

ADMINISTRATIVE PROCEEDING
File No. 3-17337

Global HVAC Provider Settles FCPA Charges

July 11, 2016 – The Securities and Exchange Commission today announced that a Wisconsin-based global provider of HVAC systems has agreed to pay more than \$14,000,000 to settle charges that it violated the books and records and internal accounting controls provisions of the Foreign Corrupt Practices Act (FCPA).

An SEC investigation found that a wholly-owned Chinese subsidiary of Johnson Controls used sham vendors to make improper payments of approximately \$4.9 million to employees of Chinese government owned shipyards, and ship-owners and others, to obtain and retain business and personally enrich themselves. According to the SEC's order instituting a settled cease-and-desist proceeding against Johnson Controls:

- Johnson Controls acquired the Chinese subsidiary as part of a 2005 acquisition of York International, which was subject to [a prior FCPA enforcement action in October 2007](#), for conduct in China and other parts of York's business.
- Despite JCI's efforts to remediate China Marine, the bribery continued.
- From 2007 to 2013, the managing director of China Marine, with the aid of approximately eighteen China Marine employees in three offices, continued the bribery and theft that began under his predecessor by using vendors instead of agents to facilitate the improper payments.
- Johnson Controls limited the use of agents, and thus the employees used the vendor scheme to create slush funds. The employees fashioned the improper scheme using vendors because vendor transactions were considered low risk by JCI due to the low dollar value of the transactions, with the average vendor payment approximately \$3400.
- Johnson Controls' internal controls over vendor payments were less rigorous, and China Marine operated with very little oversight by JCI's Denmark office, which oversaw the Global Marine business. Even in the instances where managers in Denmark did a review, they did not understand some of the highly customized transactions at China Marine or the projects involving the sham vendors.
- Johnson Controls self-reported this misconduct to the SEC and cooperated with the investigation.

The SEC's order finds that Johnson Controls violated the internal accounting controls and books and records provisions of the Securities Exchange Act of 1934. Without admitting or denying the findings, Johnson Controls agreed to cease-and-desist from committing or causing any violations of Exchange Act Sections 13(b)(2)(A) and 13(b)(2)(B), pay disgorgement of \$11,800,000 plus prejudgment interest of \$1,382,561, pay a civil penalty of \$1,180,000, and to report to the SEC for one year on the status of its FCPA and anti-corruption related remediation and implementation of compliance measures.

The SEC's investigation was conducted by Irene Gutierrez and Tracy L. Price of the FCPA Unit and supervised by Kara N. Brockmeyer. The SEC appreciates the assistance of the Justice Department's Fraud Section and the Federal Bureau of Investigation.

See also: [Order](#)