

# ***NEWS RELEASE***

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## ***OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA***

*San Diego, California*

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*For Immediate Release*

### **SEVEN PLEAD GUILTY IN WIDE-RANGING CORRUPTION SCHEME AT THE NAVAL FLEET READINESS CENTER IN SAN DIEGO**

#### **NEWS RELEASE SUMMARY** - March 28, 2012

United States Attorney Laura E. Duffy announced today that seven individuals, four Navy officials, Donald Vangundy, Kiet Luc, David Lindsay and Brian Delaney, and three defense contractors, Michael Graven, John Newman, and Paul Grubiss, each pleaded guilty before United States Magistrate Judge Bernard G. Skomal in connection with a wide-ranging fraud and corruption scheme at the Naval Air Station (NAS) North Island, in Coronado, California. As part of the conspiracy, defense contractors provided Navy officials with over one million dollars in personal benefits, including cash, checks, retail gift cards, flat screen television sets, luxury massage chairs, home furniture and appliances, bicycles costing thousands of dollars, model airplanes, and home remodeling services. In return, the Navy officials placed millions of dollars in fraudulent orders with the defense contractors.

Four of the defendants who pleaded guilty were Navy officials employed at the Navy's Fleet Readiness Center ("FRC") located at NAS North Island. All four worked in the Navy's "E2/C2" aircraft program, which is dedicated to maintaining the tactical readiness of the Navy's E-2 and C-2 aircrafts. The Grumman E-2 Hawkeye is an American all-weather, aircraft carrier-capable tactical airborne early warning aircraft. Since entering combat during the Vietnam War, the E-2 has served the U.S. Navy around the world, acting as the electronic "eyes of the fleet." The C-2 Greyhound is a derivative of the E-2 Hawkeye, which shares wings and power plants with the E-2, but has a widened fuselage with a rear loading ramp. These aircraft are considered critical components of the U.S. Navy's carrier air wings.

Among the Navy official defendants, Donald Vangundy oversaw tool control for the E2/C2 program and was promoted to supervise and authorize the purchase and replacement of tools for all FRC programs. Kiet Luc was the liaison and coordinator for tools in the E2/C2 program and was responsible for maintaining and controlling the tool program. David Lindsay was the supervisory production controller for the E2/C2 program, and Brian Delaney was the E2/C2 deputy program manager. Between them, these four former Navy officials received a total of more than \$1 million in cash, goods, and services for their personal use, all fraudulently charged to and paid for by the Defense Department.

The remaining three defendants were owners or employees of various defense contractors that provided goods or services for NAS North Island. Michael Graven was the owner and operator of X&D Supply, Inc., a contractor located in Carlsbad, California. The Navy paid X&D at least \$2.26 million in connection with the fraud. John Newman was a sales manager at (and the former owner of) a defense contractor identified in the charging document as "Company A," located in Poway, California. The Navy paid Company A at least \$3.31 million in connection with the fraud. Paul Grubiss was a sales manager of a defense contractor identified in the charging document as "Company B," also located in Poway, California. The Navy paid Company B approximately \$1 million in connection with the fraud. Also implicated in the scheme was Jesse Denome, the owner of JD Machine Tech, Inc.

As part of the scheme, the defense contractors prepared and submitted fraudulent invoices to the Department of Defense, making it appear that they were billing the Department for goods and services within the scope of legitimate government contracts. In fact, the Defense Department was unknowingly paying for, among other things, the cost of personal benefits provided to the Navy officials. Compounding the cost of the fraud, the defense contractors also routinely charged a markup on the fraudulent invoices. Ultimately, the Defense Department paid over \$5.5 million in connection with the fraudulent invoices submitted by the defense contractor defendants.

Two of the Navy official defendants, Vangundy and Luc, also pleaded guilty to filing false tax returns for knowingly failing to report the value of the unlawful benefits provided to them by defense contractors. Graven also pleaded guilty to aiding and assisting in the filing of a false tax return by his business, X&D, for knowingly taking improper tax deductions for the illegal payments to the benefit of the Navy official defendants.

According to United States Attorney Duffy, the investigation into possible corruption at NAS North Island was initiated on the basis of citizen complaints. These complaints followed the July 2009 indictment of six individuals on fraud and corruption charges centered at the Space and Naval Warfare Systems Command (SPAWAR). As part of the SPAWAR corruption case, the government publicized a hotline dedicated to the reporting of possible waste, fraud, and abuse related to government and military contracts.

United States Attorney Duffy lauded the citizens who came forward and the coordinated efforts of the law enforcement agencies that participated in this long-running investigation, known as “Country Store,” including the Federal Bureau of Investigation, the Defense Criminal Investigative Service, the Internal Revenue Service - Criminal Investigation, the Naval Criminal Investigative Service, and the General Services Administration(GSA) - Office of Inspector General. In doing so, she emphasized that federal law enforcement agencies in the Southern District of California were committed to rooting out corruption in defense contracts and purchasing, which cheats the American taxpayer and our nation’s military readiness.

U.S. Attorney Duffy noted that the investigation is ongoing and urged anyone with information relating to waste, fraud, and abuse in government contracting to contact the Procurement Fraud Working Group hotline at: [sandiego.procurementfraud@usdoj.gov](mailto:sandiego.procurementfraud@usdoj.gov) or **call 1-877-NO-BRIBE**.

FBI Special Agent in Charge Keith Slotter commented, “Public corruption is the FBI's number one criminal priority. It seriously undermines the people’s trust in their government and gives an unfair economic advantage to those who trade the public's interest for their own personal gain. The FBI thoroughly investigates allegations of public corruption, and we remind the public to notify us, as they are sometimes the one person that can make a difference.”

Chris Hendrickson, Special Agent in Charge, Defense Criminal Investigative Service, Western Field Office said, “We are extremely pleased at this outcome, which yet again sends the message that corruption will be vigorously investigated and prosecuted. While the vast majority of Navy officials and contractors are honest in their work, some choose to abuse the public trust. This investigation clearly attests that those who compromise the integrity of the United States will face their day of reckoning. Corruption of this nature strikes at the heart of our national security and erodes public confidence. The Defense Criminal Investigative Service will use all tools available - our ability to track worldwide financial dealings, our advanced cyber capabilities, our worldwide law enforcement alliances - to protect taxpayers' interests.”

Leslie P. DeMarco, Special Agent in Charge of IRS-Criminal Investigation (IRS-CI) Los Angeles Field Office said, “the Navy officials and defense contractors sought illicit opportunities to profit or gain other personal advantages, at the expense of other law abiding businesses and taxpayers. Bribery and corruption schemes corrode the American financial and tax system. Today’s actions enforce IRS-CI’s commitment to work with our law enforcement partners, leveraging resources, to investigate and put an end to fraud by government officials.”

Geoffrey Cherrington, Assistant Inspector General for Investigations of GSA’s Inspector General’s Office stated, “the results of this case clearly demonstrate the tireless efforts of our special agents and our partners in law enforcement to protect the taxpayer. If you commit fraud, we are watching.”

The pleas are subject to final acceptance by United States District Judge Roger T. Benitez at or before sentencing. Sentencing for all seven of the defendants is currently scheduled for July 2, 2012, before Judge Benitez.

**DEFENDANTS**      **Case Number: 12cr1055-BEN**

Donald Vangundy  
Kiet Luc  
Brian Delaney  
David Lindsay  
John Newman  
Michael Graven  
Paul Grubiss

**SUMMARY OF CHARGES**

Count 1: Conspiracy to commit wire fraud, in violation of Title 18, United States Code, Section 1349 (**all defendants**) - Maximum penalties: 20 years in prison, \$250,000 fine, term of supervised release of three years, restitution, forfeiture, and \$100 special assessment.

Count 2: Conspiracy to commit bribery, in violation of Title 18, United States Code, Section 371 (**defendants Vangundy and Grubiss**) - Maximum penalties: 5 years in prison, \$250,000 fine, term of supervised release of three years, restitution, forfeiture, and \$100 special assessment.

Count 3: Filing a false tax return, in violation of Title 26, United States Code, Section 7206(1) (**defendant Vangundy**) - Maximum penalties: Three years in prison, \$250,000 fine, term of supervised release of one year, restitution, costs of prosecution, and \$100 special assessment.

Count 4: Filing a false tax return, in violation of Title 26, United States Code, Section 7206(1) (**defendant Luc**) - Maximum penalties: Three years in prison, \$250,000 fine, term of supervised release of one year, restitution, costs of prosecution, and \$100 special assessment.

Count 5: Aiding and assisting in a false tax return, in violation of Title 26, United States Code, Section 7206(2) (**defendant Graven**) - Maximum penalties: Three years in prison, \$250,000 fine, term of supervised release of one year, restitution, costs of prosecution, and \$100 special assessment.

**INVESTIGATING AGENCIES**

Federal Bureau of Investigation  
Defense Criminal Investigative Service  
Internal Revenue Service - Criminal Investigation  
Naval Criminal Investigative Service  
General Services Administration - Office of Inspector General