

## In the Matter of Cardinal Health, Inc. (2020)

### Nature of the Business.

Cardinal Health, Inc. (“Cardinal”) is a global healthcare services company headquartered in Ohio. Cardinal maintains common stock publicly traded on the NASDAQ and registered with the SEC pursuant to Section 12(b) of the Exchange Act.

In late 2010, Cardinal acquired a Chinese subsidiary of a pharmaceutical distribution company in China to enter the Chinese market (“Cardinal China”).

### Influence to be Obtained.

According to the SEC, Cardinal violated the FCPA’s internal accounting controls and recordkeeping provisions because of Cardinal China’s actions. According to the SEC, after Cardinal Health acquired the Chinese subsidiary distributor it discontinued certain of the subsidiary’s practices due to the compliance risks. The SEC alleged that prior to Cardinal’s acquisition of the subsidiary, the subsidiary engaged in practices such as operating and maintaining its distribution customers’ financial accounts with the subsidiary’s own books and records. The subsidiary allegedly used such funds under the distribution customers’ direction to “fund [the distribution customers’] operating and marketing efforts in China.” However, after the subsidiary was acquired and became Cardinal China, Cardinal China “terminated most of the marketing accounts due in part to known FCPA-related compliance risks associated with channeling the marketing expenses of third parties through its own books and records.” According to the SEC, Cardinal China still maintained this practice for “a European supplier of non-prescription, over-the-counter dermocosmetic products for which Cardinal China served as the exclusive product distributor in China.” The SEC also alleged that Cardinal China hired employees on behalf of the dermocosmetic company and while staff were employed by Cardinal China, they reported to the dermocosmetics supplier and were supervised by the supplier.

The SEC alleged that despite recognizing the compliance risk of these practices and discontinuing a majority of such arrangements, Cardinal China underestimated “the risks of the arrangements with the dermocosmetic company as minimal” and allowed practices to continue without proper oversight – as a result, Cardinal China, through certain employees it employed on behalf of the dermocosmetic distributor, “regularly authorized and made payments from the marketing accounts at the direction of the dermocosmetic company” without sufficient controls to ensure the payments were made with proper management authorization.. Allegedly, Cardinal China also failed to accurately record such payments on its books and records. The SEC also alleged that Cardinal and Cardinal China had opportunities in 2012, 2014, and 2015 to “enhance” internal controls and oversight of the marketing accounts however it did not do so. In 2016, Cardinal China discovered that certain funds were misused to influence healthcare professionals marketing the dermocosmetic products and “employees of state-owned retail entities who had influence over purchasing decisions related to the dermocosmetic company’s products.” The SEC alleged that although Cardinal China ceased these operations as soon as it discovered them in 2016, Cardinal China profited from the arrangement because it “received a distribution margin from the sales of the dermocosmetic company’s products.”

### Enforcement.

On February 28, 2020, the SEC settled its enforcement action against Cardinal Health, recognizing Cardinal Health’s remedial efforts, which included self-disclosure of an internal investigation, terminating employees involved in the scheme, and cooperating with the SEC, among other actions. Cardinal Health was also required to pay disgorgement of about \$5.4 million, prejudgment interest of \$916,887 and a civil monetary penalty of \$2,500,000.

### Key Facts

**Citation.** *In the Matter of Cardinal Health*, Admin. Proc. File No. 3-19718 (February 28, 2020).

**Date Filed.** February 28, 2020.

**Country.** China.

**Date of Conduct.** 2010 - 2016.

**Amount of the Value.** Not stated.

**Amount of Business Related to the Payment.** About \$5.4 million.

**Intermediary.** Third-party agents.

**Foreign Official.** Unnamed employees of state-owned company.

**FCPA Statutory Provision.** Books-and-Records; Internal Controls.

**Other Statutory Provision.** None.

**Disposition.** Cease-and-Desist Order.

**Defendant Jurisdictional Basis.** Issuer.

**Defendant’s Citizenship.** United States.

**Total Sanction.** \$8,816,887.

**Compliance Monitor/Reporting Requirements.** Three-year reporting requirement.

**Related Enforcement Actions.** None.

**Total Combined Sanction.** \$8,816,887.