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G.E.R.S.'s Lack of Oversight Led to Questionable Contracts, Cost Overruns and Incomplete Services of Loan Issued to Defunct Supermarket

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Building purchased by UVI that once housed the now defunct West Bay Supermarket

Even as the Government Employees' Retirement System is currently in the fight of its life to stay afloat, with meetings being held among government leaders on how to stave off collapse, another Inspector General report published late last month serves as a reminder of how the pension system has squandered millions of dollars through its now-suspended Alternative Investment Program (A.I.P.)

The latest investigation delves into G.E.R.S.'s loan to the now-defunct, St. Thomas-based supermarket West Bay, owned at the time by a company named V.I. Fine Foods, LLC. Though the

Inspector General [previously examined](#) the matter as part of its 2016 Audit Report of G.E.R.S., the I.G. [took a closer look](#) more recently, this time to determine how much money was expended, whether the pension system followed established policies and procedures, and whether the loan proceeds were utilized in accordance with the loan's terms and conditions. The investigation also sought to determine whether V.I. Fine Foods, which received \$11 million in total from G.E.R.S., made loan repayments as required by the agreement.

G.E.R.S.'s A.I.P. was established through a law in 2005 which authorized the pension system to seek riskier investments that yield higher returns. The program, [which resulted in millions of dollars lost](#), was suspended in 2015.

The V.I. Fine Foods supermarket deal was part of the A.I.P. and G.E.R.S. approved in June 2014 \$8.2 million to build the facility, which was named the West Bay Supermarket. The I.G.'s report found that the loan was approved to cover the supermarket's construction, the purchase of equipment and inventory; fund a Capitalized Interest Reserve Fund and a Debt Service Reserve Fund.

According to the loan terms, the supermarket was expected to be completed within 17 months, with a completion date of November 30, 2015. However, VI Finest Foods did not meet this date, citing unforeseen setbacks and a need for additional funds to complete the project, according to the I.G.'s report. The facility was not completed until 2017 with an additional \$2.8 million, leading to a total cost of \$11 million.

Writing to G.E.R.S. Board Chairman Nellon Bowry, Inspector General Steven van Beverhoudt stated, "We found that GERS did not effectively manage the loan issued to VI Finest Foods under the Alternative Investment Program. Specifically, GERS: (i) did not adequately review services performed and examine expenses incurred for \$2.7 million of loan proceeds issued; (ii) did not ensure that all phases of the supermarket project (the project) were monitored; (iii) failed to ensure that inspectors monitored all phases of the project while continuing to issue funds for the project; (iv) failed to follow established procedures to perform periodic analysis of project expenditures; and (v) provided an additional \$2.8 million beyond the initial loan amount although VI Finest Foods never demonstrated the ability to make consistent payments per the loan requirements."

"As a result: (i) the lack of oversight led to questionable contract costs, cost overruns, and incomplete contract services; (ii) at least \$480,850 in loan proceeds was diverted for unauthorized purposes; (iii) VI Finest Food defaulted on the loan; and (iv) the collectability of the remaining loan balance owed to GERS remains uncertain," Mr. van Beverhoudt added.

Loan Management

The I.G. found the following: "GERS did not effectively manage VI Finest Foods' loan according to the terms of the loan agreement. Specifically, GERS advanced \$2.7 million in funds without adequate review of services performed and scrutiny of expenses paid.

"We attribute these conditions to GERS' failure to ensure that all aspects of the project were monitored, while continuing to issue funds. Also, GERS failed to follow established procedures to perform periodic analyses of project expenditures.

"This resulted in questionable contract costs, cost overruns, and the failure to fulfill contract deliverables. It also led to the diversion of \$480,850 of loan proceeds for unrelated purposes."

No Verification of Non-Construction Contract Services Performed

The I.G. through its investigation found that G.E.R.S. "entered into an unwritten agreement with a firm to serve as the project's inspector. The lack of a formal agreement with specific details of the expectations of the project inspector led to a different interpretation of the loan's management responsibilities and expectations. We found that GERS expected that the inspector was responsible for reviewing all aspects of the project and providing a report of the work completed to G.E.R.S.

"They would then make a recommendation to G.E.R.S. to approve the draw request submitted by VI Finest Foods. However, the inspector's interpretation of their role was to inspect the physical building's construction only. The inspector conveyed their position in correspondence to G.E.R.S. when G.E.R.S. asked the firm to review a payment request for the refrigeration contractor and IT contractor.

"G.E.R.S. advanced the funds to VI Finest Foods for these requests, without its inspector, VI Finest Foods' architect, or another G.E.R.S.-appointed inspector verifying the previous completion of work. As a result, two crucial and significant contracts totaling \$2,320,111 were not adequately evaluated and monitored for performance."

Monitoring of Project Expenses

"We saw no evidence that G.E.R.S. performed due diligence in reviewing how VI Finest Foods used the funds previously received. We found that VI Finest Foods used at least \$480,850 of loan proceeds to cover their wholesale business expenses," said the I.G. "We were not provided evidence that G.E.R.S. gave written consent approving the use of the loan proceeds to pay for expenditures not authorized by the loan terms. This was partly due to G.E.R.S. not placing the same level of scrutiny on the draw requests for non-construction expenses as they did for the building's construction. When we inquired of G.E.R.S. officials about their process for reviewing project expenditures during the construction of the supermarket, the Administrator said they did not plan to review expenditures until VI Finest Foods completed the project."

In response to the report, G.E.R.S. said it would make a number of changes, including the creation of a unit to oversee and monitor all projects as recommended by the I.G. This will include project costs if the Alternative Investment Program is restarted.

After the supermarket shut down in March 2019, G.E.R.S. took control of the building and in March 2020 [sold it](#) to the University of the Virgin Islands for \$8.4 million. At the time of the sale to UVI, G.E.R.S. said it recovered in excess of the \$11 million it had expended because of the interest earned on the loan to V.I. Fine Foods, LLC. At the time of the sale to UVI, V.I. Finest Foods was still indebted to GERS for additional accrued interest payments through February 29, 2021 in the amount of \$1,763,079.15.

G.E.R.S. Administrator Austin Nibbs told the Consortium [in March 2019](#) that West Bay failed because it lacked support.

See the full audit report [here](#).