MEMORANDUM

105 Municipal Way
Juneau, AK 99801
Phone: (907) 586-5215
Fax: (907) 586-0358

DATE: March 1, 2023

TO: Assembly Finance Committee

FROM: Jeff Rogers, Finance Director

SUBJECT: **Juneau School District Victim of Financial Fraud**

On December 7, 2022, I was alerted by the Juneau School District that they were the victim of a fraudulent financial scheme. They reported that an individual claiming to be one of JSD's vendors requested banking information for ACH payments to be changed. JSD did not detect the fraud at this time. Resulting from the change in banking information, two payments were made to the fraudulent actor via ACH:

- $93,477.17 on October 7, 2022
- $175,600.23 on November 4, 2022

On December 7, 2022, CBJ Finance staff immediately contacted the FBI, JPD, CBJ Law, and First National Bank of Alaska (FNBA). Due to the long time elapsed since the payments, recovery of funds was not possible. The case remains open with the FBI, but these kinds of frauds are numerous and notoriously difficult to investigate.

This fraud is eerily reminiscent of the similar fraud that happened to CBJ roughly four years ago. These actors appear to have used the exact same method: a written request for a vendor's ACH payments to go to an alternate bank account. After the similar fraud four years ago, CBJ enacted procedural changes to stop these kinds of fraudulent attacks. Namely, CBJ now follows the new industry best practice, which is to separately contact the vendor in question at known contact information before changing any payment instructions. That secondary contact did not happen at JSD in this case, and the payment instructions were changed. A careful review of the fraudulent written request to change banking instructions does reveal a spoofed email address that varied slightly from the vendor's last known email address. Hindsight is 20/20, but these kinds of frauds are preventable. All financial entities should now be on high alert for the tell-tales signs of this particular scheme, and control procedures should be in place to prevent it.

At this time, the financial burden of this crime is falling directly on JSD, but it does not have to. CBJ is self-insured for these kinds of criminal events, and our self-insured retention starts at $250,000. Hence, if JSD files a claim with CBJ Risk Management, the first $250,000 would be paid from the CBJ Risk Fund and the remaining portion ($19,077.40) would likely be eligible for recovery via insurance coverage. However, the CBJ Risk Manager has not received a claim from JSD, so no payment has been made from the Risk Fund to JSD at this time. Likewise, no claim has been made to our third-party insurers for the portion that may be covered.

Since mid-December, CBJ Finance, Law, Risk, and the Manager have been in regular contact with JSD staff about the importance of disclosing this financial crime to the public. To-date, that disclosure has not occurred. Hence, I feel it is my fiduciary responsibility as the CBJ Finance Director to disclose this event to the CBJ Assembly and the Juneau public at this time.