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| **Personal conflicts obstruct FBI investigation into Puerto Rico fraud** |
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By Caribbean News Now contributor

SAN JUAN, Puerto Rico -- The ongoing controversy over Puerto Rico’s insolvency and efforts to enlist congressional support for legal bankruptcy protection for the US territory have resulted in fingers being pointed at the local Federal Bureau of Investigation (FBI) and the Puerto Rico US Attorney’s office for an alleged failure to investigate and prevent a reportedly massive fraud that may have contributed to the island’s financial crisis.

According to Richard Lawless, the CEO of Commercial Solar Power, Inc., a company that was reportedly forced into bankruptcy by what he described as the “bizarre behaviour” of the Puerto Rico Electric Power Authority (PREPA), the utility has been used to redirect as much as $100 million a year from the people of Puerto Rico to select government officials.

On February 24, 2015, a private law suit was filed using the Racketeer Influenced and Corrupt Organizations Act claiming that government officials at PREPA stole over one billion dollars in public money over ten years and committed one of the largest municipal bond frauds in US history.

Increasing municipal bond defaults have been a growing concern among investors and politicians over the past few years. With the pending defaults on almost $70 billion dollars in municipal debt issued by various Puerto Rico municipalities, the Securities and Exchange Commission (SEC) has reportedly increased its efforts to monitor this sector.

“Confidential sources have indicated that SEC audits have uncovered material irregularities relating to the issuance of unjustified credit ratings by Fitch Group, Inc. The confidential source has indicated that the initial probe will focus on bonds issued by Puerto Rico’s largest utility company PREPA,” Lawless said.

However, Daniel Noonan, global head of communications at Fitch Group, stated in an email, “We have no knowledge of any of the investigations alleged by Mr Lawless.”

It has also been alleged that law enforcement authorities in Puerto Rico stood by and did nothing for a number of years, which assertion was substantiated by a phone call originating in Alexandria, Virginia, that Lawless said he received some months ago from a man stating that he worked for the US government, which Lawless said he inferred was the Central Intelligence Agency (CIA).

Lawless was told that Puerto Rico came on the agency’s radar years ago because the head of the PREPA fuel purchase office started making direct calls to the then president of Venezuela, Hugo Chavez. They listened in and found out that PREPA was buying sludge oil from Venezuela and billing the utility for high grade oil. The difference in value, hundreds of millions per year (today it would be $700 million a year and is said to be still going on) was allegedly kicked back to the fuel office manager and distributed to politicians and government officials on the island.

As the unnamed government agency continued to listen in on the calls, the caller claimed it became clear that family members of Puerto Rico FBI agents and family members in the Puerto Rico US Attorney’s office were receiving payments based on these “kickbacks”.

“He went on to tell me that the Puerto Rico FBI and US Attorney will do nothing about the oil kickback scheme and the bond rating scheme because they were participating in it. He went on to suggest that because of the separation laws regarding CIA activities and US national law enforcement that there was not much he could do,” Lawless said.

On Monday, a senior source in a related US government agency, speaking to Caribbean News Now on condition of anonymity, confirmed almost word for word what Lawless had apparently been told.

In the meantime, a voice message left for Lawless by someone said to be calling from the San Juan FBI office in response to complaints made by Lawless to members of congress, claimed that the matter was being “looked at” to determine whether or not the circumstances cross the boundary from civil fraud to a criminal offence.

However, on June 24, 2015, the government of Puerto Rico issued a [23-page legislative report](http://www.caribbeannewsnow.com/docs/prepa_report.pdf), described by Lawless as “no less than a detailed confession”, which outlines how government officials in Puerto Rico conspired with Wall Street firms to commit $11 billion dollars in financial fraud.

“After reviewing this document and other evidence for many months, the FBI is claiming that the best prosecutors in the DOJ have not yet found criminal grounds to move forward,” Lawless pointed out.

According to the legislative report itself, PREPA paid previous bondholders with capital received from new investors, which is the classic hallmark of a Ponzi scheme.

“The abovementioned was done to benefit the financial community that issued the debt and who today is collecting same, without any moneys having been invested in improvements to infrastructure, all to the detriment of the best interest of the people of Puerto Rico. We believe that the actions and circumstances mentioned above caused the economic insolvency which has plagued PREPA in the past years,” the report said.

The debt was sold at discount, a large quantity of it between .60 to less than .50 cents to the dollar with the agreement to pay to the dollar in full upon its maturity. Plus, the annual return yield was agreed to set high interest rates, and the principal and return are three-fold exempt from payment of local and federal taxes, the report continued.

The report claimed that the financial intermediaries and the institutional bondholders, despite being fully aware of PREPA’s fiscal situation, had no qualms with unjustly enriching themselves and with having the consequences of their negligent acts be paid for by the people of Puerto Rico.

“Meanwhile, and fully aware that PREPA did not have the resources to repay the debt, investment firms, banks, credit houses, consulting engineers, and PREPA itself failed to bring out into public light the need to make adjustments to the rates charged by PREPA,” the report said.

Investors allowed PREPA to issue bonds, then, PREPA borrowed from private banks to pay the bond’s interests; then, borrowed from the Government Development Bank (GDB) to pay back the private bank loans, and the GDB, in turn, issued more bonds to refinance all. Afterwards, PREPA would issue a new debt to pay GDB’s outstanding interests, pay principal and pre-pay the new bonds’ interests for several years – a cycle that is repeated over and over – and in which the original debt is never paid, the report outlined.

“This practice could constitute a fraud scheme for which the federal agencies that regulate financial instruments and the Security Exchange Commission could take action against and/or pursue civil suits against these institutions,” the report said.

It was also recommended that the report be forwarded to the US Justice Department and the SEC for corresponding action.

Lawless pointed out that the Puerto Rico Legislature itself was clearly suggesting that a criminal act had occurred and should be investigated.