

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

*United States Attorney
Laura E. Duffy*

*Assistant U. S. Attorney Andrew G. Schopler (619) 546-8068 and Department of Justice Trial
Attorney Timothy J. Stockwell (619) 546-6384*

For Immediate Release

SEVEN PLEAD GUILTY IN WIDENING BRIBERY AND KICKBACK CASE

NEWS RELEASE SUMMARY – January 31, 2014

Six former government contractors and a former Defense Department employee who called himself the “Godfather of Camp Pendleton” have entered guilty pleas in federal court in connection with a scheme involving bribery and kickbacks at federal facilities.

The guilty pleas, which also include two corporations, took place over a span of 10 days, culminating with the admissions today of subcontractors Paul Dana Kay of PK Excavation and Manuel Ramirez of MRN Construction, Inc., before U.S. Magistrate Judge David H. Bartick to Anti-Kickback Act violations.

Likewise, on Tuesday of this week, subcontractors Gerardo Mercado and Raul Mercado of Blue Ocean Construction, Inc., entered guilty pleas before Judge Bartick. Last week, former U.S. Department of Defense employee Natividad “Nate” Lara Cervantes, the self-described “Godfather,” as well as government prime contractors Hugo Hernandez Alonso and Bayani Yabut Abueg, Jr., and their companies, Hugo Alonso, Inc. (“HAI”) and MBR Associates, Inc. (“MBRA”) admitted crimes as well.

According to court records, Cervantes used his position at Camp Pendleton to solicit bribes from construction companies HAI and MBRA seeking to do business on the base, and referred to himself as the “Godfather of Camp Pendleton.” At least as early as September 2008, Cervantes admitted using his position supervising construction and service contracts to seek bribes from Alonso and Abueg, on behalf of either HAI or MBRA, to do business at Camp Pendleton. In return for these contracts, Cervantes received cash payments from Alonso and Abueg and remodeling work on a condominium that was paid for by HAI.

As part of his plea agreement, Cervantes admitted that as early as 2008, he agreed to accept a bribe of \$25,000 to assist Alonso and HAI in obtaining a \$3.5 million government contract to install flooring at Camp Pendleton. In arranging for a bribe payment, Cervantes, through a third party conduit, requested that Alonso “have the 25 package” (code for the \$25,000 bribe) available on September 5, 2008. On that same day, Alonso provided the \$25,000 to the third party conduit for delivery to Cervantes. Cervantes and Alonso admitted that Alonso paid Cervantes at least \$74,000 in bribes between 2008 and 2011. Cervantes and Abueg, acting on behalf of HAI, also admitted exchanging an additional \$20,000 in bribes during this time, all of which was approved by Alonso. Alonso’s company, HAI, also entered a guilty plea regarding the paying of bribes to Cervantes.

The bribes to Cervantes were not limited to just HAI. Both Cervantes and Abueg admitted to exchanging a bribe in 2011 related to the awarding of a \$3 million contract at Camp Pendleton to Abueg’s company, MBRA. Further, Cervantes admitted that on March 26, 2013, he met with Abueg, who agreed to pay Cervantes a \$40,000 bribe in exchange for assistance in obtaining a new \$4 million contract at Camp Pendleton for MBRA. The bribe was to be structured over a number of payments. The first payment was scheduled for March 28, 2013, with the balance of the bribe to be paid after the contract was awarded.

On March 28, 2013, Abueg met with Cervantes at a local business on Miramar Road in San Diego, California, to make the first payment that was discussed earlier in the week. During this meeting, Cervantes discussed, among other things, the payment schedule and the source of funds for the bribe payments. At the end of the meeting, Abueg handed Cervantes an envelope containing \$10,000 cash. At that point, federal agents intervened.

In addition to the bribery scheme, Alonso and Abueg engaged in a vast scheme to solicit kickbacks from subcontractors in exchange for favorable treatment in the awarding of subcontracts on various government contracts awarded to HAI and MBRA. Some of these government contracts were the same contracts at Camp Pendleton improperly awarded to HAI and MBRA with Cervantes’ help in exchange for bribes. Abueg, as a representative of HAI and then MBRA, admitted that between 2008 and 2011, he solicited, received, and accepted over \$539,000 kickbacks from various subcontractors.

The kickbacks typically consisted of cash given to Abueg or to Abueg’s son, and checks issued to Abueg, his son, or his daughter, all in an attempt to conceal the nature of the kickbacks. Other kickbacks to Abueg consisted of subcontractors performing discounted work at the personal residences of Abueg’s wife, relatives, and associates, including Cervantes. For some of the kickbacks, Abueg requested that the subcontractors inflate their original estimate for certain

work associated with the government contract. The inflated amount used for the kickback was then improperly included in corporate books and records as a legitimate business expense.

Separately, Alonso, as representative of HAI, admitted that in 2009, he accepted a kickback in the form of discounted remodeling of his Chula Vista residence by a subcontractor employee. Abueg's and Alonso's companies, MBRA and HAI, respectively, also entered guilty pleas regarding the solicitation and acceptance of kickbacks.

The four subcontractors who pleaded guilty this week admitted paying tens of thousands of dollars in kickbacks for favorable treatment in their subcontracts with HAI or MBRA. For example, Kay admitted to paying Abueg at least \$50,000 in kickbacks, and the Mercados admitted to paying Abueg over \$44,000 in kickbacks.

“The public confidence of citizens in their government is seriously undermined when federal employees and contractors engage in deceitful, corrupt practices for personal gain,” said U.S. Attorney Laura Duffy. “Corruption exacts a price, and those costs are ultimately born by honest taxpayers and forthright vendors. This office will continue to vigorously prosecute and hold accountable all those who seek personal enrichment at the public's expense.”

FBI Special Agent in Charge Daphne Hearn commented, “The FBI is committed to working with our law enforcement partners in rooting out fraudulent schemes that defraud the Department of Defense and ultimately American taxpayers. Today's guilty pleas are an example of that continued commitment to the American public to protect our precious tax dollars from waste, fraud, and abuse.”

Acting Special Agent in Charge of Internal Revenue Service (IRS) Criminal Investigation for the Los Angeles Field Office, Joel P. Garland stated, “Today's court action reaffirms IRS Criminal Investigation's role in combating tax and other financial crimes stemming from bribery of public officials.”

Small Business Administration Inspector General Peggy E. Gustafson said: “There is zero tolerance for corruption in SBA's set-aside contracting programs. We will aggressively pursue allegations of fraud and corruption in these programs and seek justice on behalf of taxpayers. I want to thank the U.S Attorney's Office and our law enforcement partners for their dedication and hard work throughout this investigation.”

“The special agents in my office work hard to fight fraud and protect taxpayer dollars,” said Inspector General Brian D. Miller of the General Services Administration. “We will continue to actively investigate GSA contractors whose ‘business as usual’ involves bribes and kickbacks.”

Special Agent in Charge Chris Hendrickson of the Defense Criminal Investigative Service (DCIS) Western Field Office commented, “We are committed to aggressively pursuing those who abuse the public trust and ultimately undermine the efforts of the Department of Defense to support our warfighters.”

Special Agent in Charge Susan M. Simon of the Naval Criminal Investigative Service (NCIS) Southwest Field Office observed, "This investigation once again highlights the excellent cooperation between multiple investigative agencies working together in the pursuit of justice. Combating procurement fraud perpetrated by U.S. Navy and U.S. Marine Corps contract companies and government contracting personnel remains a top priority for the Naval Criminal Investigative Service. It has been a pleasure for NCIS to have worked so closely with our federal partners, including the United States Attorney's Office, in the successful resolution of this case. We look forward to building on the excellent relationships forged throughout the course of this investigation."

Cervantes, Alonso and Abueg are scheduled to next appear in court for sentencing before U.S. District Judge Anthony J. Battaglia on April 18, 2014. Kay, Ramirez, Gerardo Mercado, and Raul Mercado are all scheduled to appear for sentencing before Judge Battaglia on April 25, 2014.

The public is encouraged to report possible public corruption criminal activity by calling the FBI's public corruption/border corruption hotline at (877) NO-BRIBE or (877) 662-7423, or by contacting the Department of Defense Hotline at (800) 424-9098 or email: hotline@dodig.mil.

DEFENDANT

Case Number: 13cr1345AJB

Lara Cervantes Natividad

DEFENDANT

Case Number: 14cr0120-AJB

Hugo Hernandez Alonso

DEFENDANT

Case Number: 14cr0144-AJB

Bayani Yabut Abueg, Jr.

DEFENDANTS

Criminal Case No. 14cr0180-AJB

Gerardo Ricardo Mercado

DEFENDANT

Criminal Case No. 14cr0181-AJB

Raul Mercado

DEFENDANT

Criminal Case No. 14cr0187-AJB

Paul Dana Kay

DEFENDANTS

Criminal Case No. 14cr0213-AJB

Manuel Ramirez

CORPORATE DEFENDANT

Case Number: 14cr0120-AJB

Hugo Alonso, Inc.

CORPORATE DEFENDANT

Case Number: 14cr0144-AJB

MBR Associates, Inc.

SUMMARY OF CHARGES

Title 18, United States Code, Section 201(b)(2)—Bribery of public official
Maximum penalties: 15 years' imprisonment, \$250,000 fine, or three times the monetary equivalent of the bribe
(Defendant Cervantes only)

Title 18, United States Code, Section 371 – Conspiracy to commit bribery of public official
Maximum penalties for individual defendants: 5 years' imprisonment, \$250,000 fine, or twice the gross amount of defendant's pecuniary gain from the offense
(Defendants Cervantes, Alonso, and Hugo Alonso, Inc.)

Title 41, United States Code, Sections 8701, 8702, and 8707 – Anti-Kickback Act Violation
Maximum penalties for individual defendants: 10 years' imprisonment, \$250,000 fine, or twice the gross amount of defendant's pecuniary gain from the offense
(Defendants Alonso, Hugo Alonso, Inc., Abueg, MBR Associates, Inc., Gerardo Mercado, Raul Mercado, Kay, Ramirez)

Title 26 United States Code, Section 7206(1) – Filing a False Tax Return
Maximum penalties: 3 years imprisonment, \$250,000 fine, or twice the gross amount of the tax loss from the offense
(Defendant Abueg only)

INVESTIGATING AGENCIES

Federal Bureau of Investigation
Naval Criminal Investigative Service
Internal Revenue Service, Criminal Investigation
Department of Defense Criminal Investigative Service
General Services Administration, Office of Inspector General
Small Business Administration, Office of Inspector General

