

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

DEFENSE DEPARTMENT EMPLOYEE AND TWO PRIME CONTRACTORS PLEAD GUILTY IN WIDENING BRIBERY / KICKBACK CASE

NEWS RELEASE SUMMARY – January 23, 2014

United States Attorney Laura E. Duffy announced that former U.S. Department of Defense employee Natividad “Nate” Lara Cervantes, government contractors Hugo Hernandez Alonso and Bayani Yabut Abueg, Jr., and their companies, Hugo Alonso, Inc. (“HAI”) and MBR Associates, Inc. (“MBRA”) pled guilty to charges involving bribery and kickbacks related to the awarding of construction and service contracts at Camp Pendleton. Cervantes entered a guilty plea on Tuesday, January 21, 2014 before U.S. Magistrate Judge Barbara L. Major and the others pled guilty today before U.S. Magistrate Judge William V. Gallo.

The court accepted guilty pleas to bribery charges from Cervantes, Alonso and HAI involving the awarding of at least six government construction and service contracts from 2008 to 2011. In addition, Alonso, Abueg, HAI and MBRA pled guilty to soliciting and accepting kickbacks from subcontractors in relation to government contracts awarded to HAI and MBRA (steered to these companies by Cervantes). The defendants admitted that they solicited and accepted the kickbacks from various subcontractors in exchange for favorable treatment in connection with future subcontracts. Abueg also admitted filing a false federal income tax return for 2010 that failed to report over \$268,000 in illegal kickbacks.

Bribery at Camp Pendleton

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 at 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, FBI agents intervened.

Kickbacks Related to Government Contracts and Subcontracts

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 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."

Cervantes, Alonso and Abueg are scheduled to next appear in court for sentencing on April 18, 2014 before U.S. District Judge Anthony J. Battaglia.

This investigation was conducted under the FBI's public corruption investigative program. The public is encouraged to report possible public corruption criminal activity to the FBI by calling the FBI's public corruption/border corruption hotline at (877) NO-BRIBE or (877) 662-7423.

Individual Defendants

Case Number: 13cr1345AJB

Natividad Lara Cervantes

Age: 64

San Diego, CA

Case Number: 14cr0120-AJB

Hugo Hernandez Alonso

Age: 50

Chula Vista, CA

Case Number: 14cr0144-AJB

Bayani Yabut Abueg, Jr.

Age: 51

San Diego, CA

Corporate Defendants

Case Number: 14cr0120-AJB

Hugo Alonso, Inc.
Chula Vista, CA

Case Number: 14cr0144-AJB

MBR Associates, Inc.
National City, CA

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, and MBR Associates, Inc.)

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