an individual other than the original receiver who verified the product quantities to confirm the quantity received. If required by the client, a second physical count is performed for all inbound shipments, regardless if there is a variance. This second count is sometimes, but not always, performed by the receiver. Any discrepancies between the quantities are resolved prior to closing the ASN for GWS. On-hand inventory is updated automatically by GWS as the product is received.

Receiving supervisors monitor that all products received into inventory have been put away. To put away the product, the put away person scans the LPN on a pallet. In GWS, after scanning the LPN the RF device prompts for the put away location or an open location is chosen by the put away associate. The product is then transferred to an open bin location. The LPN for that bin is scanned to locate the product in that bin within GWS. At most facilities, GWS is configured so that it will not allow sellable product to be put away to a bin that is not available or contains products with different SKUs or batch numbers.

In GWS, inventory is incremented in the system when products are first received/scanned with the RF device. Prior to the put away of the product, receiving personnel will print the ASN Variance Report in GWS, which lists any variances between the SKUs, quantities, and lot numbers expected in the system per the ASN and the products actually received. All products must be assigned to an LPN/case ID during the receiving process. Any variances identified are investigated and communicated to the client per the work instructions. If no variances are identified, the supervisor or designee will "verify" the ASN, thus closing the ASN. After the put away of the product, receiving personnel will monitor the Inbound Shipment Maintenance and Case Inquiry screens in GWS to confirm all cases have systematically been put away in GWS.

HELIX Inbound

The warehouse associate verifies the product and applicable information listed on the packing list or ASN (via the Receipt Details screen in HELIX) matches the product physically received. Applicable information can include SKU, LOT, serial numbers and expiration dates.

Inbound shipments are received into HELIX via a Receipt. The Receipt is the identifier assigned to an ASN when it is loaded into the WMS. If discrepancies are found between the physical shipment and what is showing on the receipt, the receiver will refer to their SOPs or corresponding Work Instructions on discrepant Inbound Shipments. Currently there are no manual creation of Receipts process in HELIX. If the Client SOP allows receiving the receipt short, this is allowed in the WMS, however receiving over the listed quantity is not allowed. In the cases of a physical overage, the Client will need to direct the operations on how to receive the overage into the WMS.

The HELIX receiver will print out "Blind LPN" labels prior to receiving the product. The LPNs are based on a counter in HELIX and will move forward to where the last number ended in the batch printed by the receiver. The receiver will receive the Receipt in the RF device. The user will input the Receipt Number into the RF device, if the receipt number input into the screen, the user will receive an "Invalid Receipt Number" error. The user must put in the Receipt number that is associated with the ASN / Shipment they are receiving. Once the correct receipt number is input into the device the user will then input the LPN they are assigning to the product being received, as well as the SKU, LOT, and Expiration Date. If COO is mandatory for that Client, the user will be prompted to enter it. If the product being received has not been received into the WMS before, the user will be prompted to "Verify the Product". The user is required to verify the DIMs of the tracked UOMs listed in the SKU Profile of the WMS. Helix requires this process to be performed for first time receipts, and the user is not allowed to continue with the receiving of the SKU until this is performed. Once DIMs are verified, the user can input the UOM quantity being received and submit the information in the RF Device. When the LPN is submitted, the quantity assigned to the LPN will list as received on the Receipt detail in HELIX. The receiver will perform these functions until all the physical product on the shipment is received into the WMS.

All LPNs received into HELIX are placed on INIH hold. This hold is to ensure that all LPNs received are verified through an audit performed by the user in the RF device. All LPNs are placed on a QURL hold if mandated by that client, and the SKU is set up to be on a QURL hold in the SKU Profile within HELIX.

The receiver will then go into HELIX and close the receipt. If the user is closing a receipt and not all the quantities listed in the receipt have been received, the WMS will provide an error stating "Variance in qtys exist". The user will then verify the physical qtys to the systemic qtys received. They can perform this by printing the ASN Variance Report in HELIX. If the variances are true, and approved, the user is allowed to close the receipt short. If no variances exist at the time of close, then the user will continue to close. Once the WMS moves the receipt from Open or "In receiving" to Close, the WMS will provide Receipt Reports that can be printed or downloaded. If the client that the product is being received for is set up to receive confirmation of receipt close, then at this time a 944 message will be sent via EDI to the client informing them the ASN is closed. The ASN must be closed to put away the LPNs that have been received.

The receiver is now able to perform the Inbound Audits on the LPNs that are required to remove the INIH hold on the LPNs prior to putting the LPNs into locations. HELIX requires an audit of all LPNs on a receipt prior to put away, and users are not able to put away LPNs until they have been successfully audited.

Put away rules

GWS

When an employee scans a potential case ID/LPN to locate a product, GWS can perform a check of pre-defined criteria (if applicable) to determine if that location is appropriate for the product. This check is a comparison of attributes of the product to those of the bin. The attributes used for this check are defined in the put options menu located in the distribution center (DC) configuration section of the set-up menu tab. A possible scenario is that bins are reserved for particular clients. During the bin set-up, a client can be specified as the owner in the attributes of the bin. If the put away person attempts to locate another client's product in a bin that is assigned to a different client, an error message is displayed on the RF device and they are not allowed to continue the put away. This feature can also be used to ensure that products containing a specified hold category or requiring refrigeration or cage/vault storage are only stored in appropriate locations.
To ensure that the attributes used as the criteria for the check are supplied for each bin, the bin options menu is used to establish which fields are required when setting up bin locations for the DC. It is also used to

indicate the correct terminology for storage types, set up zone assignments for products based on certain parameters and to establish bin component ranges.

HELIX

When the user is performing putaway in HELIX, they will perform this through the RF device. The user will scan the LPN and the WMS will suggest locations based on criteria set up for that client's SKU. HELIX will suggest locations based on storage type (Active. Reserve), Zone (Ambient, Cooler, etc) SKU Type (HAZMAT), and Product status (Sellable or NON-Sellable). If the LPN being put away requires storage in a certain Zone, the WMS will not allow the user to put that LPN in a zone that does not meet the storage requirements set up for that SKU in the SKU Profile in HELIX. The user will be suggested the location that meets the storage requirements of the LPN. If the location suggested is not available or is not ideal for the LPN being put away, the user is able to skip to a new suggested location or scan a new location. The location chosen by the user must meet the storage requirements set up for the SKU assigned to the LPN. If not, the WMS will not allow the user to systemically put the product in the location. If the location being chosen by the user meets the storage requirements, the user will be prompted in the RF device to select a Reason Code that will mark the reason the suggested location was overridden by the user.

Product status

SCS currently utilizes various client specific status categories to help maintain accurate client inventory:

- Good — received product that can be picked, packed and shipped.
- Not Sellable Hold — this status includes a variety of hold codes, such as quarantine or damage, to control inventory based on client needs. Products that are on hold cannot be picked for shipment unless the order specifies that particular part number, lot number, expiration date and hold category. Signed authorization from the client's quality assurance (QA) personnel and SCS QA personnel must be obtained prior to the shipment and the destination address can only be the client, the product manufacturer, an authorized destruction company or an authorized testing facility.
- Sellable Hold — this status includes a couple of hold codes such as client hold or short-dated hold, dependent on client specifications. Products on client hold cannot be picked for shipment unless the order specifies that part number, lot number, expiration date, and hold category. Shipments from a sellable hold code typically require authorization from the client, but not SCS QA personnel.
- Released — product which was previously on hold and is now approved for pick, pack, and ship.

Internal transfers for replenishment

There are two processes for the replenishment of product to the primary pick location: the regular overnight replenishments and the intra-day replenishments.

- ***GWS Regular overnight replenishments -*** The primary location bins are set up in the Bin Maintenance Menu with a minimum and maximum quantity. If a primary bin is below the minimum quantity specified at the end of the day, a replenishment order is automatically generated to bring the bin up to maximum quantity. The orders are then executed by the replenishment team.

- ***GWS Intra-day replenishments -*** If during a working day a picker is assigned a pick order and the primary or alternate location for that particular product is empty or has insufficient stock to fill the order, the picker notes an exception code of "E" on the RF device. In GWS, a cycle count can be triggered to inform an inventory control specialist to ascertain the inventory in the location. This initiates the intra-day replenishment order that is filled by the replenishment team during the day.

- **HELIX Replenishments - are** performed "On Demand". When there is demand for the SKU for waves that are ready, the system will kick off tasks based on priority of the pick tasks to move that product to Active locations for picking.

The product used to replenish the primary location is automatically selected by the system. Generally, the FEFO (First Expiration, First Out) stock rule applies. Products that do not have an expiration date (Literature, Pamphlets, etc.) are selected based on the FIFO (First In, First Out) method.

Returns

Control objective 4 — returns

Controls provide reasonable assurance that returned products are authorized, tracked, and recorded accurately and timely.

GWS Returns processing

Returns arriving at the facility are immediately segregated upon receipt and taken to a Returns Cage or designated returns area. Returns will remain in the designated returns area until processed. Returns can generally be classified in one of two categories – 'authorized' or 'unauthorized'. If a return is classified as 'authorized', the return typically would have been authorized by either the client or UPS Customer Service prior to the returned product arriving at the facility, and a Return Goods Authorization (RGA) would have been created in advance by the client or UPS Customer Service which specifies the expected product and quantity that would be received. If a return is classified as 'unauthorized', the return would not have been expected at the facility prior to arrival. When unauthorized returns are received, the level of approval and procedures required to process the unauthorized returns will vary depending on the client instructions. In some instances, client approval is required prior to processing the unauthorized return, and the client will provide an RGA or return number to receive the return against. In other instances, UPS Customer Service will create the RGA to receive the return against. Furthermore, the client may authorize operations personnel to create the RGA on-site and receive the unauthorized return in the system without any additional approvals required. Each client's requirements are outlined in their respective work instructions and appropriate approval as defined by the client is obtained prior to receiving customer returned product into GWS.

For most clients, the process for receiving returned products into the warehouse is similar to the normal receiving process with the PO replaced by a Return Goods Authorization (RGA). As with the PO and a receipt, an ASN must be created in GWS prior to receiving the return and in some cases may be created by the client through EDI or a CSR prior to the return being physically received at the DC. In some instances, the RGA is created by the DC associate with prior written e-mail communication from the CSR or the client authorizing the return.

For clients who request it, returns are adjusted back into inventory via inventory adjustments rather than through the receiving process. For these returns, the inventory is adjusted into inventory in a Returned Good (RG) or Returned Damaged (RD) hold status, with the Return (RT) number provided by the client included in the note line of the adjustment.

When a return is received at the warehouse for both processes mentioned above, a returns clerk inspects the packing sheet, if available to verify that everything listed on the sheet was received. Once this has been done, the clerk determines whether an RGA already exists in GWS for returns processed through a warehouse receipt. In some cases, the RGA number is listed on the return shipping label and can be utilized in assisting the clerk in determining whether an RGA already exists in GWS. If not, the clerk creates the RGA, listing the products and quantities received. The GWS system does not require a return reason code. For clients who process returns through inventory adjustments, the RT number is either written on the return shipping label or provided by the client to include in the inventory adjustment note line. During both processes, documentation detailing product information is completed. The documentation is dependent on the work instructions for that client. In some cases, a returns form is completed which lists each product received, the quantity and the lot number. However, for other clients, a Returns Put Away Audit sheet is sufficient documentation. The document is signed or initialed by the clerk as evidence of receipt of the return. The returned product information including the part ID, lot number, expiration date, hold category and quantity noted by the initial returns clerk is reviewed and then confirmed by a second independent returns clerk if required by client work instructions or if the return is unauthorized.

Due to the fact that most returns are for small quantities of product, they are often received and put away manually in WMS to a pre-defined return location for the relevant client. For large returns, pallets may be created to aid in the put away process and RF devices are used to locate product to specific bins using the same procedures as for receipts, as discussed previously. Once the receipt is complete and the product is put away, the ASN is closed and the ASN reconciliation report is printed, reconciled and retained with the return documentation. For clients set-up to receive inbound receipt confirmations via EDI transmissions, an EDI 944 receipt (warehouse stock transfer receipt advice) confirmation message is sent to the client when the ASN is closed.

GWS is configured for some clients and locations to automatically receive returned products on a hold status; however, this configuration may not be in place for some clients/locations, as some clients authorize SCS to receive returned products directly into sellable status. For returns processed via inventory adjustments, all products are manually placed on a hold status, unless otherwise specified by the client. Disposition of a returned product is determined according to client work instructions. In most cases, the client QA department is forwarded a copy of the return paperwork and determines whether the product is destroyed or returned to good stock. For a few clients, SCS makes this determination for the client based on a set of criteria defined in the client's work instructions. In either case, appropriate approval, as defined by the client, is obtained prior to releasing returned product to saleable inventory. Returned product is either stored in a secured returns area or physically identified as on-hold and not available for picking prior to being removed from the non-sellable hold category.

HELIX Returns Processing

When a Return shipment is delivered to the Inbound Dock, it should be preceded by an RMA (Return Material Authorization) sent by the client. If there is not an RMA present in HELIX at the time of Return arrival, the operation should refer to their SOP on unauthorized RMAs. This RMA will create a Return Receipt, that will be processed in the same manner as a Normal Receipt. The differences between a Normal Receipt and a Return Receipt are the Disposition Codes that can be assigned to the LPN either at the Receipt Header level (Sent by the Customer), or by the Receiver at the time of Receipt in the RF Device. The Disposition is the Reason Code as to why the shipment was returned. This code is transmitted back to the client when the Return Receipt is closed. The second difference is that all Returns are received on to RTRN Hold, unless determined otherwise by the client. This can be removed once the Client has approved the return for sellable stock. The RTRN hold is also used to help segregate RTRN stock from Normal stock until the RTRN is removed. HELIX uses this hold to suggest assigned Zones\Locations for putaway for RTRN Product. HELIX has a Return Receipt Report that can be generated to list only Returns Receipts received for a date range. The report will list out Receipt, receive date, RMA#, SKU, QTY and Disposition code assigned to the LPN. An Inventory Hold Report can be generated out of BOBJ for all inventory that is on RTRN hold.

Inventory maintenance and tracking

Control objective 5 — inventory maintenance and tracking

Controls provide reasonable assurance that inventory is accurately maintained and reported on a timely basis and changes to the inventory balances are authorized.

Inventory counts and adjustments

SCS conducts inventory counts to compare the physical inventory on hand against the inventory listed in the WMS (HELIX and GWS). Inventory counts can be regularly scheduled, requested by the client, or initiated by SCS for a variety of reasons, as described below.

Cycle counting/Full Physical Inventory

Cycle Counts and/or physical inventories are performed on a frequency determined by the client. Unless a less frequent count is requested by the client, all SKUs and /or product locations are counted on at least a quarterly basis. If discrepancies are noted during the cycle count process and are confirmed, the discrepancy is recorded in GWS in a timely manner. The agreed-upon frequency is outlined in each client's work instructions and/or client specific form referred to in the client's work instructions. The distribution center manager is responsible for establishing and enforcing an inventory count routine which complies with the client's specific work instructions. The types of inventory count requirements generally fall into the following categories:

- **Daily active location** — GWS and HELIX have the ability to generate an active locations report for the day. Some clients require that each active location for the day be counted. The report will show all of the locations which were put away to, replenished to/from or picked from. The report will not show locations that did not experience any activity that day.
- **ABC schedule** — GWS and HELIX has the ability to generate a counting schedule based on products being ranked either A, B or C. A type products would be those that the client wants counted most frequently, B types would be counted less frequently, and C types counted the least frequently. Product classifications are determined by the clients and reviewed periodically to ensure that they remain appropriate based on the level of product activity.

- **Part based** — Certain clients establish a time frame in which they require that all parts stored by SCS be counted on a periodic basis such as every six months. In addition to the time frame, the count basis can be established based on pick activity, such as every 500 picks. How this requirement is achieved is up to the DC management. HELIX has the ability to schedule Cycle Counts based on this criteria.
- **Triggers** — Cycle counts can also be triggered by various events within the WMS (GWS and HELIX) like short picks, picking to zero quantity and so on.

Inventory investigation

An inventory investigation count is prompted by an issue relating to shipping such as an over shipment or under shipment. It could also be the result of a discrepancy noted during the picking process. Upon the discovery of an issue, the inventory analysts count locations that can be identified as the source of the problem. The inventory analyst then completes the warehouse investigation portion with the appropriate documentation listing the findings of the investigation. Examples of appropriate documentation include, but are not limited to, an exception report, customer error log or Inventory Control Department sheet. Regardless of the type of count, the inventory analyst determines the items or locations to be counted with the help of the WMS modules. There are two count methods: a paper-based environment and a paperless/RF environment. In HELIX all counts are paperless.

In a paper-based environment, the inventory analyst either conducts the count or designates a warehouse employee to conduct the count. The counter is issued an inventory count report from WMS to record the results of the count. After the count is conducted, quantities are reconciled between WMS and the physical inventory. When a discrepancy is noted between the quantity physically counted and the on-hand quantity reported by WMS, a second count is performed by an independent individual to validate the findings. If the count is validated, an adjustment is made with a completed inventory adjustment form. This form includes the part ID, lot number, quantity to be adjusted and the appropriate approvals. The approvals required by each client for inventory adjustments and the timing of the approvals, if applicable, are outlined in the respective work instructions. Appropriate approvals, as defined by the client, are obtained for inventory adjustments.

In a paperless environment, the inventory analyst either conducts the count or designates a warehouse employee to conduct the count. The counter will log into the RF equipment and select the cycle count function. The RF equipment directs the employee to the location which requires counting. The counter will scan the location identification label. If the counter scans the incorrect location, the RF equipment notifies the counter of the error. Once the correct location is scanned and the SKU/Case ID, the Batch and SKU Description will appear on the RF equipment. The RF equipment will request the counter to enter the number of units found in the location. If the product has multiple packaging levels such as a case and a box level, the counter enters the number of cases and the number of additional individual units. If the physical quantity entered into the RF equipment matches the systematic quantity in WMS, the RF equipment assists the individual who is counting the inventory and will display the next location requiring a cycle count. The cycle count will then be listed as processed in the system. If the physical and systematic counts are different, then the RF equipment will notify the counter of an error and request the counter to verify the information which was previously entered. The counter will verify the count. If the counts still do not match, the count record for that particular SKU, lot, expiration date and quantity at that location will be recorded and the stock level will be adjusted once the count record is approved by the inventory analyst. A cycle count report is generated and any discrepancies which are listed on the report will be documented on an adjustment form. For client's setup to receive inventory adjustment confirmations via EDI transmissions, an EDI 947 adjustment confirmation message is sent to the client when an inventory adjustment is made in the system. The inventory analyst will generate another cycle count request in WMS to be completed for the discrepancy. A second individual will follow the same process as the first counter and will count the location as a second verification. In the GWS system, this cycle count discrepancy can automatically trigger the discrepant quantity to be placed on hold as well as the generation of a second cycle count task. In HELIX the only time a location is placed on hold is when an Emergency Count has been triggered via the RF gun when a picker marks an over ridden location as "Empty" or "Damaged".

In GWS and HELIX environment, the cycle counts are usually performed "blind." The counter does not have visibility to the inventory stock level listed in WMS. Counts requesting non-sellable hold codes in GWS are not to be performed by the RF device; and products associated with a non-sellable hold code cannot be adjusted without prior authorization from client QA personnel and SCS QA personnel. In HELIX, counts requesting non-sellable hold codes can be performed through the RF device utilizing a Cycle Count Schedule created specifically for the requested hold code, or for all non-sellable hold codes in non-sellable locations.

SCS segregates products stored within their facilities by client to better facilitate counts and overall inventory accuracy. GWS and HELIX tracks the client owner and location of products within the warehouse.

Inventory accuracy trending

GWS tracks inventory accuracy based on the number of locations counted during a particular period and the number of resulting adjustments. SCS distribution center management reviews inventory accuracy trending at least monthly to ensure that warehouse processes are functioning properly.

In HELIX Users can run Cycle Count reports that will list out and detail the locations and SKUs that were counted. Users can use this report to track the accuracy on the location level, SKU level, and total count accuracy

Hold adjustments

These adjustments involve a change in a product's status in WMS and are referred to as status changes. Product statuses fall into two major categories: 1) Saleable inventory and 2) non-sellable inventory. Clients utilize the ability to place product into a hold status to manage various aspects of inventory including preventing damaged inventory from being picked and shipped, holding a particular lot until another portion of the product sells for expiration date reasons, etc. Agreed upon procedures relating to inventory status changes are outlined in each client's work instructions. Clients generally do not require approvals for product to be placed into a hold status, but clients and the QA department do require approval from the client's QA personnel and SCS QA personnel, prior to product being released from a non-sellable hold to saleable inventory. Clients generally do not require approval for product which is being released from a sellable hold category. Appropriate approval, as defined by the client, is obtained prior to the product being released from a hold status.

Inventory trace

The inventory trace function in GWS provides the history of the transactions performed to move the product. An inventory trace is used in order to investigate discrepancies or to trace inventory. WMS provides the Activity Tracking Function in GWS that shows transactions by part, PO, sales order, ship to customer, location and user. Detail lines capture the transaction performed, time and date it was entered and the user who completed the transaction.

Transaction History in HELIX will detail all transactions for a SKU, LOT, and LPN levels.

Shipping

Control objective 6 — shipping

Controls provide reasonable assurance that goods shipped are recorded and reported completely and accurately on a timely basis.

In SAP, customer orders are received by SCS through EDI transfers from the client or customer or entered into SAP by the SCS CSR. If SCS is responsible for confirming the order, the CSR takes the necessary steps to confirm the order. Address format verification and drug license checks are examples of the verification done by the CSR. If orders are sent to SCS by the client in a confirmed status or once they are confirmed by the CSR, the order drops into the WMS module for picking.

Once dropped into WMS, the order can be viewed and assigned for picking. An order control associate assigns orders for picking and forwards/waves them to the pickticket inquiry pool based on certain criteria such as: carrier level, service level, part number, same ship to address, etc. The quantity of the product picked thereafter appears as "Pick Assigned" in WMS. In HELIX, the Operation could utilize WES (Warehouse Execution System) to auto wave incoming orders based on parameters set up by the Operation and Client needs.

Some clients request SCS to create manual orders directly in GWS (WMS). As these orders are not processed through the SAP order-to-cash application, there are no systematic controls in place to prevent order entry for customers outside of the master file. As such, SCS Corporate performs an annual review of all GWS (WMS) manual orders across all in-scope clients to ascertain these manual orders were appropriate and authorized. Management will follow up with the responsible operations management personnel for additional explanations, as needed. Manual Orders are not utilized currently in HELIX, and all orders are processed to HELIX through GHOS (SAP).

Most warehouse associates use RF devices to conduct the picking process for both systems, although sometimes this process is still performed manually. In addition, some facilities using GWS and HELIX and their RF devices utilize the Pick-to-Light (PTL) pick-pack process.

In GWS, the RF device communicates with WMS to determine the proper picking location for the product. In the GWS PTL environment, the warehouse associate scans the global license pallet (GLP) box label and a light directly under the specified bin becomes lit. The GWS system prevents the picker from picking a product/SKU which is on hold or from a location other than the bin/SKU specified by the RF device. After the picker types in the correct location in the RF device or after scanning the GLP box label (for the PTL environment), the picker picks each unit requested. GWS and HELIX have the capability of scanning the bar code product label if the product information and format contained on the label is uniform for all of that client's products. The picker performs a visual validation of the part ID, lot number and quantity prior to removing the product from the location and confirming the product on the RF device. In GWS and HELIX with PTL picking, the button below the light must be pressed after the product is picked before the next order is processed. In WMS, on-hand inventory for the product is decremented real-time upon picking and is no longer available for allocation.

Some facilities print the pick/pack list after picking and some print the pick/pack list at the time of order release. In GWS the pick document prints at the time of order release and the packing list prints when the last carton in that order is systematically "shipped". The order is now in a 'weighed' status, depending on the type of order, and the order can now be viewed in the WMS shipping pool. At this point, a quality control (QC) check is performed on the order, which entails confirming the parts, lot numbers, expiration dates and quantities of the products picked for the shipment match the pick/pack list. This QC check is performed by an employee other than the picker. At most facilities, the employee performing the QC check also signs-off on the pick/pack list and either packs the shipment or if the shipment is correct, another employee will process the order for shipment by scanning the carton contents label. Once the label is scanned a packing slip will print and will either be placed inside the container or will be attached to the outside of the container concealed in a packing slip envelope. The container will then be sealed, or the pallet will be wrapped for shipment if it is an LTL shipment.

In HELIX the Wave Planner or Warehouse Execution System will wave orders based on preset criteria. The wave will create tasks that can be accessed for picking via the RF Device. The Picker will input the proper criteria in the RF Device and be given tasks to complete based on that criteria. The Picker will then be directed to what box types to use, assign the preprinted SCNs, and begin picking that cluster of pick tasks until the cartons are complete and all picks have been completed. All orders on that task move from 'In Picking" to "Pick Complete". The completed picked cartons are then QC'd by someone other than the picker in the RF Device. The SCNs are locked and unshippable until a successful audit is complete. Once the audit is complete, the SCN is unlocked and ready for packing. The carton is then moved to a Pack Station where a user will scan the SCN into the WMS, verify the information on the screen, and "Pack" the carton. The tracking label is printed and placed on the sealed carton, and if it is the last SCN on the Order, a pack list will print. The Order is not in "Pack Complete" status.

SCS has the ability to cartonize outbound orders. Depending on the client and the work instructions associated with that particular client, the warehouse associate will notate which shipping carton and pallet each unit requested on the order has been placed. The order is cartonized systematically in WMS and a label specific to each carton and pallet will be printed and applied to the appropriate carton/pallet.

Progressing further through the shipping line, the shipper confirms that the physical number of pallets or boxes matches the number indicated on the pick/pack list by the quality checker to determine that the complete order has progressed through the process. The shipper will utilize the shipping system to verify the shipping information entered or uploaded into the system and that the order matches the information listed on the office copy of the packing slip. This is done to complete the shipping process in the system. Next, the shipper prints the shipping label. Once the shipping label is printed, it is attached to the shipment. The boxes or pallets are then placed in a designated location for pickup by the carrier. Once the order is staged for shipping, it is now in a 'weighed' status and the order can be viewed in the WMS shipping pool.

In HELIX all LTL / TL orders are staged systemically into a stage lane where they will be audited, wrapped, and labeled. Once the shipment is ready it will be placed on a "Truck". This Truck is a systematic representation of a LTL Truck, and the user can put any orders that will be picked up by that Truck on it. The Pro Numbers are assigned to each order individually. The Truck cannot be closed until the pallets, or SPNs, are loaded on to the trailer via the RF Device. The user is able to input the trailer number and dock door number

as well as the seal number for the trailer for that particular Truck. Once loaded all the orders on the Truck are in "Loaded on Truck" status. The orders associated with that Truck cannot be closed until they are systemically loaded onto the truck.

Once orders have been loaded on a carrier trailer and are ready to leave the distribution center, they are dispatched in the WMS system through the shipping pool and ready to be invoiced. Some small shipments are also dispatched in WMS when they are ready to be shipped, but prior to the time when they are loaded on a truck. Only orders in a "weighed", or "pack complete" status for orders in GWS, and "Loaded" in HELIX can be invoiced as these are the appropriate invoice statuses in GWS. GWS and HELIX prevent orders from being dispatched/invoiced in WMS without a carrier tracking number or Pro Number. The BOLs for LTL and FTL shipments are provided to the contracted carrier and the shipments are ready to leave the facility once the carrier signs or stamps the copy which is retained by SCS. LTL and FTL shipments are not dispatched/invoiced in WMS until they have been loaded on the carrier vessel and the carrier has signed a copy of the BOL. Carriers are selected and contracted directly by SCS clients.

When a shipment is dispatched in WMS, a shipping confirmation is sent to the client via an EDI 945 (warehouse shipping advice) message. Shipping supervisors monitor active orders in the WMS shipping pool to confirm that orders which have been physically shipped have been dispatched within the WMS. Based on the client's service level, the order is then invoiced by SCS or sent via EDI to the client for invoicing. When orders cannot be fulfilled due to a lack of inventory, there are three scenarios that could take place depending on the client. The three scenarios are described below.

- The order is filled with available items and the remaining items are put on backorder. SCS ships available items and backordered items are put on hold. Once SCS has the inventory to fulfill the order, the backordered items are sent to completely fulfill the order.
- The client does not want SCS to send incomplete orders to its customers; therefore, the order is placed on hold until SCS is able to fulfill the entire order. For these clients, the system is configured not to allow partial shipments.
- SCS places the order on hold and contacts the client to see how the client would like to proceed with the order.

Physical security — distribution centers

Control objective 7 — physical security — distribution centers

Controls provide reasonable assurance that inventory is secured and protected from unauthorized access and use.

Facilities are designed based on a number of requirements including efficiency of operation and premises protection. Facilities are protected by systems that include centrally monitored alarm systems, access control systems and fire detection systems. Where appropriate and/or required, these systems have been reviewed with local and/or Federal DEA and state agencies. Physical licenses, where required, are maintained on site at each facility.

Access

Each distribution center is constructed of brick, block, or concrete walls. Distribution Centers have sealed concrete floors and access doors are locked or physically monitored. The roof may only be accessed via internal means and there are no external ladders. The main entry of each facility opens into a controlled foyer. Visitors are required to sign in and out. Visitors must be escorted while in the facility. Employees enter the facility through the same door. No visitor or employee is permitted to enter or exit the facility via a dock or other warehouse door. Access to the building and certain areas is restricted via magnetic key cards or punch code and is limited to active employees.

The warehouse is a controlled environment. The warehouse has a number of truck rollup doors, which are kept closed except when loading or unloading a truck. Warehouse pedestrian fire doors are kept locked from the outside and are identified as being alarmed and for emergency use only. Drivers must identify themselves at the drivers' entry. Entry is denied until identification and purpose is determined. Drivers must present photo government ID for inspection at the guard house before entering the yard. Drivers must present photo government ID a second time at the dispatch office before taking possession of a load of entering the warehouse. Drivers are required to remain in the loading area near their vehicles and are escorted if there is a requirement to come into the office.

Facilities operating hours are determined by the distribution center manager to meet business needs. Personnel are assigned as required. Temporary employees are prescreened and drug tested by the supplying agency.

SCS management requires that a security and safety audit is performed by a member of management on a regular basis. As such, a member of management performs, among other things, a test of alarm sensors throughout the facility at least once per quarter.

Some facilities have a controlled substance area that is subject to inspection and approval by the DEA. The DEA vault is a restricted area. Access must be authorized by Operations or QA. Once an employee is authorized, security is responsible for issuing access into the vault. A list of authorized personnel is posted at the cage and vault entrances and is reviewed on a regular basis to ensure accuracy. The cage contains Schedule 3 through Schedule 5 drugs. The vault contains U.S. Schedule 2 drugs. SCS does not distribute Schedule 1 drugs. If the facility contains a DEA vault, it is located within the DEA cage and is protected by heat and motion sensors.

After-hours access is prohibited for staff level employees (supervisors and leads have access). The facilities are protected by an alarm system that is monitored by a central, ULC certified station. Unauthorized access to the protected premises results in an alarm condition in which both the local police and a member of management are notified (police are only notified in response to panic alarms or if the alarm calls are not responded to by call-list personnel). However, after-hours access may be authorized when required for a business purpose. Such access requires pre-notification to security or the alarm company by a designated authority.

Each facility is protected by a 24-hour burglar/fire alarm system. The systems are designed to detect after hours unauthorized entry as well as daytime violations of restricted areas or use of unauthorized entry/exit devices.

The alarm systems are designed to meet the requirements of each individual facility. The systems, at a minimum, include motion detection devices, door contacts, tamper-proof control units and video surveillance equipment. If a controlled substance cage or vault is included, the protection specified is designed to meet requirements of Code of Federal Regulations (CFR) 21 Part 1301 (relating to Physical Security). The systems for the cage and/or vault are redundant and qualify for Underwriters Laboratories (UL) Certified Level AA. UL AA certification provides evidence that certain levels of protection and best practices are being employed and maintained at the facility. Other physical security measures include electronic codes or card access readers at facility entrances.

A UL-approved central station monitors the protection systems. Protection systems are zoned to allow the central station to identify the point where a breach has occurred. Those facilities with a cage and/or vault have a separate control unit for the controlled substance areas allowing for independent operation and monitoring.

Fire alarm systems are 24-hour detection systems and cannot be turned off. Minimum protection at each facility includes water flow devices, tamper detection, open stem and yoke valve devices and pump monitoring devices. Facilities have warning horns to notify employees of a fire or water leak. Also, each facility is equipped with the required number of fire extinguishers and other emergency equipment. The fire systems are tested at regular intervals as required by local and state ordinance.

Alarm procedures carried out at each facility include alarm device testing quarterly and management review of open/close reports. The alarm company is supplied with a current emergency call list and there is a rotating pager procedure in place for management notification in case of an emergency. Written procedures require management to respond to each alarm call and to remain on site until the system has been restored and/or the situation is resolved, and the facility is again under protection.

During hours of operation at least one member of the management team must be on site. No employee is allowed to carry personal property into the warehouse and no property may be removed from the warehouse without management permission. Employees are required to enter and exit the warehouse through designated doors and persons or property entering the facility are subject to search. Keys or numerical pass codes are changed when a key, badge or code holder leaves the Company or is transferred.

Healthcare compliance

Control objective 8 — healthcare compliance

Controls provide reasonable assurance that management monitors compliance with Health Canada, Netherlands Ministry of Health, Singapore Health Sciences Authority, Poland Chief Pharmaceutical Inspectorate, Philippines Food and Drug Administration, India Central Drugs Standard Control Organization, U.S. Prescription Drug Marketing Act (PDMA), Drug Enforcement Administration (DEA), Food and Drug Administration (FDA), and U.S. state and local regulations.

SCS monitors regulatory compliance with multiple agencies. Movement and storage of the inventory, as well as the construction of the buildings where inventory is warehoused, are subject to regulatory review. Computer systems are validated to ensure regulated data is captured and maintained in a manner to ensure global compliance requirements. Each distribution center has an assigned QA representative that is responsible for determining that the distribution center is complying with the established UPS SCS Healthcare quality system, which is developed to satisfy both internal and regulatory requirements.

Distribution center management and the QA representative perform self-assessments of the healthcare facilities at least every three years. The self-assessment is comprehensive and includes a review of procedure checks, storage facilities, and required documentation. The self-assessment is designed to monitor compliance with the established UPS SCS Healthcare quality system, and to satisfy operational and regulatory requirements that govern each distribution center. The edits that occur during order entry, shipping and the inventory processes provide checks/balances so that a high level of data integrity occurs for reporting detail on lot tracking and inventory reconciliations, and for reporting information to the U.S. Federal and U.S. State Government, Health Canada, Dutch Ministry of Health, Poland Chief Pharmaceutical Inspectorate, Philippines Food and Drug Administration, India Central Drugs Standard Control Organization, or Singapore Health Sciences Authority, as applicable.

Facilities

Buildings are constructed to facilitate cleaning, maintenance and proper operation. Facilities provide adequate lighting, ventilation and regulated temperature. Changes and enhancements are made to each facility as required to keep them in compliance with laws and regulations and to keep them safe and secure from theft. Periodic preventive maintenance is performed on select product-impacting equipment. Preventive maintenance is performed by trained personnel, is documented and is monitored specifically by the Facilities Engineering Department or branch designee.

Quarantined product is clearly marked (e.g., bagged/placarded), and if space constraints allow, is physically separated from sellable inventory. The GWS and HELIX applications provides features for inbound shipments to be received in a quarantine/quality hold status and put away directly to designated areas, with the appropriate hold code or location lock code placed on each item in the system per each client's specific work instructions and the Corporate Healthcare SOPs. These inbound shipments may be distinguished after receipt by placement of a red quarantine label (International) or a red bag with Non-Sellable printed on it (US), on each pallet. All non-sellable product is also on hold systematically. Once release documentation is received from the client QA, the product is released in the system.

Products are maintained in a clean and orderly condition by warehouse associates assigned to specific housekeeping areas. Members of the sanitation committee monitor the housekeeping assignments and results and communicate discrepancies to management.

Security

Refer to Control Objective 7 — physical security — distribution centers.

Examination of product

It is the responsibility of the receiving associate to examine inbound shipments. The receiving associate verifies that trailer seals are intact upon arrival and the product has not been stored with unauthorized materials (e.g. hazardous product). If a delivery is deemed unfit for distribution, the clerk takes a photograph of the shipment. Supervisors are informed of discrepancies involving acceptance of shipments. After unloading the shipment, the clerk inspects the freight for damage, and if damage is detected, a notation is put on the truck BOL. After completing notations and inspections, the clerk signs the truck BOL. If a delivery is deemed unfit for acceptance/distribution while on the truck or once in the facility, the associate notified management immediately for further direction/disposition instruction.

Outgoing product is inspected before it is released for shipment. It is the responsibility of the order selector to perform the product quality inspection. The product should not be soiled, the packaging must be intact and the product must have appropriate expiration dating. The employee responsible for the outbound provides a double check of the order before final boxing/wrapping for shipment. Shortages that are discovered are brought to the attention of the supervisor or designee and corrections are made.
Returned products are received into a hold status. The hold status can be return hold (for products that are not physically damaged and are not expired or close to expiration) or return damaged hold (for products deemed not saleable). Returns are processed according to the following return procedures:

- Unauthorized return information is logged (carrier name, shipment tracking number, shipper address, client, date) by a returns associate.
- Each return is issued an RGA number. Some clients provide this number, if not; the returns associate creates an RGA utilizing the number that GWS assigns.
- The authorization number remains associated with the return.
- The client decides how returns should be handled with the information documented in the work instruction or the client is forwarded the information regarding the return and makes the decision, in writing, as to when or if the product may return to good status.
- Unauthorized Returns Process does is not currently supported in HELIX. All Returns must be resolved with the Client and a RMA or Receipt will need to be provided in order to put the stock into the WMS

Expired product

When applicable, short-dated (SD, RRSD) or expired (EX, BLEX) product is reported to the client via the inventory representative. A system-generated report is forwarded to the client (monthly) to indicate inventory status. Per the client specific work instructions, SD/RRSD product is manually placed on hold in GWS, and systemically placed on hold, then report transmitted to client; EX/BLEX product is automatically placed on hold and report transmitted to the client. The system allows for certain lots, quantities and parts to be placed on hold. If authorized in writing, product deemed not saleable can be destroyed. The client is provided with a list of products in hold status and the client determines the products to be destroyed. The client Work Instructions or Procedures Manuals detail the process for destroying product. After destruction, the client is forwarded confirmation. The SCS facility retains records in the system of transactions outlined above. The company who manages the destruction process (holds the contract with the destruction company) is responsible for acquiring and distributing the Certificate of Destruction provided by the destruction company after disposal, UPS must always have a copy of the certificate of destruction. In the case of controlled substances and the client managing the destruction process, a copy of the Certificate of Destruction must be provided to SCS for record retention as well.

Record keeping elements refer also to Control Objective 5 — inventory maintenance and tracking

Receiving

The GWS system provides detailed recording features. Inbound shipments have a PO number automatically assigned if required by the customer. An ASN number is automatically created from the PO. In GWS, a receiving report is generated. In GWS, an ASN variance report is created and will display any variances between the quantities listed on the ASN and the quantities received. An alternate receiver reviews the ASN variance report in GWS and closes the ASN if there are no discrepancies. The reconciliation report is forwarded to the CMA/CSR. The CMA/CSR submits to the client a report containing relevant shipment information (e.g., shipper name and address, receipt date, receipt units and lots).

The HELIX WMS provides detailed recording features. A receipt is created for every ASN. Currently PO Creation is not available in HELIX. There is an ASN Variance report that details any variances between qtys listed on the receipt when it is closed. This report is utilized by Operations Management to verify that all qtys match when the receipt was closed, and note any variances that may have existed and approved prior to closing.

Inventory

Operations management must approve the inventory adjustments for certain clients, prior to entering them into the system. An inventory representative investigates the adjustments. Cycle counts are completed according to client specific Work Instructions or Procedures Manuals. Variances from system to physical counts

are researched. Finally, if required by the client, they are notified or receive system generated inventory reports. The system tracks all inventory adjustments.

Shipping

Outbound product is recorded in the system utilizing control ID numbers. Each shipment is produced on a pick/pack document. The pick/pack contains the unique control ID number. After a shipment has been dispatched the control ID information, including the ship-to address and name, shipment date, product shipped, order selector, lots and quantities and expiration dates can all be used to trace the shipment, if necessary. Hard copy records are maintained for a minimum period of seven years and maximum of indefinitely based on product type in Canada, fifteen years in Singapore, eleven years in the Netherlands, and a minimum of two years and a maximum of indefinitely based on product type as well as client specific Work Instructions in the U.S.

Section IV: Management's Description of Its Control Objectives and Related Controls, and Independent Service Auditor's Description of Tests of Controls and Results

Section IV:
Management's Description of Its Control Objectives and Related Controls, and Independent Service Auditor's Description of Tests of Controls and Results

Introduction

This report on the description of the system is intended to provide user entities and their auditors with information for their evaluation of the effect of a service organization on a user entity's internal control relating to UPS SCS's controls over its order to cash and healthcare distribution center controls at the Company's various distribution and finance centers system during some or all of the period January 1, 2023 through September 30, 2023.

This section presents the following information provided by UPS SCS:

- The control objectives specified by the management of UPS SCS.
- The controls established and specified by UPS SCS to achieve the specified control objectives.

Also included in this section is the following information provided by Deloitte & Touche LLP ("Deloitte & Touche" or "D&T"):

- A description of the tests performed by Deloitte & Touche LLP to determine whether UPS SCS's controls were operating with sufficient effectiveness to achieve specified control objectives. Deloitte & Touche LLP determined the nature, timing, and extent of the testing performed.
- The results of Deloitte & Touche LLP's tests of controls.

Our examination was conducted in accordance with the American Institute of Certified Public Accountants' (AICPA) Statement on Standards for Attestation Engagements No. 18 (SSAE 18) and International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organization, issued by the International Auditing and Assurance Standards Board. SSAE 18 is inclusive of the following: (1) AT-C 105, Concepts Common to all Attestation Engagements; (2) AT-C 205, Examination Engagements; and (3) AT-C 320, Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting. Our testing of UPS SCS's controls was restricted to the control objectives and related control activities listed in this Section IV and was not extended to controls described in Section III but not included in Section IV, or to controls that may be in effect at user organizations or subservice organizations.

It is each user's responsibility to evaluate the information included in this report in relation to internal control in place at individual user entities and subservice organizations to obtain an understanding and to assess control risk at the user entities. The controls at user entities, subservice organizations, and UPS SCS's controls should be evaluated together. If effective user entity or subservice organizations controls are not in place, UPS SCS's controls may not compensate for such weaknesses.

Control environment elements

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for other components of internal control, providing discipline and structure. In addition to the tests of design, implementation, and operating effectiveness of controls identified by UPS SCS, our procedures included tests of the following relevant elements of UPS SCS's control environment:

a. Communication and enforcement of integrity and ethical values
b. Commitment to competence
c. Participation by those charged with governance
d. Management's philosophy, and operating style

e. Organizational structure
f. Assignment of authority and responsibility
g. Human resource policies and practices
h. Risk assessment
i. Information and communication
j. Monitoring

Such tests included inquiry of the appropriate management, supervisory, and staff personnel; observation of UPS SCS's activities and operations, inspection of UPS SCS's documents and records, and re-performance of the application of UPS SCS's controls. The results of these tests were considered in planning the nature, timing, and extent of our testing of the control activities described in this section.

Tests of operating effectiveness

Our tests of the controls were designed to cover a representative number of transactions throughout the period from January 1, 2023 through September 30, 2023. In determining the nature, timing and extent of tests we considered, (a) the nature and frequency of the controls being tested, (b) the types of available evidential matter, (c) the nature of the control objectives to be met, (d) the assessed level of control risk, (e) the expected effectiveness of the test, and (f) the results of our tests of the control environment.

Description of testing procedures performed

Deloitte & Touche LLP performed a variety of tests relating to the controls listed in this section throughout the period from January 1, 2023 through September 30, 2023. Our tests of controls were performed on controls as they existed during the period of January 1, 2023 through September 30, 2023 and were applied to those controls specified by UPS SCS.

In determining the nature, timing, and extent of tests, we considered (a) the nature and frequency of the controls being tested, (b) the types of available evidential matter, (c) the assessed level of control risk, (d) the expected effectiveness of the test, and (e) our understanding of the control environment.

In addition to the tests listed below, we ascertained through multiple inquiries with management and the control owner that each control activity listed below operated as described throughout the period. Tests performed are described below::

Test	Description
Corroborative inquiry	Conducted detailed interviews with relevant personnel to obtain evidence that the control was in operation during the report period and is accompanied by other procedures noted below that are necessary to corroborate the information derived from the inquiry.
Observation	Observed the performance of the control during the report period to evidence application of the specific control activity.
Examination of documentation/inspection	If the performance of the control is documented, inspected documents and reports indicating performance of the control.
Reperformance of monitoring activities or manual controls	Obtained documents used in the monitoring activity or manual control activity, independently reperformed the procedures, and compared any discrepancies identified with those identified by the responsible control owner.
Reperformance of programmed processing	Input test data, manually calculated expected results, and compared actual results of processing to expectations.

Reliability of information produced by the Service Organization

We performed procedures to evaluate whether the information provided by the service organization, which includes (a) information in response to ad hoc requests from the service auditor (e.g., population lists), and (b) information used in the execution of a control (e.g., exception reports or transaction reconciliations), was sufficiently reliable for our purposes by obtaining evidence about the accuracy and completeness of such information and evaluating whether the information was sufficiently precise and detailed for our purposes.

Our procedures to evaluate whether this information was sufficiently reliable included procedures to address (a) the accuracy and completeness of source data, and (b) the creation and modification of applicable report logic and parameters. While these procedures were not specifically called out in the test procedures listed in this section, they were completed as a component of our testing to support the evaluation of whether or not the information is sufficiently precise and detailed for purposes of fully testing the controls identified by the Service Organization.

Reporting on results of testing

The concept of materiality is not applied when reporting the results of control tests because Deloitte & Touche LLP does not have the ability to determine whether an exception will be relevant to a particular user entity. Consequently, Deloitte & Touche LLP reports all exceptions.

Independent Service Auditor's Description of Tests of Controls and Results

Objective - 1 Order Processing: Controls provide reasonable assurance that sales orders are authorized by the client and processed completely, accurately, and on a timely basis.

Control Title	Control Activity	Test Procedures	Results of Tests
1.1	New customers and changes to existing customers are approved by the client along with their associated credit limits prior to being added to SAP. Recorded customer master data changes are compared to authorized source documents to validate the data was input accurately.	1. Conducted inquiries with customer care management to determine whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of changes to the customer master file to determine whether clients approved new customers and changes to existing customers along with their associated credit limits (if applicable) prior to updates being added to SAP. Additionally, inspected supporting documentation to determine whether the customer set-up(s) in the system accurately matched the update requested.	No Exceptions Noted
1.2	SAP prevents sales orders from being processed for customers that do not exist in the client's Customer Master Files, unless otherwise requested by the client. For clients who request UPS to process one-time orders for customers outside of the master file, client approval must be obtained prior to processing orders.	1. Conducted inquiries with customer care management to determine whether the control activity was in place throughout the examination period. 2. Observed an associate creating a sales order at the Newark Finance Center to determine whether SAP automatically prevented the sales order from being processed for customers that did not exist in the client's Customer Master File without using command X10000. 3. As 'one-time' orders can be processed in SAP outside of the customer master file using ship to of X10000 (at the request of the client), selected a sample of 'one-time' orders processed to determine whether each order was appropriately approved by the client.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
1.3	The system places sales orders on hold which exceed the customer's established credit limit in SAP.	1. Conducted inquiries with customer care and accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected system settings to determine that credit limit checks are configured in SAP. For one sample in-scope client inspected system screens of on-hold orders and order details to determine whether SAP automatically compared customer's credit limit recorded in SAP to actual credit balance and placed orders, and automatically put sales orders on hold when the comparison resulted in balances and pending orders that were greater than the customer's credit limit.	No Exceptions Noted
1.4	For clients who require it, the system places customers on hold who have outstanding receivables which have aged past the threshold determined by the client.	1. Conducted inquiries with customer care and accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected system settings to determine that age limit checks are configured in SAP. For a sample in-scope client, examined system screens of age hold configurations as well as an on-hold order and order details to determine whether SAP automatically places customers on hold when their outstanding receivables are aged past a threshold determined by the client.	No Exceptions Noted
1.5	Sales Orders which are placed on hold are reviewed daily and resolved timely (typically within 3 business days).	1. Conducted inquiries with customer care and accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of sales orders that were placed on hold, to determine whether orders placed on hold were reviewed and resolved timely.	No Exceptions Noted
1.6	Appropriate approval as defined by the client is obtained prior to orders being released from credit hold.	1. Conducted inquiries with customer care and accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of credit hold orders to determine whether appropriate approvals, per client work instructions, were obtained prior to the credit hold release of each selected order.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
1.7	Invoices are calculated completely and accurately based on the product prices and quantities from the sales order.	1. Conducted inquiries with customer care and accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. For a sample in-scope client, inspected SAP screens to determine whether SAP systematically calculated invoices. 3. For a sample in-scope client, reperformed the SAP invoice calculation based on the product price and quantities entered in the related sales orders to determine whether invoices were calculated correctly.	No Exceptions Noted
1.8	New product pricings and changes to existing prices in the product master file are authorized by the appropriate client.	1. Conducted inquiries with customer care management to determine whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of new product/price setups and changes to existing pricing contracts to determine whether appropriate approvals, in accordance with client instructions, were obtained for each of the selections.	No occurrence There was zero base pricing creates and changes and zero pricing agreement creates and updates during the testing period.
1.9	Invoice numbers are automatically and sequentially generated and assigned by SAP.	1. Conducted inquiries with customer care management to determine whether the control activity was in place throughout the examination period. 2. Inspected SAP system settings to determine that the system is configured to automatically generate sequential invoice numbers.	No Exceptions Noted
1.10	Work Instructions or Procedures Manuals detailing aspects of Customer Service management for client service are documented and followed for processing client transactions.	1. Conducted inquiries with customer care management to determine whether the control activity was in place throughout the examination period. 2. Inspected Work Instructions and Procedures Manuals for each in-scope client to determine whether customer care management aspects were documented and followed for processing client transactions.	No Exceptions Noted

Objective - 2 Accounts Receivable Management: Controls provide reasonable assurance that accounts receivable processing and cash collections are authorized, complete, accurate, and remittances are applied accurately on a timely basis.

Control Title	Control Activity	Test Procedures	Results of Tests
2.1	Work Instructions or Procedures Manuals detailing aspects of A/R management for client service are documented and followed for processing client transactions.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected Work Instructions and Procedures Manuals for each in-scope client to determine whether A/R management aspects were documented and followed for processing client transactions.	No Exceptions Noted
2.2	Clients are assigned an A/R Associate or A/R team that is responsible for activity relating to that client.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Observed organizational charts and job titles / responsibilities to determine that an A/R associate or A/R team member was assigned to each client.	No Exceptions Noted
2.3	Write-off tolerance levels for processing transactions in SAP are approved by the client and documented in SOP's or Work Instructions.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected Work Instructions or advance notices from the in-scope clients to determine that write-off tolerance levels are approved by the client and documented in Work Instructions.	No Exceptions Noted
2.4	Appropriate approval as defined by the client is obtained for write-offs which exceed the client approved tolerance limits.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. For a sample of write-offs, obtained the related client work instructions to understand the required approval for the write-off to be processed. Obtained and inspected evidence of approval to determine whether the approval was consistent with the requirement documented in the client work instructions.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
2.5	The A/R account balance is automatically decreased when cash is applied.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Observed cash being applied to a customer account in SAP to determine that the related A/R account balance within SAP automatically decreased by the applied amount.	No Exceptions Noted
2.6	An A/R associate performs a daily reconciliation of posted cash receipts to the Advice statement of remittances deposited to the lockbox to determine that remittances posted to the lockbox are posted to the A/R accounts in SAP. Daily reconciliations are reviewed by management.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. For a sample of days, inspected reconciliations of posted cash receipts to the Advice statement of remittances deposited to the lockbox to determine that reconciliations were performed by an A/R associate and approved by management for each of the days selected for testing.	No Exceptions Noted
2.7	A/R Associates review unapplied cash on a daily basis to determine that payments are properly applied.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected a sample of open invoices from client AR Aging reports (SAP) noting that timely follow-up has been completed by an A/R Associate for each open item selected.	No Exceptions Noted
2.8	A Month End Balancing worksheet is created to reconcile that the previous month's ending A/R balance and the current period's sales, cash received, and adjustments total to the ending A/R balance for the current period. The completed worksheet is reviewed and approved by an A/R Supervisor. Discrepancies are noted and communicated to the client.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected a sample of monthly balancing worksheets to determine that the previous month's ending A/R balance and current period's sales, cash received, and adjustments were reconciled to the ending A/R balance for the current period and recalculated the month end balance by reperforming management's reconciliation procedures. Further inspected to determine that each worksheet selected for testing was approved by the A/R supervisor and that any discrepancies noted were communicated to the client.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
2.9	Each client must maintain its own lockbox for cash postings.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Inspected the web-based lockbox settings for each in-scope client to determine that each client maintains its own lockbox for cash postings.	No Exceptions Noted
2.10	Collectors do not have system access to create new sales orders.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Compared a system generated listing of employees who have access to create new sales orders for each in-scope client to a listing of all collectors to determine that no collectors were granted access to create new sales orders.	No Exceptions Noted
2.11	Invoices are aged based on the ship (invoice) date and displayed on the A/R Aged Trial Balance report according to their category (i.e. 0-30 days, 31-60 Days, etc.).	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Selected a sample of open invoices from SAP and traced each invoice to the AR Aging Report to determine that invoices were aged automatically and accurately displayed in the AR Aging report according to their category based on the ship (invoice) date and payment terms.	No Exceptions Noted
2.12	Invoices are automatically generated in SAP and posted to the respective A/R account.	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Observed the respective A/R account and invoice generated within SAP for an order dispatched within the WMS.	No Exceptions Noted
2.13	Cash is automatically posted to the customer's A/R account based on the check micro-number and invoice number. Cash that cannot be applied based on these criteria appears as an open POA (SAP).	1. Conducted inquiries with accounts receivable management to determine whether the control activity was in place throughout the examination period. 2. Observed execution of the control for a sample client, noting that, when the micro number is available on the check, it is automatically posted to the customer A/R account. Further, for the sample selected, compared A/R deposit report to copies of checks received from lockbox noting that applied amount on the report matched the sum of checks with micro numbers.	No Exceptions Noted

Objective - 3 Receiving: Controls provide reasonable assurance that goods received are recorded and reported completely and accurately on a timely basis.

Control Title	Control Activity	Test Procedures	Results of Tests
3.1	For FTL / LTL shipments, the receiver visually inspects the shipment on the dock and documents visible damage on the carrier's freight bill. The receiver reviews the freight bill and does at least one of the following prior to signing the BOL: 1) Counts the product; 2) Stamps/signs the copy "Subject to Count"; or 3) Inspects seal to ascertain seal is intact and agrees to seal number on BOL (if applicable).	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the receiving process to determine whether receivers visually inspected shipments on the dock, documented visible damage on the carrier's freight bill, and either counted the product, inspected and notated the seal number (for full truckloads), or stamped the BOL "Subject to Count." 3. Inspected a sample of selected receipts to determine, via inspection of signoffs, whether the corresponding BOL contained receiver approval and either evidence of a count, seal number notation, or "Subject to Count" stamp.	No Exceptions Noted
3.2	As defined in client Work Instructions, inbound product is designated to be received into either a sellable status or a non-sellable status. Systematic hold codes and physical identification / barriers are applied to products in non-sellable status as they are put away.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the receiving process to determine whether the product being received was inspected for damage or other factors listed in the respective work instructions and placed into the appropriate status. Further, observed products placed on hold were physically identified and segregated from sellable inventory. 3. Inspected system details for a sample of inbound receipts to determine whether the product was received in the appropriate status, as defined in the client work instructions.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
3.3	The receiver performs a physical count of the products received and must receive the products against a valid ASN.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the receiving process to determine whether UPS SCS personnel responsible for receiving shipments performed a physical count of the products received and received the products against the corresponding ASNs. 3. Inspected supporting documentation for a sample of ASNs to determine whether a physical count of the receipt was performed.	No Exceptions Noted
3.4	When receiving a product, the receiver assigns each product to a case ID/LPN number, which records all information about the product(s) including SKU, quantity, and batch number based on the information on the ASN. The WMS will only allow one SKU and one batch from one ASN to be assigned to each LPN.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process to determine whether products received are assigned a case ID/LPN which uniquely identifies the product, lot number, expiration date, and quantity of the product on the pallet. Further, observed the receiving process to determine whether each case ID will only allow one SKU and one ASN to be assigned to each case ID.	No Exceptions Noted
3.5	Products received are reconciled to the ASN and/or packing list. Any discrepancies between the quantities are investigated and resolved prior to closing the ASN.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process to determine whether UPS SCS personnel responsible for receiving shipments reconciled quantities received into the WMS to the ASN and/or packing list quantities and additionally, whether the receivers verified part IDs, lot numbers, and expiration dates prior to the put away process. 3. Inspected supporting documentation for a sample of ASNs to determine whether a reconciliation of the ASN quantity and/or packing list quantity to the physical count of the receipt was performed. Further, inspected evidence to determine whether discrepancies were investigated and resolved prior to closing the ASN.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
3.6	A second physical verification of the product received is performed by an individual other than the original receiver if a variance is identified between ASN quantity and quantity received.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process to determine whether a second physical count was performed by an individual other than the original receiver, if required. 3. Inspected supporting documentation for a sample of ASNs to determine whether a second physical count was performed by an individual other than the original receiver if a variance was noted on the ASN.	No Exceptions Noted
3.7	On-hand inventory is updated automatically by the WMS as the product is received.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process to determine whether on-hand inventory was updated automatically by the WMS when the product was received into inventory.	No Exceptions Noted
3.8	When product is put away, all product information, including the SKU, quantity, and batch/lot number is automatically transferred to the bin location. The WMS will not allow users to manually adjust the quantities or modify product information associated with LPN during the product put away task to an initial location.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process, to determine whether the WMS allows any adjustments to the product/quantities during put away. Further, observed the receiving process to determine whether once a product is put away to a location, all product information associated with the LPN is automatically transferred to the bin location.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
3.9	For clients setup to receive receipt confirmations via EDI transmissions, an EDI receipt confirmation message is automatically sent to the client when the ASN is closed.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the EDI process within the WMS, to determine whether an EDI receipt confirmation is sent to clients that are configured to receive receipt confirmations once an ASN is closed.	No Exceptions Noted
3.10	Receiving supervisors monitor open ASNs to determine that ASNs are received timely; typically within 2 business days of receipt. Problem ASNs are dealt with as deviations, and received according to the client communication.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the receiving process to determine whether operations supervisors regularly monitored the pool of open ASNs' screen to monitor the timely closing of ASNs. 3. Inspected supporting documentation for a sample of ASNs to determine whether each selected ASN was received into the WMS within 2 business days of product receipt, unless otherwise specified by the client.	No Exceptions Noted

Objective - 4 Returns: Controls provide reasonable assurance that returned products are authorized, tracked, and recorded accurately and timely.

Control Title	Control Activity	Test Procedures	Results of Tests
4.1	Product being returned is segregated upon receipt. Returns are authorized by the client prior to receiving customer returned product into the WMS, unless otherwise specified by the client.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process to determine whether returned products were authorized by the client and segregated upon receipt. 3. Inspected supporting documentation for a sample of returns to determine whether returned products were authorized by the client prior to the returned products being received into the WMS.	No Exceptions Noted
4.2	Returned products are received back into stock on a hold status, unless otherwise specified by the client. If a hold status is not required by the client, client instructions for disposition of the product must be received prior to receiving the product in the WMS.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process to determine whether returned products were systematically received into a "hold" status if required by the client. 3. Inspected supporting documentation for a sample of returns to determine whether each return was received or adjusted into inventory in the appropriate sellable/non-sellable status, as defined by the client.	No Exceptions Noted
4.3	Returned inventory quantity is reconciled to BOL, packing lists, RMA and/or client communication and evidenced by signature on the returns documentation.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process to determine whether product return clerks reconciled returned product details to the packing list, RMA, and/or advanced communication from the client, in order to determine the accuracy of the returned product prior to receiving the product in the system. 3. Inspected supporting documentation for a sample of returns to determine whether a reconciliation of return details by UPS SCS returns clerks was completed based on the packing list, RMA, and/or other communication from the client.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
4.4	All product must be received against and reconciled to a valid ASN/SO. WMS system restrictions disallow over-receipt of product without an authorization code.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process within the WMS to determine whether the system returns an error message if returns associates attempt to receive a quantity greater than what is expected on an ASN. 3. Inspected supporting documentation for a sample of returns to determine whether returned products were received against a valid ASN.	No Exceptions Noted
4.5	An additional receiving audit is performed by SCS personnel before the returned product is put away if a variance is noted between the RMA/ASN and product received.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process to determine whether a second check was performed for returns with a variance. 3. Inspected supporting documentation for a sample of returns to determine whether a second check was performed for returns with a variance.	No Exceptions Noted
4.6	Client approval is obtained prior to releasing returned product to saleable inventory, unless otherwise specified by the client.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of hold releases (including returns) to determine whether the hold releases were approved by the client prior to releasing the product into saleable inventory, unless otherwise specified by the client.	No Exceptions Noted
4.7	Returned product is either stored in a secured returns area or physically identified as on-hold and not available for picking prior to being removed from the returns area.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returned products to determine whether return products resided in a secured returns area or were physically identified as on-hold and not available for picking.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
4.8	For clients setup to receive receipt confirmations via EDI transmissions, an EDI receipt confirmation message is automatically sent to the client when the ASN is closed. For clients who require returns be received and processed as inventory adjustments, an EDI adjustment confirmation message is automatically sent to the client when an inventory adjustment is made in the system.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed automated EDI process for one instance on each system/platform to determine whether an EDI receipt confirmation or EDI inventory adjustment confirmation is sent to clients that are configured to receive confirmations when a return is closed.	No Exceptions Noted
4.9	Receiving supervisors monitor open ASNs to determine that return ASNs are received timely, typically within 2 weeks of product receipt.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the returns process to determine that management monitors returns processing to ensure all returns are processed within the specified timeframe. 3. Inspected supporting documentation for a sample of returns to determine whether returns were processed timely, typically within two weeks of receipt.	No Exceptions Noted

Objective - 5 Inventory Maintenance and Tracking: Controls provide reasonable assurance that inventory is accurately maintained and reported on a timely basis and changes to the inventory balances are authorized.

Control Title	Control Activity	Test Procedures	Results of Tests
5.1	the WMS has a built in function that provides an audit trail for warehouse transactions, including tracking the type of transaction, the time/date, SKU, lot number (if applicable), and user who performed the transaction.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Inspected the system to determine whether the WMS systematically provides an audit trail for each transaction, including the type of transaction, part ID/SKU, time/date, lot number, and the user who performed the transaction.	No Exceptions Noted
5.2	Cycle Counts are performed on a quarterly basis for product with a balance on-hand, unless a less frequent count is requested by the client. If discrepancies are identified, they are confirmed and systemically recorded in a timely manner.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period observed the cycle count process. 3. Inspected supporting cycle count documentation for a sample of SKUs and bin locations noting that each sample was counted within the last quarter, unless a lower frequency was required by the client, and discrepancies noted were confirmed and recorded in a timely manner.	No Exceptions Noted
5.3	All reconciling inventory adjustments are investigated and confirmed in a timely manner, and client or supervisor/designee approval is obtained either prior to or within one week of the adjustment.	1. Conducted inquiries with operations management to ascertain whether the control activity was in place throughout the examination period. 2. Inspected supporting documentation for a sample of inventory adjustments and ascertained that either client or supervisor/designee approval was obtained for each adjustment selected for testing either prior to or within one week of the adjustment.	Exceptions Noted For three (3) out of 45 inventory adjustments selected during the examination period, approval documentation was not properly performed and maintained. No other exceptions noted.

Control Title	Control Activity	Test Procedures	Results of Tests
5.4	Client approval is obtained prior to non-sellable products being released from a hold status, unless otherwise specified by the client.	1. Conducted inquiries with operations management to ascertain whether the control activity was in place throughout the examination period. 2. Inspected a sample of orders released from hold status, noting that approval consistent with what was defined by the client in the work instructions was obtained for each selection.	No Exceptions Noted
5.5	SCS segregates products physically and logically by client and according to non-sellable guidelines for product on-hold. Each location is clearly labeled.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of warehouses to determine whether products were segregated physically and logically by client.	No Exceptions Noted
5.6	For clients setup to receive inventory adjustment confirmations via EDI transmissions, an EDI adjustment confirmation message is automatically sent to the client when an inventory adjustment is made in the WMS.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the EDI process for a sample inventory adjustment from each system to determine that when an inventory adjustment was made, an EDI adjustment confirmation was sent to those clients who were configured to receive inventory adjustment confirmations.	No Exceptions Noted

Note: There are additional controls within other Objectives in this report that UPS SCS management considers relevant to achieving Objective 5 - Inventory Maintenance and Tracking. Those include controls 3.5, 3.7, 4.4, and 6.3 within the Receiving, Returns and Shipping Objectives, respectively. Refer to those Control Activities, as well as the related Test Procedures and the Results of Tests.

Objective - 6 Shipping: Controls provide reasonable assurance that goods shipped are recorded and reported completely and accurately on a timely basis.

Control Title	Control Activity	Test Procedures	Results of Tests
6.1	The picker performs a visual validation of the part ID, lot number and quantity prior to picking/packing the product.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the shipping process to determine whether UPS SCS pickers perform a visual validation of the part ID, lot number, and quantity prior to scanning the product with a RF device.	No Exceptions Noted
6.2	The WMS prevents the picker from picking a product which is on hold or from a location other than that specified by the system.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the shipping process within the the WMS application to determine whether a RF device displays an error message when an attempt is made to pick a product which is on hold or from a location other than the bin specified by the RF device/system.	No Exceptions Noted
6.3	On-hand inventory for the product is decremented real-time in the WMS upon scan-picking and is no longer available for allocation.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the shipping process to determine whether the WMS automatically decremented the on-hand quantity upon the completion of scan-picking an order.	No Exceptions Noted
6.4	Picked orders are reviewed and verified against the pick/pack list by an employee other than the picker.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed the shipping process to determine whether an employee, other than the original picker, reviewed the order and reconciled it to the pick list prior to shipment. 3. Inspected supporting documentation for a sample of shipments to determine, via inspection of sign-offs and/or system details, whether an employee other than the original picker reviewed each selected shipment and reconciled it to the pick list prior to shipment.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
6.5	When a shipment is dispatched / shipped in the WMS, a shipping confirmation is sent to the client via an EDI message.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Observed the automated EDI process for a sample the WMS shipment to determine whether a shipping confirmation was sent to clients via an EDI message once an order was dispatched.	No Exceptions Noted
6.6	Shipments are not dispatched from the facility without a carrier tracking number or BOL/manifest number. When a shipment is shipped/dispatched, the shipping information is saved in the system. SCS retains signed copies of the BOL / manifest for all freight shipments provided to the contract carrier.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days within the examination period, observed the shipping process to determine whether shipments were dispatched before they were: 1) packed; 2) given tracking numbers; or 3) ready to leave the distribution center. 3. Inspected supporting documentation for a sample of shipments to determine whether a carrier tracking number was retained in the system for each sample. Additionally, inspected supporting documentation for a sample of freight shipments to determine whether a signed copy of the BOL/manifest was retained.	No Exceptions Noted
6.7	Shipping supervisors / warehouse leads monitor active orders to confirm that shipped orders have been dispatched in the WMS.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days within the examination period, observed the monitoring process to determine whether supervisors monitor active orders throughout the day to establish that shipped orders have been dispatched in the WMS. 3. Inspected supporting documentation for a sample of shipments to determine whether orders were systematically shipped/dispatched within 24 hours of being picked.	Exception Noted For one (1) out of 45 shipment samples selected, the order was not systematically shipped within one day of picking. No other exceptions noted.

Control Title	Control Activity	Test Procedures	Results of Tests
6.8	Management performs a review of the WMS manual orders to ascertain that manual orders were appropriate and authorized.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Inspected documentation of Management's review of a sample of the WMS manual orders to determine whether Management's review included manual orders created in the WMS during the examination period. Further, inspected documentation to determine whether Management followed up with the appropriate personnel for each sampled manual order to determine that each order was appropriate and authorized by the client (if applicable).	No Exceptions Noted

Objective - 7 Physical Security – Distribution Centers: Controls provide reasonable assurance that inventory is secured and protected from unauthorized access and use.

Control Title	Control Activity	Test Procedures	Results of Tests
7.1	Distribution centers are protected by systems that include centrally monitored alarm systems, access control systems, and fire detection systems.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine that various access control and alarm systems were in place, including perimeter alarms, key card access to the distribution centers and inventory floors, and a fire detection system including pull alarms and sprinkler systems.	No Exceptions Noted
7.2	Key card or punch code access to the facility is appropriately restricted to authorized individuals based on job responsibilities.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period observed a sample of distribution centers to determine that they were secured with magnetic locks on each door and key card or punch code access for employees. 3. For a sample of distribution centers, selected a sample of individuals with access to the facility to determine whether access was appropriate and authorized based on job responsibilities.	Exception Noted One (1) of the 105 badges selected for testing belonged to a vendor that did not have a need for building access. No other exceptions noted.
7.3	Visitors are required to check in and out of the main distribution center and vaulted and caged areas. Visitors must be escorted within the facility unless proper written authorization received from UPS SCS.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine whether visitors' logs were in place and enforced at the main, cage, and vault entrances.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
7.4	Distribution center pedestrian fire doors are kept locked and are identified as being alarmed and for emergency use only.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine whether pedestrian fire doors were kept locked and were identified as being alarmed and for emergency use only.	No Exceptions Noted
7.5	Delivery drivers are escorted or monitored within the facility.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers, to determine whether delivery drivers had to identify themselves and wait in the rest area outside of the main floor of the Distribution Center or were escorted within the facility.	No Exceptions Noted
7.6	A member of management performs a security audit procedure to test alarm sensors at least once per quarter.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. Inspected documentation for a quarterly security audit at a sample of distribution centers to determine whether the audit procedures to test alarm sensors were performed, results were documented, and report was reviewed and approved by management.	No Exceptions Noted
7.7	Access to the DEA Cage and/or Vault is restricted to employees authorized by Operations and Quality Assurance. A badge reader and combination PIN restrict access to both cage and vault.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine if cages and vaults (if applicable) were protected by multiple layers of security access and if the caged area (which contains the vault), is restricted by both key card and PIN or lock and key access. 3. For a sample of distribution centers, inspected the listing of individuals authorized to have entry access displayed at the cage and vault entrances and confirmed that all individuals with access to the cage and/or vault were appropriate based on job responsibilities.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
7.8	If the facility contains a DEA vault, it is located within the DEA cage.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine whether the DEA vaults at each distribution center were located within a DEA cage.	No Exceptions Noted
7.9	DEA vaults are protected by motion and temperature sensors.	1. Conducted inquiries with operations management to determine whether the control activity was in place throughout the examination period. 2. On multiple days during the examination period, observed a sample of distribution centers to determine whether the DEA vaults at each facility were equipped with motion and temperature sensors.	No Exceptions Noted

Objective - 8 Healthcare Compliance: Controls provide reasonable assurance that management monitors compliance with Health Canada, Netherlands Ministry of Health, Singapore Health Sciences Authority, Poland Chief Pharmaceutical Inspectorate, Philippines Food and Drug Administration, India Central Drugs Standard Control Organization, U.S. Prescription Drug Marketing Act (PDMA), Drug Enforcement Administration (DEA), Food and Drug Administration (FDA), and U.S. state and local regulations.

Control Title	Control Activity	Test Procedures	Results of Tests
8.1	An independent QA representative conducts self-assessments of the healthcare facilities at least every 3 years where the frequency is determined based on a facility risk assessment. The self-assessments include a review of procedures, storage facilities, and documentation and filing requirements to ascertain the facility is operating in compliance with the established UPS SCS Healthcare quality system, which is developed to satisfy both internal and regulatory requirements.	1. Conducted inquiries with QA management to determine whether the control activity was in place throughout the examination period. 2. Inspected the most current self-assessment for a sample of distribution centers to determine whether it is occurring at least every 3 years, based on the distribution center's risk ranking, and includes assessment of procedure checks, storage facility testing, documentation and filing requirements, compliance with applicable government agencies, laws, and regulations, and action plans developed and implemented to address any findings.	No Exceptions Noted

Control Title	Control Activity	Test Procedures	Results of Tests
8.2	Each distribution center has an assigned Quality Assurance (QA) representative that is responsible for monitoring and maintaining compliance with the established UPS SCS Healthcare quality system, which is developed to satisfy both operational and regulatory requirements, as set forth by Health Canada, Netherlands Ministry of Health, Singapore Health Sciences Authority, Poland Chief Pharmaceutical Inspectorate, Philippines Food and Drug Administration, India Central Drugs Standard Control Organization, U.S. Prescription Drug Marketing Act (PDMA), Drug Enforcement Administration (DEA), Food and Drug Administration (FDA), and U.S. state and local regulations, as applicable.	1. Conducted inquiries with QA management to determine whether the control activity was in place throughout the examination period. 2. For a sample of facilities, inspected the facility's organizational chart, and confirmed at least one Quality Assurance representative was assigned to the facility.	No Exceptions Noted