

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

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For Immediate Release

SEVEN SENTENCED IN WIDE-RANGING CORRUPTION SCHEME AT NAS-NORTH ISLAND

NEWS RELEASE SUMMARY – October 9, 2012

United States Attorney Laura E. Duffy announced today that seven individuals – four Navy officials and three defense contractors – were sentenced today by the Honorable Larry Alan Burns, United States District Judge, in federal court in San Diego. The seven defendants pled guilty on March 28, 2012, to participating in 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 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.

For their roles in the corruption scheme, five of the defendants were sentenced to time in federal prison, ranging from 18 to 41 months; and two of the defendants received three year probationary sentences. As a condition of their probation, those two defendants are also required to serve 30 consecutive weekends in federal custody. Each defendant was ordered to pay restitution to the United States Department of the Navy, and three defendants were also ordered to pay restitution to the Internal Revenue Service, with the restitution awards totaling over \$3 million. Additionally as part of the sentence, the Court ordered forfeiture of dozens of gift cards, electronics, and other items that were proceeds of the scheme. The defendants who were sentenced to prison were also sentenced to serve three years of supervised release, to be served upon their release.

The four former Navy officials sentenced today were employed at the Navy's Fleet Readiness Center ("FRC") located at NAS North Island: Donald Vangundy, Kiet Luc, David Lindsay and Brian Delaney. 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. These four former Navy officials admitted to receiving 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 Department of Defense in connection with this fraud and bribery scheme.

The Navy officials were sentenced as follows: Vangundy (41 months in custody), Luc (30 months in custody), Delaney (five years of probation, with the condition that he spend 30 consecutive weekends in federal custody), and Lindsay (five years of probation, with the condition that he spend 30 consecutive weekends in federal custody).

The three other defendants sentenced today were owners or employees of various defense contractors that provided goods or services for NAS North Island. John Newman was the sales manager of L&N Industrial Tool & Supply (“L&N”), located in Poway, California; Newman was sentenced to serve 18 months in custody.

Michael Graven was the owner and operator of X&D Supply Inc. (“X&D”), a defense contractor located in Carlsbad, California; Graven was sentenced to serve 18 months in custody.

Paul Grubiss was the sales manager of Centerline Industrial, Inc. (“Centerline”), a defense contractor located in Poway, California; Grubiss was sentenced to serve 18 months in custody.

All seven defendants pled guilty to engaging in a conspiracy to commit wire fraud. Vangundy and Grubiss also pled guilty to engaging in a conspiracy to commit bribery. Additionally, Vangundy, Luc, and Graven pled guilty to filing false tax returns.

In a related case, on August 23, 2012, an indictment was unsealed charging two additional individuals with bribery, and with conspiracy to commit bribery: Robert Ehnou, the owner of L&N; and Joanne Loehr, the owner of Centerline. The indictment also included charges against Centerline, as a corporate entity. All three of these defendants have pled not guilty, and the case is pending before United States District Judge Larry Alan Burns. The public is reminded that an indictment itself is not evidence that the defendant committed the crimes charged. The defendants are presumed innocent until the Government meets its burden in court of proving guilt beyond a reasonable doubt.

According to United States Attorney Duffy, the investigation into possible corruption at Naval Air Station 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.

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 **FBI's** Procurement Fraud Working Group Hotline at **1-877-NO-BRIBE** or **securely over the internet** at <https://tips.fbi.gov/>.

FBI Special Agent in Charge Daphne Hearn commented, "At a time when our nation's military must do more with fewer resources, these individuals deceived the sailors they claimed to support and betrayed our country's best interests for their own financial gain. Today's sentencing sends a strong message that the FBI and our partners will thoroughly investigate allegations of corruption at all levels."

"Cases like this send a clear message to anyone--government officials or contractors -- who try to defraud the Department of the Navy: you will get caught," said Susan Simon, Special Agent in Charge of the Naval Criminal Investigative Service (NCIS) Southwest Field Office. "The sentences received by these seven individuals are the result of the effective and collaborative teamwork between NCIS, its law enforcement partners, and the US Attorney's Office," she added.

Brian Miller, Inspector General for the General Services Administration, said, "We will continue to protect the government contracting process by rooting out corrupt individuals who use the process for personal gain."

DEFENDANTS **Case Number: 12-CR-1055-LAB**

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

SUMMARY OF CHARGES OF CONVICTION

- Count 1: Conspiracy to commit wire fraud in violation of 18 U.S.C. § 1349 (Vangundy, Luc, Delaney, Lindsay, Newman, Graven, Grubiss)
- Count 2: Conspiracy to commit bribery in violation of 18 U.S.C. § 371 (Vangundy, Grubiss)
- Count 3: Filing a false tax return in violation of 26 U.S.C. § 7206(1) (Vangundy)
- Count 4: Filing a false tax return in violation of 26 U.S.C. § 7206(1) (Luc)
- Count 5: Aiding and assisting in a false tax return in violation of 26 U.S.C. § 7206(2) (Graven)

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