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NEWSLETTER

Pension Bribery Scandal Leads to More Indictments in Detroit, Including Funds' Former General Counsel

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The longtime general counsel and a former trustee of Detroit's pension funds are the latest two city officials to be indicted in a bribery and kickback conspiracy that has been under investigation for several years and cost the pension funds $84 million in losses.

Ronald Zajac, who served as General Counsel of Detroit's General Retirement System and Police and Fire Retirement System for more than 30 years, allegedly forced people seeking business with the pension funds to spend thousands of dollars on entertainment and other gifts for certain pension trustees involved in the scheme. Zajac also allegedly organized "birthday parties" for certain pension trustees, at which people with pension fund business would give cash gifts to the trustees. In return for directing cash, lavish vacations and other items of value to the pension trustees involved in the bribery and kickback conspiracy, the trustees voted to raise Zajac's salary by a substantial amount.

Zajac also is linked to the bribery and kickback conspiracy that led to the downfall of former Mayor Kwame Kilpatrick. Zajac reportedly served as the "go-between" in negotiating a kickback paid by a securities law firm to Kilpatrick's charity in exchange for obtaining securities litigation work with the pension funds. Kilpatrick, who was recently convicted on numerous charges related to this scandal, treated his charity as his personal bank account, using it to underwrite his extravagant lifestyle.

Also indicted with Zajac was Paul Stewart, who served as a trustee of the Police and Fire Retirement System. Stewart reportedly accepted thousands of dollars in cash and gifts from people seeking to do business with the pension fund, including a trip for him and his mistress to Florida, a Christmas basket stuffed with cash and a $5,000 cash gift at one of Zajac's "birthday parties."

But government officials were not the only people to face charges in connection with these general matters. Chauncey Mayfield, a former investment adviser to Detroit's pension funds, recently pleaded guilty to bribing former City Treasurer Jeffrey Beasley in exchange for new investment business from the pension funds. Beasley, who as city treasurer served as a trustee of the funds, was the first official to be indicted in connection with the pension fund bribery scandal. Mayfield's bribes to Beasley reportedly came in the form of subsidizing trips to Bermuda, Florida and Las Vegas.

Also among those indicted earlier was Roy Dixon, a former pension fund investment advisor, who allegedly embezzled over $3 million from the funds. Dixon reportedly spent the embezzled funds on vacations, a luxury home and bribes to Beasley.

The pension funds also have given rise to business disputes. Donald Watkins, a banker and entrepreneur, recently agreed to a $4 million settlement with the pension funds. The pension funds sought to recover $30 million invested in a Watkins' company that declared bankruptcy shortly after receiving the pension funds' money.

The Detroit pension fund scandal is an example of how investment advisers and others doing business with pension funds can never be too cautious about following ethics rules. In Detroit, the chief legal officer of the pension funds–who was supposed to be ensuring compliance with the ethics laws–was soliciting bribes and kickbacks from people seeking to do business with the pension funds. If there is ever a doubt about whether a gift to a pension official is permissible, it is best to seek an independent opinion rather than relying on the guidance of the official soliciting the gift.