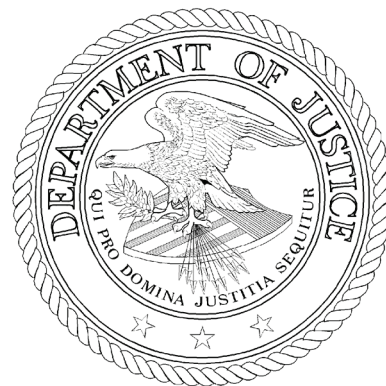


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# ***NEWS RELEASE***



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

*San Diego, California*

*United States Attorney  
Laura E. Duffy*

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

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*For Immediate Release*

## **FOUR SUBCONTRACTORS PLEAD GUILTY IN WIDENING BRIBERY / KICKBACK CASE**

**NEWS RELEASE SUMMARY** – January 31, 2014

United States Attorney Laura E. Duffy announced that four subcontractors pled guilty this week to violating the Anti-Kickback Act. With the guilty pleas last week of a U.S. Department of Defense employee and two prime contractors, this widening bribery and kickbacks case has now resulted in the felony convictions of seven people. Today subcontractors Paul Dana Kay of PK Excavation and Manuel Ramirez of MRN Construction, Inc., pled guilty before U.S. Magistrate Judge David H. Bartick to Anti-Kickback Act violations. On Tuesday, subcontractors Gerardo Mercado and Raul Mercado of Blue Ocean Construction,

Inc., also pled guilty before Judge Bartick to Anti-Kickback Act violations. And last week former U.S. Department of Defense employee Natividad “Nate” Lara Cervantes, government prime 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.

### ***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 four subcontractors who pled 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.

### ***Statements from the U.S. Attorney and the Six Investigating Agencies***

“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."

"There is zero tolerance for corruption in SBA's set-aside contracting programs," said Small Business Administration Inspector General Peggy E. Gustafson. "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, "Cases such as this are not motivated by need, or other difficult personal circumstances; they are products of simple greed. 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.”

### ***Next Court Hearings***

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](mailto:hotline@dodig.mil).*

### ***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

***Case Number: 14cr0180-AJB***  
Gerardo Ricardo Mercado

Age: 55  
National City, CA

***Case Number: 14cr0181-AJB***

Raul Mercado  
Age: 52  
San Diego, CA

***Case Number: 14cr0187-AJB***

Paul Dana Kay  
Age: 66  
Santee, CA

***Case Number: 14cr0213-AJB***

Manuel Ramirez  
Age: 47  
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, 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