

The Virgin Islands Consortium

G.E.R.S. Invests \$8.2 Million In Grocery Store Project Despite Being Warned Not To By Consultant

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ST. THOMAS -- An Office of the Inspector General (O.I.G.) audit [report](#), led by Inspector General Steven van Beverhoudt, [has revealed](#) a long list of bad money management by the Board of Trustees of the Government Employees' Retirement System (G.E.R.S.). The report, a pointed investigation into G.E.R.S.'s Alternative Investment Program (A.I.P.) -- coming at a time when the pension program continues to [bleed money](#) -- brought to the fore findings that suggest current and past board members have failed to adequately secure, far less grow the pension portfolio of government employees.

In the due diligence segment of the audit, the O.I.G. found 7 loan agreements that were classified as special situations under the A.I.P type of private equity. It also found that the

processes to approve these loans, notify potential borrowers, receive critical documentation, and ensure borrowers' experience, credibility and repayment ability, were not uniform or diligent.

"G.E.R.S. entered into numerous agreements and investments without performing the necessary due diligence to ensure a reasonable rate of return. As a result, there is no assurance that the funds disbursed will produce the desired rate of return or even if the funds disbursed will be recovered," reads the audit.

Such was the case with a loan of \$8.2 million that G.E.R.S. provided for a grocery store development in St. Thomas. According to the audit, the loan was provided on June 30, 2014, to be used to construct a multilevel grocery. The application and qualification process took almost two years because the proposers had difficulty turning over documentation to prove favorable character, capacity, collateral, capital, and conditions. In fact, on July 17, 2012, an outside financial consultant wrote an investment memorandum recommending that G.E.R.S. "do not invest" due to competition, repayment ability, and the proposers' limited experience in retail grocery operation.

However, according to the audit, the recommendation was later changed to "consider for a loan" with the identical concerns cited in the "do not invest" memorandum remaining.

"We did not find enough evidence in the file to prove that these issues were ever satisfactorily addressed and resolved. The Board of Trustees endorsed the project, citing that it will be the only locally owned grocery while ignoring the other structural issues with the loan," reads the audit.

"We also noted that the financial documents submitted included aggressive estimates. Furthermore, bank account information on file to support the loan revealed that the existing business account was overdrawn by \$185 in May, 2013 and had a balance of only \$47 in June, 2013. These issues led us to question whether the entity actually qualified for this loan, possessed the ability to repay, and could survive under current market conditions," according to the audit.

But despite these glaring concerns, the Board of Trustees moved to allow closing on June 30, 2014, where \$2.3 million was disbursed, and the remaining \$5.9 million was to be disbursed in accordance with a percentage of completion schedule, the audit says. The construction completion date was set for November 30, 2015, but has since been delayed. And recently, an additional \$2.7 million was loaned to the developers of the grocery store.

Furthermore, terms of reference relating to the \$8.2 million loan indicated that after the \$2.3 million initial drawdown given on the closing date, the remaining \$5.9 million would be drawn based on work completed and upon the inspection by "a G.E.R.S. appointed architect and engineer". The construction was to be completed by November 2015, at which time repayment of the loan was to begin. However, due to some delays in the project, officials from the business had requested a time extension to March of 2016, to complete the project and three months after to begin the loan repayments, the audit says.

Yet, even the new timeline failed. A November 12, 2015 inspection report for G.E.R.S., states that the March 2016 completion date is unlikely, and recommended summer 2016

as a more achievable date. In light of this, the audit says by adding the extra three months requested after the completion of construction, G.E.R.S. cannot expect any payments on the loan until late 2016 or early 2017; about two and a half years after the initial \$2.3 million drawdown.

The O.I.G. was informed that as of November 13, 2015, there was still an outstanding balance of \$3 million to be drawn down on the loan. Business officials have also requested a net after cost of \$2.7 million in additional funding, due to site changes and start up costs, according to the audit.

The proposal for the additional funding includes the following:

- Change Orders \$403,000
- Various Electrical Items including Generator \$344,200
- Parking Lot \$530,000
- Trash Compactor \$75,000
- Elevator/Electrical/Generator Room \$69,000
- Third Floor Bathroom \$50,000
- Internal Audit Security System \$25,000
- Solar Power Installation \$250,000

Start-up Costs:

- Security System/Office Equipment \$195,941
- Working Capital Cash: \$400,000
- Business Insurance: \$35,000
- Start-up Personnel Costs: \$335,000
- Total: \$2,712,141

In its response to the report, the G.E.R.S. Board of Trustees stated that they concurred in part and disagreed in part. The board disagreed with the conclusion that they did not conduct efficient monitoring and oversight activities of investments under the A.I.P. to protect G.E.R.S.' interest. The board further added that all investments have been monitored, bar a fast food chain investment. The board also said that they would review and revise their policies and procedures as necessary, and designate someone who will be assigned to conduct adequate monitoring of the investments under the A.I.P.

Responding to the board's comments, however, I.G. van Beverhoudt said the board's response was divergent.

"In their response, the G.E.R.S. Board of Trustees admitted that they did not monitor the investment in the fast food chain, yet disagreed with our findings that they did not conduct efficient monitoring," he said.

"We affirm our position, as the G.E.R.S. Board of Trustees has never prepared a corrective action plan to resolve the issues from the forensic audit of the hotel, waived amendment fees to the airline after they violated covenants, and continued to provide additional funding to the grocery store after the initial loan for items that should have been considered in the initial proposal, and for start-up items that should be the responsibility of the business owners. It appears that the G.E.R.S. is absorbing the entire risk in this venture, while the owners seem to have very little to lose," Mr. van Beverhoudt

said.

Feature Image: A November, 2015 picture of the \$8.2 million grocery store in St. Thomas that's yet to be completed.

Image Credit: O.I.G.

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