

CITY OF UNALASKA
UNALASKA, ALASKA

RESOLUTION 2020-14

A RESOLUTION OF THE UNALASKA CITY COUNCIL AUTHORIZING THE CITY ATTORNEY TO BRING SUIT AGAINST AMERICAN INTERNATIONAL GROUP, INC

WHEREAS, American International Group, Inc. (AIG) issued a Government Crime Policy to Alaska Public Entity Insurance under which the City of Unalaska (City) is named as an Additional Named Insured (“the Policy”); and

WHEREAS, between April and July of 2019, a fraudster purporting to be a representative of Northern Alaska Contractors used a computer to send a series of fraudulent e-mails to defraud and deceive the City into paying the fraudster \$2,985,406.10 in funds owed by the City to Northern Alaska Contractors; and

WHEREAS, the City subsequently paid the full amount of \$2,985,406.10 to Northern Alaska Contractors; and

WHEREAS, the City recovered \$2,347,544.43, of funds initially paid to the fraudster leaving a loss \$637,861.67 (“the Loss”); and

WHEREAS, the City formally submitted a claim to AIG on November 5, 2019, seeking coverage under four distinct insuring agreements or endorsements in the Government Crime Policy. Those were Insuring Agreement 3 for forgery, Insuring Agreement 7 for computer fraud, Endorsement 6 for faithful performance and Endorsement 25 for fraudulent impersonation; and

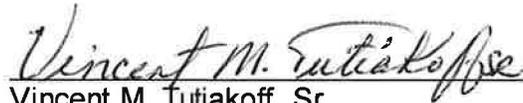
WHEREAS, AIG issued a letter accepting coverage under Endorsement 25, which has a limit of liability of \$100,000, for which AIG issued a check for \$100,000 on November 27, 2019 reducing the Loss to \$537,861.67; and

WHEREAS, AIG denied coverage under the remaining endorsements including Insuring Agreement 7, which has a limit of liability of \$1,000,000 determining the Loss did not “result directly” from the use of a computer; and

WHEREAS, the City Attorney has recommended the City initiate legal action against AIG seeking a declaration that the Loss is covered under the Policy;

NOW THEREFORE BE IT RESOLVED that the Unalaska City Council authorizes the City Attorney to file civil suit against AIG, any affiliated or successor individuals and entities for declaratory judgment and recovery of the Loss and all other damages and costs to which the City is entitled.

PASSED AND ADOPTED by a duly constituted quorum of the Unalaska City Council on February 25, 2020.



Vincent M. Tutiakoff, Sr.
Mayor

ATTEST:



Marjie Veeder, CMC
City Clerk



MEMORANDUM TO COUNCIL

To: Mayor and City Council Members
From: Erin Reinders, City Manager
Date: February 25, 2020
Re: Resolution 2020-14, authorizing the City Attorney to bring suit against American International Group, Inc.

SUMMARY: The City Attorney prepared this resolution authorizing the attorney to bring suit against American International Group, Inc. (AIG). Staff recommends approval.

PREVIOUS COUNCIL ACTION: Council members have previously discussed this topic in executive sessions. Council directed the City Attorney to draft this resolution.

BACKGROUND: Over the course of several months in 2019, the City paid out a total of \$2,985,406.10 to a fraudulent bank account as a result of a phishing email scam. In this scam the sender of an email represented themselves as a known vendor and requested a change in payment method. \$2,347,544.43 was returned to the City of Unalaska and the City filed an insurance claim for the difference of \$637,861.67. The known vendor has been paid the amounts owed. Additionally, the City has updated internal controls and procedures to reduce the risk of this happening again.

DISCUSSION: AIG determined that the insurance coverage is limited to \$100,000, leaving the City at a loss of \$537,861.67. The City Attorney recommends that the City take legal action against AIG to seek a declaration that this remaining loss is covered under the policy.

FINANCIAL IMPLICATIONS: As it stands now, the loss is \$537,861.67 if no action is taken. Proceeding with legal action may result in recovery of some, or all, of the loss amount. The city will incur associated legal fees.

LEGAL: The City Attorney prepared the attached resolution and will continue to be involved with this process as it moves forward.

STAFF RECOMMENDATION: Staff recommends approval.

PROPOSED MOTION: I move to approve Resolution 2020-14.