

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

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For Immediate Release

ADDITIONAL DEFENSE CONTRACTORS CHARGED IN WIDE-RANGING CORRUPTION SCHEME AT NAVAL FLEET READINESS CENTER, SAN DIEGO

NEWS RELEASE SUMMARY – August 23, 2012

An indictment was unsealed today charging Robert Ehnou, the owner and President of Poway defense contractor L&N Industrial Tool & Supply Inc. (“L&N”); Joanne Loehr, the owner and operator of Poway defense contractor Centerline Industrial Inc. (“Centerline”); and Centerline itself (a California corporation) with conspiring with Navy officials to commit bribery, wire fraud, and money laundering at the Naval Air Station North Island, in Coronado, California. The indictment also charges each defendant with six felony counts of bribery.

Ehnou, Loehr, and Centerline were arraigned on the indictment this afternoon in federal court in San Diego, and pled not guilty to the charges.

The indictment alleges that 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 government orders with the defense contractors.

According to the indictment, Ehnou (the owner of L&N) and Loehr (the owner of Centerline) conspired with their sales managers, with Navy officials who have already pled guilty, and with others, to engage in this wide-ranging conspiracy. 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 bribes provided to the Navy officials. Compounding the cost of the fraud, the defense contractors also routinely charged a markup on the fraudulent invoices.

In some cases, L&N would engage in money laundering by using its government contract to fraudulently bill the Navy for items that were never supplied; and would then, at the request of Navy co-conspirators, pass along the criminal proceeds to Centerline, keeping a portion for itself as compensation for serving as a conduit for the criminal proceeds.

During the course of the conspiracy, the Department of Defense paid L&N over \$3 million. Centerline obtained over \$1 million in payments from Defense Department during the conspiracy. A third defense contractor, X&D Supply, Inc. ("X&D"), located in Carlsbad, California, was paid over \$2 million during the conspiracy.

L&N, also known as Mardoc Corporation, filed for Chapter 7 bankruptcy in June 2011. Centerline remains in business.

Earlier this year, on March 28, 2012, seven individuals pled guilty and admitted their involvement in the fraudulent scheme. Of these seven defendants, four were Navy officials 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 three remaining defendants who pled guilty in March were owners or employees of various defense contractors that provided goods or services for NAS North Island. As alleged in the indictment, John Newman was the sales manager of L&N, Paul Grubiss was the sales manager of Centerline, and Michael Graven was the owner and operator of X&D.

The seven-defendant case was, in turn, related to an earlier criminal case against Jesse Denome, the owner of JD Machine Tech Inc., a San Diego defense contractor, who on May 16, 2011, pleaded guilty to conspiracy to commit bribery, and filing a false tax return.

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 Procurement Fraud

Working Group hotline at: sandiego.procurementfraud@usdoj.gov or call **1-877-NO-BRIBE**.

FBI Special Agent in Charge Daphne Hearn commented, “Public corruption is the FBI’s number one criminal priority. We in the San Diego Division are committed to aggressively pursuing all information suggesting any allegation of corruption by government officials. We encourage anyone with information relative to the abuse of public trust to contact the FBI.”

Kevin F. Boyne, Assistant Special Agent in Charge, Defense Criminal Investigative Service, Western Field Office said, “We are committed to investigating corruption in Department of Defense contracts and programs. The Defense Criminal Investigative Service will continue to support the effort to bring prosecution against employees and contractors alike. We will vigorously pursue those employees and contractors who choose to violate the public trust for personal enrichment and we will use all investigative tools and partnerships available to protect the interests of the Department of Defense and taxpayers.”

Leslie P. DeMarco, Special Agent in Charge of IRS-Criminal Investigation (IRS-CI) Los Angeles Field Office commented, “civilian Navy officials dishonored their oath and defense contractors manipulated the system in exchange for personal benefits and illicit opportunities. This conduct was at the expense of other honest law abiding businesses and taxpayers. Today’s actions reinforce IRS-CI’s commitment to rooting out bribery and money laundering activities in a coordinated effort with our law enforcement partners and putting an end to fraud by government officials and defense contractors.”

Southwest Field Office NCIS Special Agent in Charge Susan Simon commented that identifying and reducing fraud and corruption within the Department of the Navy is a priority for the NCIS. “This is a perfect example where the expertise and experience NCIS Special Agents bring to the table, coupled with a seamless law enforcement relationship with other Federal and DOD agencies, can only equal success. We all strive to be good stewards of the tax payer’s money,” Simon said. “When individuals break that trust, it is our job to identify, investigate and work to prosecute those individuals. A wrong

has been rectified and this should send a clear message to others considering defrauding the Department of the Navy.”

“These recent indictments add to the already large number of individuals charged, many of whom pled guilty,” said GSA Inspector General Brian D. Miller. “We, and other law enforcement agencies, are committed to stopping this kind of widespread abuse.”

This morning, the three latest defendants were arraigned before U.S. Magistrate Judge Jan M. Adler in federal court in San Diego, California. The defendants are released on bond. The indicted case has been assigned to U.S. District Judge Marilyn L. Huff. The next scheduled court appearance is October 9, 2012 for a motion hearing.

DEFENDANTS **Case Number: 12cr3320H**

Robert Ehnou
Joanne Loehr
Centerline Industrial Inc., a California corporation

SUMMARY OF CHARGES IN CASE NO. 12cr3320H

Count 1: Conspiracy to commit bribery, in violation of Title 18, United States Code, Section 371 (**all defendants**) - Maximum penalties: 5 years in prison, \$250,000 fine, term of supervised release of three years, restitution, forfeiture, and \$100 special assessment.

Counts 2 to 6: Bribery, in violation of Title 18, United States Code, Section 201 (**defendant Ehnou**) - Maximum penalties (per count): Fifteen years in prison, \$250,000 fine, term of supervised release of three years, restitution, and \$100 special assessment.

Counts 7 to 13: Bribery, in violation of Title 18, United States Code, Section 201 (**defendants Loehr and Centerline**) - Maximum penalties (per count): Fifteen years in prison, \$250,000 fine, term of supervised release of three years, restitution, and \$100 special assessment.

Case Number: 12-CR-1055-LAB **Sentencing Date: September 10, 2012**

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

Case Number: 10-CR-3737-LAB

Jesse Denome

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

An indictment is not evidence that the defendants committed the crimes charged. The defendants are presumed innocent until the Government meets its burden in court of proving guilt beyond a reasonable doubt.