



GOVERNMENT PRACTICES POLICY STATEMENT

Policy Number GB 01-04

Parker Hannifin Corporation

Subject	Effective	Supersedes	This Sheet	Total Sheets
U.S. Government Contract Compliance – Mandatory Disclosure of Violation of Law to the Government	January 2009	August 2006	1	6

1.0 PURPOSE

To implement the provisions of revised FAR 52.203-13 regarding the duty to report certain violations of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations, violations of the Civil False Claims Act, or overpayment which may occur related to U.S. Government funded prime contracts or subcontracts. As an aspect of implementing these mandatory disclosure obligations, this policy also addresses Parker's Internal Control System and its Business Ethics Awareness and Compliance Program.

2.0 SCOPE

This policy applies to all employees within Parker which contract with the U.S. Government either directly, or indirectly through subcontracts funded by the U.S. Government, with special emphasis as to "principals" within Parker, as defined below. This policy also applies to divisions performing work on an intra-company basis in conjunction with any U.S. Government funded prime contracts and/or subcontracts held by the requesting division.

3.0 DISTRIBUTION

- Group Presidents
- Group Vice Presidents, Operations
- General Managers
- Plant Managers
- Compliance Officers
- Contract Managers
- Supply Chain Managers
- Group VPs, Supply Chain
- HR Managers
- Group VPs, Human Resources
- Group VPs, Controller

4.0 RESPONSIBILITY

Internal reporting of known or possible violations of Federal law in connection with contracting with the U.S. Government is the responsibility of all employees of Parker, and is the regulatory responsibility of all "principals" of Parker, as defined in Section 5 below. Responsibility for determining whether the reported violation is subject to timely disclosure to the Government resides with the Policy Oversight Committee.

5.0 DEFINITIONS

- "Timely Disclosure" of a potential violation of law means disclosure to the relevant agency office of the Inspector General and Parker's contracting officer immediately upon a determination by the Policy Oversight Committee that there exists credible evidence of a violation of federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in Title 18 of the United States Code, a violation of the Civil False Claims Act, or significant overpayment, in connection with the award, performance, or closeout of a U.S. Government contract or a subcontract awarded thereunder.



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- b) "Principal" shall mean Parker officers, directors, Group Presidents, and their staff, and those employees having primary management or supervisory responsibilities within a business entity, such as a general manager, plant manager, head of a subsidiary, division, or business segment, and similar positions.

6.0 POLICY

- 6.1 Parker shall maintain a culture which encourages ethical conduct and a commitment to compliance with law. Parker will continue to stress the values and obligations contained in its Code of Ethics, including its Policy on Contracting with the United States Government. Parker shall continue to exercise due diligence to educate, prevent, detect, and report unlawful conduct.
- 6.2 Parker is committed to compliance with all laws and regulations in connection with contracting with the U.S. Government, including the mandatory disclosure provisions. Parker will make Timely Disclosure to the appropriate agency Office of the Inspector General, with a copy to the contracting officer, whenever, in connection with the award, performance, or closeout of a U.S. Government contract or subcontract awarded thereunder a Principal of Parker has credible evidence of (1) a violation of Federal criminal law involving fraud, conflict of interest, bribery, or gratuity violations found in Title 18 of the United States Code; (2) a violation of the Civil False Claims Act; or (3) significant overpayment on the U.S. Government contract. Attachment A provides further insight into the type of matters that may be subject to disclosure under this policy. The type of matters subject to disclosure under this policy should not be considered limited solely to those identified within Attachment A.

7.0 PROCEDURE

- 7.1 Code of Ethics. Parker shall make available its Code of Ethics including its Policy on Contracting with the United States Government, (collectively, the "Code") to each employee engaged in performance of a U.S. Government contract (reference GPM Policy GB 01-02, entitled "Ethics Communication").
- 7.2 Internal Control System. Parker operations shall maintain an effective internal control system with standards and procedures to facilitate timely discovery of improper conduct in connection with U.S. Government contracts. The primary source of these standards and procedures is Parker's Government Practices Manuals (GPM's) available at Parker On-Line (ref. URL: <http://pol/Forums/Home.asp?ID=CORPCOMPLIANCE>), and Parker's Code (ref. URL: <http://pol/Forums/Room.asp?ID=CORPCOMPLIANCE&Room=COR993377151N>). Additionally, GPM Supplements, policies, and procedures initiated by Groups and Divisions shall also be considered key elements of such Internal Control System. Other resources on the Corporate Contract Compliance POL site shall also represent standards for the development of requisite internal controls (e.g., *Export Control Procedure, Contract Review & Flow Down Procedure, and the like*).
 - i) Responsibility for ensuring effectiveness of Parker's internal control system and business ethics awareness and compliance program shall reside with division general managers with oversight from Enterprise Compliance and the Corporate Contract Compliance Office.
 - ii) In addition to the implementation of primary division internal controls to assure compliance with GPM policies (*including Supplements thereto*), and customer contract requirements, the Corporate Contract Compliance and Enterprise Compliance offices in conjunction with division General Managers and Compliance Officers shall conduct periodic oversight reviews of business practices,



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procedures, policies, and internal controls for compliance with Parker’s Code and the special requirements of contracting with the U.S. Government, including:

- (1) Monitoring and reviewing to detect criminal conduct, including an annual Self Assessment questionnaire to be submitted by division General Managers of divisions performing work on U.S. Government funded prime contracts and subcontracts, and periodic Self Assessment Validation Reviews to ascertain whether appropriate systems and processes are deployed within divisions to satisfy U.S. Government contract requirements;
- (2) Periodic evaluation of the effectiveness of the business ethics awareness and compliance program and internal control system ; and
- (3) Periodic assessment of the risk of criminal conduct, with appropriate steps to design, implement, or modify business ethics awareness and compliance program and the internal control system as necessary to reduce the risk of criminal conduct identified through this process.

Notwithstanding the above oversight, divisions and Groups shall have the primary responsibility to assure that the objectives identified in (ii) (1)-(3) above are met.

- iii) Parker maintains and encourages use of the ethics "Integrity Line" (see Parker Code of Ethics, "Compliance" section) as an additional internal reporting mechanism, which allows for confidentiality or anonymity, by which employees may report suspected instances of improper conduct, including violations of law in connection with U.S. Government contracts.
- iv) Parker shall exercise reasonable due diligence to insure that no Principal is engaging in conduct in conflict with Parker’s Code.
- v) Parker shall take appropriate disciplinary action against any employee who engages in improper conduct, or who fails to take reasonable steps to prevent or detect improper conduct (reference GPM Policy GB 01-03, entitled "Investigations and Sanctions – Business Ethics and Conduct").
- vi) All Parker employees, including all Principals, are encouraged to report any possible violation of federal criminal law involving fraud, conflict of interest, bribery, gratuity violations, a violation of the Civil False Claims Act, or overpayment in connection with a U.S. Government contract, to the Corporate Contract Compliance Office and the office of General Counsel. All such reports shall be forwarded to the Policy Oversight Committee for review and initiation of an appropriate investigation. The Policy Oversight Committee, in consultation with the Office of the Chief Executive, Vice President Enterprise Compliance, Vice President, Corporate Contract Compliance shall determine if credible evidence exists that a Principal, employee, agent, or subcontractor of Parker has committed a violation as described above. If such determination is made, the Policy Oversight Committee shall immediately cause a written disclosure of such circumstance to the appropriate agency office of the Inspector General and to Parker’s contracting officer.



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Note: Legend on reports to Government shall contain appropriate restrictions to preclude public disclosure (reference GPM Policy CA 03-07, entitled "Procedure for the Use of Restrictive Markings").

- vii) A record of each matter reviewed by the Policy Oversight Committee shall be maintained, with the disposition and its rationale clearly documented.
- viii) Parker shall insure that corrective measures are promptly instituted and carried out.
- ix) Parker shall fully cooperate with any Government agencies responsible for audits, investigations, or corrective actions.

7.3 Business Ethics Awareness and Compliance Program

Divisions and Groups shall communicate periodically to Principals, key employees and agents performing work on U.S. Government contracts, and, as appropriate, subcontractors, Parker's standards and procedures, and other aspects of Parker's business ethics awareness and compliance program, and internal control system. Such communication shall include training programs and dissemination of information appropriate to the individual's role and responsibility in connection with the performance of work on a U.S. Government funded business.

7.4 Subcontractors

The Parker Terms & Condition of Purchase – Government Supplement includes the flow-down of FAR 52.203.13 (*applicable to purchase orders and subcontracts which have a value in excess of \$5 million and a period of performance greater than 120 days*). The following additional provision included in the Government Supplement shall be applicable:

"The supplier agrees to grant Parker the right to conduct a reasonable audit or investigation at the premises of the subcontractor, with full access to appropriate books and records of the subcontractor, for the purpose of implementing the requirements of FAR provision 52.203-13. Suppliers receiving purchase orders or subcontracts (including all long term agreements) with a cumulative value of \$1 million or more shall distribute *PH GPM Policy GB 01-04, entitled "U.S. Government Contract Compliance - Mandatory Disclosure of Violation of Law to the Government"*, and the *PH "Policy on Contracting with the United States Government"* to all personnel most directly involved in the performance of the purchase order or subcontract, including those having primary management or supervisory responsibilities. The supplier shall insure that all such individuals have both read and understood the contents of these documents. Any questions shall be forwarded to the cognizant Parker Buyer. The above documents are available electronically within the supplier section of the PH web site (www.parker.com) or from the assigned PH Buyer."

Parker divisions having any questions concerning the deployment of this provision shall contact the Corporate Contract Compliance Office.



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8.0 MATTERS NOT REQUIRED TO BE DISCLOSED TO THE GOVERNMENT

- 8.1 Reporting Administrative, Accounting, or clerical errors. Nothing in this policy should be construed as permitting any delay in the usual and normal process of notifying the contracting officials of administrative, accounting, and clerical errors and taking the necessary corrective action.
- 8.2 Policy Oversight Committee Determination/Office of the Chief Executive
Allegations of irregularities in connection with government contracts and subcontracts not subject to the mandatory reporting rules provided above will be referred promptly to the General Counsel and the Corporate Compliance Office. These departments will confer with the Policy Oversight Committee which shall determine the extent of investigation required, and seek the advice of other functional experts as appropriate. Based upon the investigation, and in accordance with this policy, the Vice President, General Counsel, the Vice President, Corporate Contract Compliance, and the Vice President, Enterprise Compliance with input from the Policy Oversight Committee and Office of the Chief Executive, will determine necessary corrective action and will determine whether the matter should be reported to the Government.
- 8.3 Matters to be Disclosed to the Government
In determining whether a particular matter is one that should be voluntarily disclosed to the Government under these provisions, the following shall, among other factors, be considered.
 - 8.3.1 The weight of the evidence that a violation of federal contracting laws occurred.
 - 8.3.2 Clarity of application of law to facts.
 - 8.3.3 Financial Impact to the Government.
 - 8.3.4 Any compromise of classified information vital to national security shall be disclosed in all circumstances.
 - 8.3.5 Whether there was any actual or intended pecuniary gain to Parker, company employees, government employees, or other third parties. (*This includes bribery or kickbacks. The Anti-kickback Enforcement Act of 1986 requires reporting of possible kickbacks and other violations of the Act.*)

All disclosures shall consider and follow the requirements of GPM Policy GB 03-09, entitled "Investor, Media and Government Communications".

9.0 ON-GOING FAMILIARIZATION WITH DISCLOSURE REQUIREMENTS

It is recognized that from time to time individuals within Parker that are considered "Principals" (reference Section 5) may change assignments. Accordingly, to assure continued awareness of the requirements of this policy, Division HR Managers, in consultation with the Compliance Officer, shall continuously maintain a list of "Principals" and on an annual basis provide a hardcopy of this Policy (including Attachment A) to all such



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“Principals”. For Group HQ operations, the Group V.P., Human Resources shall perform this same distribution to all such “Principals”. Records shall be maintained by Human Resources to demonstrate such annual distribution. Such records may be subject to inspection by either Corporate Contract Compliance or Internal Audit.

10.0 REFERENCES

- FAR 52.203-13
- The Defense Industry Initiative
- Anti-Kickback Enforcement Act of 1986
- GPM Policy GB 01-02, entitled “Ethics Communication”
- GPM Policy GB 01-03, entitled “Investigations and Sanctions - Business Ethics and Conduct”
- GPM Policy CA 03-07, entitled “Procedure for the Use of Restrictive Markings”
- GPM Policy GB 03-09, entitled “Investor, Media, and Government Communications”
- Parker Code of Ethics
- Parker Policy on Contracting with the United States Government

<p>Approved:</p> <p style="text-align: center;">Larry I. Schultz</p>	<p>Approved:</p> <p style="text-align: center;">Thomas A. Piraino</p>
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On Behalf Of The Policy Oversight Committee



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Types of Internally Reportable Events

For ease of reference, reportable events are grouped into categories below; however, infractions can occur during any phase of the contracting process and should be reported internally (*on an immediate basis*) to the Corporate Contract Compliance Office and the Office of the General Counsel, no matter when they might have occurred.

I. Contract Award

- a false statement – orally or in writing – made to the government, directly or indirectly, including false certifications and representations, in a proposal or during an oral presentation to the government, etc. e.g.,
 - misstatements of Parker or employee qualifications or performance results
 - false independent price certification
 - concealment of a material fact
- bribery of or providing a prohibited payment or gratuity to a government official or his/her family/household member
- employment discussions between a government employee and Parker giving rise to a conflict of interest
- knowing failure to disclose required information, such as cost, pricing, or other information requiring such disclosure, e.g., cost or pricing data under the Truth in Negotiations Act; organizational conflict of interest information, etc.
- unlawfully obtaining government source selection information or contractor bid or proposal information prior to award of a contract to which the protected information relates

II. Contract Performance

- mischarging under a government contract, e.g., knowingly charging the wrong contract or work order number for labor or materials, over charging
- failure to perform required processes or tests required by the contract, or falsification of test results
- failure to deliver products or services that conform to contract requirements, in the absence of authorized customer approval. e.g.,
 - overbilling or billing for work not performed
 - failure to adhere to country of origin requirements (e.g., Trade Agreements Act or Buy American Act)
 - using used parts when new parts are required
 - using substandard parts
- a false statement – orally or in writing – made to the government, directly or indirectly, concerning contract performance. e.g.,
 - misstatements of contract performance associated with award fee or milestone payments
 - concealment of a material fact
- false or fraudulent claims, e.g., invoices for payment containing overstatements of progress payment requests or for incurred costs, inclusion of unallowable costs in indirect cost rate submissions, etc.
- falsification or unauthorized destruction of Parker books and records, e.g., financial, quality, testing, billing, etc.

III. Contract Closeout

- false statements – orally or in writing – made to the government, directly or indirectly, concerning contract claims or entitlement



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- false or fraudulent claims, *e.g.*, invoices for payment containing overstated progress payment requests or for incurred costs, inclusion of unallowable costs in indirect cost rate submissions, etc.
- falsification or unauthorized destruction of Parker books and records

IV. Other, when related to the award, performance, or closeout of a government contract

- Performance of prohibited activities by a former government employee on behalf of Parker contrary to post-employment restrictions
- Offering or accepting illegal kickbacks in connection with government subcontracts, at any tier
- Retaliation against an employee who raises an issue involving Parker noncompliance with any governing authority
- Falsification or unauthorized destruction of Parker books and records
- A scheme, agreement, or conspiracy to defraud the government with respect to any claim for payment or property
- Obstruction of a federal audit

References

- GPM Policy PE 01-07, entitled "Procurement Integrity"
- GPM Policy PE 01-05, entitled "Proposal Preparation – Cost Estimating"
- GPM Policy FA 01-01, entitled "Timekeeping by Salaried & Hourly Employees"
- GPM Policy FA 09-04, entitled "Control of Engineering Work Authorization/Project Numbers"
- Quality Assurance GPM Volume
- GPM Policy GB 01-03, entitled "Investigations and Sanctions - Business Ethics and Conduct"
- PH Code of Ethics
- PH Policy on Contracting with the U.S. Government