

The Virgin Islands Consortium

HUD Delays Billions In Funding For USVI, Puerto Rico, Citing Alleged Corruption

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The recovery of the U.S. Virgin Islands has been hit with a major setback that could ripple through all aspects of the territory, following an announcement from U.S. Housing and Urban Development Secretary Ben Carson that H.U.D. has decided to delay billions of dollars in funding to the U.S. territories based on alleged corruption in Puerto Rico.

To put the announcement in perspective, during the Mapp administration, H.U.D. had approved [a total of \\$1.8 billion](#) in funding for the U.S. Virgin Islands, monies to be used for everything from new housing communities, infrastructure resiliency, and road projects. Some \$8 billion was approved for Puerto Rico.

Now, the funds are essentially on hold, with a senior H.U.D. official [telling](#) U.S. media reporters on Friday that H.U.D. had concerns about "past mismanagement of funds" being heightened by "unrest in Puerto Rico."

"Right now, because of the government instability, we have serious concerns and we want to make sure that we are pumping the brakes and that we're being prudent and that the money is being spent properly," the official said. "We're looking for ways to even put our current monitoring process on steroids to make sure that the money goes to the people of Puerto Rico and doesn't get wasted."

Funds for the U.S. Virgin Islands are delayed with Puerto Rico's share, the official said. Guidelines for the territories will be worked out "sometime in the near future"; HUD did not offer further timeline details, according to CNN.

In July, a federal grand jury returned a 32-count indictment in a wide-ranging government corruption scandal that resulted in the arrest of two former senior officials of the Ricardo Rosselló administration, the former Puerto Rico governor who resigned Friday.

According to the federal indictment, the former secretary of Puerto Rico's Department of Education, Julia Keleher; the former director of the Health Insurance Administration, Ángela Ávila; the president of accounting and auditing firm BDO Puerto Rico/USVI, Fernando Scherrer, and subcontractor Alberto Velázquez Piñol were arrested by federal officials as part of the indictment. The indictment says the former officials illegally directed federal funding to politically connected contractors.

The only known connection the USVI has had with the corruption scandal that rocked Puerto Rico is that Mr. Scherrer, the BDO Puerto Rico/USVI president, also headed the USVI BDO operation, with John Engerman being Mr. Scherrer's immediate subordinate.

Even so, the corruption scandal in Puerto Rico in which BDO was implicated, made for bad optics in the U.S. Virgin Islands. Mr. Engerman is a confidant and close friend of Governor Albert Bryan. He led Mr. Bryan's campaign as manager during the primary and general elections. Likewise, Mr. Scherrer had connections in the Ricardo Rosselló administration, which allegedly allowed him to secure deals in PR. The fact that BDO Puerto Rico/USVI has been awarded millions of dollars in contracts in the U.S. Virgin Islands could easily lead people to believe that Mr. Engerman's relationship played a role in securing the deals -- even though the company under Mr. Engerman's leadership had been securing government contracts before Mr. Bryan's tenure.

Following the indictment, questions lingered about the legality of BDO PR/USVI's operations in the U.S. Virgin Islands, as Mr. Scherrer, who registered as a CPA in the territory as part of the process to get the company up and running here, is no longer at the firm.

In a release [issued in February](#), BDO Puerto Rico/USVI said it would "operate within the Public Finance Authority's (PFA) newly established Office of Disaster Recovery, which will provide strategic oversight for the expected \$8 billion in federal disaster recovery funds allotted to the USVI." BDO Puerto Rico/USVI makes a bulk of its money in the territory by securing millions of dollars in federal contracts from Witt O'Brien, which was hired by the Government of the Virgin Islands to ascertain that the federal dollars are

spent effectively and wisely.

Puerto Rico was slated to receive about half of the \$16 billion H.U.D. has to distribute to states and territories hit by natural disasters since 2015, according to CNN. The funding is intended for major projects to make infrastructure more resilient, rather than immediate rebuilding needs. To receive the funding, local governments must submit grant requests to H.U.D. for review.

Puerto Rico Housing Secretary Fernando Gil Enseñat told CNN in a statement that his department "has not been involved or implicated in any of the alleged corruption or fiscal irregularities, and in fact has been recognized by H.U.D. staff for commitment to fiscal controls, management, and risk mitigation."

Mr. Engerman told The Consortium in July that he would buyout the Virgin Islands arm of BDO PR/USVI. Once the process is complete, Mr. Engerman said he would then change the name BDO VI to something entirely different in an effort to untie the company from the PR scandal.

Yet even with that effort, if successful, Mr. Engerman would have to deal with a slew on consequential challenges. For example, part of the BDO appeal is the "world-class resources" available to its clients. The About Us page says, "BDO in Puerto Rico/USVI is a member of BDO International, the world's fifth largest accounting and consulting network." Untying the USVI operations from BDO and essentially forming a new company, which Mr. Engerman said he will wholly own, could lead to a halt in the company's operations — and even a nullification of current contracts. It is expected that firms that are approved for major, multi-million federal contracts go through a rigorous process before approval.