



Office of the Special Inspector General for
Pandemic Recovery
Office of Audits

August 12, 2021

Addendum to Alert Memorandum: Caribbean Sun Airlines, Inc. Has Not Responded
to SIGPR's Direct Loan Program Survey (Report Number: SIGPR-A-21-001-1)

On August 2, 2021, we issued Alert Memorandum: Caribbean Sun Airlines, Inc. Has Not Responded to SIGPR's Direct Loan Program Survey (Enclosure 1). The alert memorandum discussed that Caribbean Sun Airlines, Inc. (Caribbean Sun) had not responded to a survey issued by SIGPR during our ongoing audit of the Department of the Treasury's (Treasury) Direct Loan Program.

The alert memorandum recommended Treasury take immediate action, under the authority provided for in §5.02 or §10.07 of the Loan and Guarantee Agreement and require Caribbean Sun to submit to SIGPR its response to the survey within 30 days of Treasury's request to respond.

On August 3, 2021, Treasury provided its immediate response stating that Caribbean Sun was issued a Notice of Non-compliance with the Loan and Guarantee Agreement (Enclosure 2). Specifically, Treasury stated that Caribbean Sun was not in compliance with §10.07, regarding SIGPR's timely and unrestricted access to records, documents, and personnel related to the loan. The notice further warned that failure to cure the non-compliance would constitute an Event of Default under the terms of the agreement.

We appreciate the timely response from Treasury and find Treasury's notification to Caribbean Sun acceptable.



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ENCLOSURE 1



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Alert Memorandum:

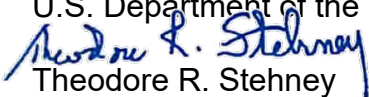
Caribbean Sun Airlines, Inc. Has Not Responded to SIGPR'S Direct Loan Program Survey

Report Number: SIGPR-A-21-001-1
August 2, 2021



August 2, 2021

TO: Jacob D. Leibenluft,
Chief Recovery Officer
U.S. Department of the Treasury

FROM: 
Theodore R. Stehney
Assistant Inspector General for Auditing
Special Inspector General for Pandemic Recovery (SIGPR)

SUBJECT: Alert Memorandum: Caribbean Sun Airlines, Inc. has not
Responded to SIGPR's Direct Loan Program Survey
Memorandum Number: SIGPR-A-21-001-1

The purpose of this memorandum is to notify you that Caribbean Sun Airlines, Inc. ("Caribbean Sun") has not responded to SIGPR's Direct Loan Program survey. Accordingly, the Department of the Treasury ("Treasury") should take immediate action to address this matter.

Background

Section 4003, Division A, Title IV, Subtitle A of the Coronavirus Aid, Relief, and Economic Security Act of 2020 ("CARES Act") authorizes the Treasury to make loans, loan guarantees, and other investments to provide liquidity to eligible businesses related to losses incurred as a result of the coronavirus pandemic. Sections 4003(b)(1)-(3), commonly referred to as the Direct Loan Program, appropriated \$46 billion to help stabilize the airline industry and businesses critical to maintaining national security. SIGPR is tasked to provide oversight of CARES Act programs.

On December 7, 2020, Caribbean Sun obtained a loan from the Treasury under the Direct Loan Program for \$6,768,749. Pertinent provisions of Caribbean Sun's Loan and Guarantee Agreement ("Agreement") state:

Treasury Access. The Borrower Eligible Business and its Affiliates will provide Treasury, the Treasury Inspector General, the Special Inspector General for Pandemic Recovery, and such other entities as authorized by Treasury timely and unrestricted access to all documents, papers, or other records, including electronic records, of the Borrower related to the Loans, to enable Treasury, the Treasury Inspector General, and the Special Inspector General for Pandemic Recovery to make audits, examinations, and otherwise evaluate the Borrower's compliance with the terms of this Agreement. This right also includes timely and reasonable access to the Borrower's and its Affiliates' personnel for the purpose of interview and discussion related to such documents.
Agreement, §10.07.

Certificates; Other Information. The Parent will deliver to the Administrative Agent and each Lender ... promptly following any request therefor, (i) such other information regarding the operations, business, properties, liabilities (actual or contingent), condition (financial or otherwise) or prospects of any Credit Party or any Subsidiary, or compliance with the terms of the Loan Documents (including Section 6.16), as the Administrative Agent, the Initial Lender or any other Lender (acting through the Administrative Agent) may from time to time request Agreement, §5.02.

On March 25, 2021, we issued a survey (Appendix B) to each of the 35 Direct Loan Program recipients as part of our ongoing audit of Treasury's implementation of the loan program. The survey requested a response from each recipient within 30 days.

Specific Concern

One Direct Loan Program recipient, Caribbean Sun, did not respond to our survey or many of our attempts to contact the company official identified in the Agreement to receive notices.

Our audit team made several attempts to contact Caribbean Sun, consistent with the terms of the Agreement. We sent emails on April 12th (prior to the survey deadline) and April 27th to the Caribbean Sun official identified in the Agreement. On April 27th, we called that company official and left a voice mail message to please respond to us. We then sent a follow-up email on May 26th inquiring as to the status of the company's survey response.

On June 1st, the Caribbean Sun official responded via email stating that Caribbean Sun would "work on getting it completed as soon as possible." On June 28th, we followed up with an email inquiring as to the survey response. However, as of the date of this report, there has been no further response from Caribbean Sun.

Conclusion

Caribbean Sun's lack of response to our survey hinders our ability to fully and accurately evaluate Treasury's administration of the Direct Loan Program, which includes monitoring loan recipients' compliance with the terms of their loans. Under §10.07 of the Agreement, we consider our survey an acceptable mechanism to obtain Caribbean Sun personnel's viewpoint on the Direct Loan Program.

Recommendation

The Special Inspector General for Pandemic Recovery recommends that Treasury take immediate action, under the authority provided for in §5.02 or §10.07 of the Agreement, and require Caribbean Sun to submit to SIGPR its response to our survey within 30 days of Treasury's request to respond.

Please provide a response to this recommendation along with any proposed corrective action.

Compliance Statement

This audit is being conducted in accordance with generally accepted government auditing standards (GAGAS) which provides that during an audit, auditors may provide interim reports of significant matters to appropriate entity and oversight officials. Such communications alert officials to matters needing immediate attention and allows them to take corrective action before the final report is completed.

The related ongoing audit, when completed, will comply with GAGAS. The associated performance audit report that will be issued in the future will incorporate the issues discussed in this alert memorandum.

Audit Team

This audit was managed and conducted by the individuals listed below:

Michael Sinclair	Audit Manager
Reynaldo Gonzales	Auditor-In-Charge
Renata Malionek	Auditor

Appendix A – Memorandum Distribution

Chief Recovery Officer – U.S. Department of the Treasury

Office of General Counsel – U.S. Department of the Treasury

Inspector General – Special Inspector General for Pandemic Recovery

Office of General Counsel – Special Inspector General for Pandemic Recovery

Appendix B – Direct Loan Program Survey



Office of the Special Inspector General for Pandemic Recovery

Direct Loan Program Survey

The primary purpose of the CARES Act is to provide businesses affected by the COVID-19 pandemic with financial assistance in the form of loans, loan guarantees, and other investments. Your business has been identified as receiving a loan through the Treasury Department's Direct Loan Program. Completion of this survey is vital to providing transparency to the Direct Loan Program, the ability of SIGPR and others to assess the effectiveness of the program, and SIGPR's ability to make recommendations for possible future similar programs.

If you have questions or need assistance, please contact Michael Sinclair at Michael.Sinclair@sigpr.gov or (202) 923-8021, or Reynaldo Gonzales at Reynaldo.Gonzales@sigpr.gov or (202) 941-6828.

Experience

1. Please rate your company's experience with the Direct Loan Program.
 - Extremely easy and user friendly
 - Somewhat user friendly
 - Acceptable
 - Harder than expected
 - Extremely difficult and cumbersome
2. Was the guidance that the U.S. Department of the Treasury (Treasury) provided on program requirements clear?
 - Yes
 - No
3. Did your company experience any disputes with Treasury about any aspect of the Direct Loan Program?
 - Yes
 - No
4. Was the dispute(s) resolved to your satisfaction?
 - Yes
 - No

5. Please identify the dispute and comment on your response to the previous question.

Lobbying Activities

6. Did your company hire or retain anyone or any firms to engage in "lobbying activities" (as defined by the Lobbying Disclosure Act of 1995) related in any way to the Direct Loan Program, regardless of whether that person or firm was required to disclose those activities under the Lobbying Disclosure Act of 1995?

- Yes
- No

7. Please identify the individual or firm, and describe the lobbying activity conducted, including which government officials (name and title) were contacted.

Loan Terms

8. Were the terms Treasury offered your company (including interest rate, collateral, and taxpayer protections) equitable with those offered to similarly situated borrowers?

- Yes
- No

9. Please explain your response.

Covered Losses

10. Direct loans were limited to those companies either experiencing or anticipating "covered losses." Did your company predict any "covered losses" at the time of application?

- Yes
- No

11. To the extent your company predicted "covered losses" at the time of application, did those predictions come true?

- Yes
- No

12. What was the most significant "covered loss" your company faced and why was it significant?

13. Has your company's financial need for a Treasury direct loan changed since the loan application was submitted?

- Yes
- No

14. Please explain how your company's financial needs have changed.

Permissible Uses for Loan Proceeds

15. Was the guidance that Treasury provided on permissible uses of direct loans clear?

- Yes
- No

16. Please explain how the guidance might be clearer.

17. Has your company used any of the direct loan proceeds for non-operating expenses?

- Yes
 No

18. Please describe what non-operating expenses the direct loan proceeds were used for.

19. Did a Treasury official approve the use of the direct loan for non-operating expenses?

- Yes
 No

20. Which Treasury official approved the use of the loan proceeds for non-operating expenses?

21. Was the approval in writing?

- Yes
 No

Credit Availability

22. Was credit reasonably available to your company at the time your company signed the agreement with Treasury to borrow under the Direct Loan Program?

- Yes
 No

23. Please explain how credit was not reasonably available.

Program Conditions

Participation in the Direct Loan Program is conditioned on borrowers complying with numerous restrictions mandated by the CARES Act, such as maintaining employment levels and restrictions on the company's equity securities.

24. Did any of the loan terms and conditions significantly impact your business operations?

- Yes
 No

25. Which term(s) and/or condition(s) impacted your company and how?

26. Did any term or condition during the application process ever become an obstacle that prompted your company to seriously consider withdrawing from the loan application process?

- Yes
 No

27. Which term(s) or condition(s) became an obstacle and why?

Employment Levels

28. What was your company's employment level at the time it entered into the loan agreement?

29. Did your company reduce employment levels between the date on which the loan agreement was entered into and September 30, 2020?

- Yes
 No

30. By how many employees did your company reduce its employment level?

Fund Tracing

31. Has your company implemented, or does it plan to implement, a system for tracing how Direct Loan Program proceeds are allocated and spent?

- Yes
 No

32. Does your company's system allow for separately tracing the funds received under each specific CARES Act program?

- Yes
 No

Company Information

33. When (month and year) and in which State or territory was your company initially registered to conduct business and under what name?

34. What is/are your company's data universal numbering system (DUNS) number(s)?

35. Has your company, your company's parent, or any related company received funding through the CARES Act, besides the Direct Loan Program?

- Yes
 No

36. Please identify the entities, respective program(s), and amount(s).

Recommendations

37. If the Treasury Department was to offer another program similar to the Direct Loan Program, what improvements or suggestions could make the program more appealing?

38. Please provide your name, title, email address, and phone number.

Acknowledgment

By submitting this survey, you are affirmatively acknowledging that you are a duly authorized senior executive of the company responsible for completing the survey and that the responses provided are true and correct to the best of your knowledge.

Clear Form

Submit Survey



Office of the Special Inspector General for
Pandemic Recovery
Office of Audits

ENCLOSURE 2



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 3, 2021

Theodore R. Stehney
Assistant Inspector General for Auditing
Special Inspector General
for Pandemic Recovery
2051 Jamieson Ave., Suite 600
Alexandria, VA 22314

Re: "Alert Memorandum: Caribbean Sun Airlines, Inc. has not Responded to SIGPR's Direct Loan Program Survey"

Dear Mr. Stehney:

I write in response to the above-titled Special Inspector General for Pandemic Recovery (SIGPR) Alert Memorandum, dated August 2, 2021 (the Alert Memo), which states that Caribbean Sun Airlines, Inc. (Caribbean Sun) has not responded to a SIGPR survey or many of SIGPR's related attempts to contact the company. The Alert Memo recommends that Treasury take immediate action under the Loan and Guarantee Agreement (the Loan Agreement) between Treasury and Caribbean Sun and require Caribbean Sun to respond to SIGPR's survey.

Treasury expects all of its borrowers to comply fully with their obligations under their loan agreements. Therefore, on August 3, 2021, Treasury implemented SIGPR's recommendation and sent the attached notice to Caribbean Sun. The notice warns Caribbean Sun that its failure to respond to SIGPR's survey constitutes non-compliance with the terms and conditions of the Loan Agreement and that it must cure this violation within 30 days. The notice further warns that failure to cure this violation would constitute an Event of Default (as defined in the Loan Agreement), and that if the violation is not cured Treasury may pursue any and all available remedies under the Loan Agreement.

We look forward to continuing our constructive engagement with SIGPR.

Sincerely,

Jacob Leibenluft
Chief Recovery Officer

Attachment

NOTICE OF NON-COMPLIANCE - SIGPR DIRECT LOAN PROGRAM SURVEY

August 3, 2021

Subject: Notice of Non-compliance with the US Treasury Aviation Loan and Guarantee Agreement

Caribbean Sun Airlines, Inc.
6355 NW 36th Street, 100
Virginia Gardens, FL 33166

Dear Tomas Romero:

We are writing regarding the loan that the U.S. Department of the Treasury (Treasury) made to Caribbean Sun Airlines, Inc. (Caribbean Sun) under Section 4003 of the Coronavirus Aid, Relief and Economic Security Act (CARES Act).

Caribbean Sun is not currently compliant with the Loan and Guarantee Agreement, dated as of November 5, 2020 (Loan Agreement), among Caribbean Sun, Treasury, and The Bank of New York Mellon (BNYM). Pursuant to Section 10.07 of the Loan Agreement regarding Treasury Access, Caribbean Sun must provide Treasury, the Treasury Inspector General, and the Special Inspector General for Pandemic Recovery (SIGPR) timely and unrestricted access to records, documents, and personnel related to the loan. Caribbean Sun has not responded to the SIGPR survey, issued on March 25, 2021.

Caribbean Sun must cure this violation by September 2, 2021, which is 30 calendar days from the date of this letter, by submitting the survey response to SIGPR. Failure to cure this violation by September 2, 2021 will constitute an Event of Default under Section 7.01(d) of the Loan Agreement. Treasury may pursue remedies under the Loan Agreement, including declaring the Loan immediately due and payable in whole or in part.

Please contact Treasury's Office of Recovery Programs at CARESActCompliance@treasury.gov if you have any questions.

Thank you

U.S. Department of the Treasury
Office of Recovery Programs, CARES Act Compliance