



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL

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AUDIT COMMITTEE STAFF REPORT

Meeting: October 16, 2018

Subject

Briefing on September 5, 2018 Press Release and proposed action plan in response to alleged embezzlement by City's former Senior Accountant.

Recommended Action

Accept debrief on alleged embezzlement by City's former Senior Accountant.

Discussion

Summary

On September 5, 2018, former City of Cupertino employee Jennifer "Yuen-Cheng" Chang, former Senior Accountant, was arrested for her alleged role in the embezzlement of public funds. It is believed that Ms. Chang issued and cashed numerous fraudulent checks between 2000 and 2014 for a total of \$791,494.

The checks were found debited against a liability account and deemed suspicious due to their nature, size, and lack of supporting documentation.

The alleged scheme ended in September 2014, three months before the implementation of an upgraded financial system in December 2014 that enhanced internal controls, both quantitatively as well as qualitatively. Ms. Chang, who was hired by the City in 1997, retired in July 2015.

No other employees, former or current, are implicated in the alleged scheme at this time.

Background

The checks were uncovered internally in April 2018 during a multi-year, detailed review of several transactions cycles and account balances – including payroll, bank reconciliations, and deposits – which began after the implementation of a new financial system.

On May 31, 2018, City staff engaged Mr. Morang and his team of forensic accountants from Frank Rimerman + Co. LLP, an independent third party, to conduct a limited scope, high level fraud review of the suspicious transactions identified by the City (Phase I). On August 6, 2018, Mr. Morang provided the City with a final report confirming the City's suspicions and also recommended a continued forensic analysis to investigate possible exposure areas outside of the City's deposit transaction cycle.

In an addendum dated September 21, 2018, the City further engaged Frank Rimerman + Co. LLP, to perform the following services (Phase II):

1. Update the risk assessment of the various potential fraud schemes available to Ms. Chang (or other city employees) in addition to previously identified scheme to ensure completeness.

2. Conduct additional analysis using data analytics of transactions which had not yet been identified during Phase I as related to the known fraud schemes.
3. Conduct an internal controls risk assessment project of the current control environment. This will be limited in scope to the Finance & Accounting Department processes.

By early December 2018, the results of said procedures will be delivered to the City via written reports and for the purpose of improving internal controls as deemed necessary and appropriate.

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