

Forensic Investigation of the Jacksonville Police and Fire Pension Fund

Report to Jacksonville City Council by Benchmark Financial Services,
Inc., October 28, 2015

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- **Key Findings:**

1. The lack of transparency of the pension fund Board of Trustees generally and in connection with this investigation amounts to a profound “red flag.”
2. City Council may ask Florida Governor Scott to reconsider investigating the pension due to statewide and national concerns raised in this report.
3. Federal Bureau of Investigation and U.S. Securities and Exchange Commission assistance may be advisable.
4. City Council should immediately subpoena information requested over the course of this investigation that the Board has failed to provide.
5. Board has failed to obtain insurance to protect pension from Board errors and omissions, as well as fidelity bond coverage to protect against fraud or dishonest acts by Board or staff. The Board has used plan assets for its own legal defense, as opposed to being used for the exclusive benefit of participants and beneficiaries—in violation of Employee Retirement Income Security Act (ERISA) fiduciary standards.
6. Board, staff and vendors may be subject to **personal liability** for any ERISA fiduciary breaches since pension adopted heightened ERISA fiduciary standards for Board, staff and all vendors.
7. Board has failed to provide oversight to ensure compliance with heightened ERISA fiduciary standards. Many contracts between Board, money managers and other vendors handling pension assets, as well as their business practices, do not comply with ERISA.

8. Board poor investment decision-making has resulted in at least **\$370 million in underperformance losses**.
9. Board failure to scrutinize investment management fees has resulted in excess fees of **\$6 million** annually or **\$36 million** over the past six years.
10. Board failed to provide information that was repeatedly requested regarding an estimated **\$5.7 million** in “commission rebates” and related expenditures—information required to identify whether there has been any potential embezzlement or misuse of such pension assets.
11. Board’s recent **\$27 million loss** in Energy Master Limited Partnerships was imprudent due to lack of diversification, lack of transparency, and high fees—an avoidable loss.
12. Board failed to heed credible warnings of conflicts of interest at former investment consultant, eventually settling with firm for **\$273,696** without analysis or evaluation of any harm caused to the pension. Such conflicts (according to a U.S. Government Accountability Office analysis) may have cost the pension almost **30 percent** of its value—**\$300- \$500 million** over two decades.
13. Board failed to diligently monitor and record pension investment performance which necessitates corrective action and accurate reporting of true past pension performance to all stakeholders.
14. Board failed to scrutinize conflicts of interest related to, and compensation disclosed, as well as received, by its General Counsel and other law firms. City may seek assistance from the Florida Bar and U.S. Department of Justice.
15. Board-approved senior staff pension plan was deemed illegal by City General Counsel, and that plan may also fail to meet heightened ERISA fiduciary standards.
16. Allegations of waste, abuse and ethics violations regarding Board and staff travel should be resolved by limiting frequency, purpose and range of travel.