

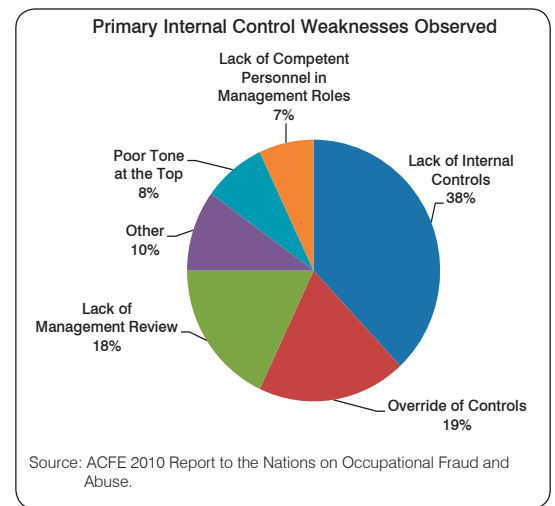
The Office of the Auditor General is a legislative agency under the direction of the Joint Legislative Audit Committee. Our mission is to improve state and local government operations and accountability by independently providing the Legislature, government decision-makers, and the public with timely, accurate, and impartial information; relevant recommendations; and technical assistance. This fraud alert addresses internal controls and recommends controls that can help prevent fraud, waste, and abuse.

## Internal Controls Really Do Prevent Fraud

Most frauds occur because organizations lack effective internal controls. Controls serve different purposes—some reduce the amount of losses sustained in fraud schemes while others help limit the length of time the scheme is being perpetrated. Some controls are more susceptible to circumvention by employees and key members of management can override almost all controls. An effective system of internal control contains a combination of preventive and detective measures.

The Association of Certified Fraud Examiners (ACFE) completed a global study of occupational fraud and abuse in 2010 to identify the primary factors that allowed fraud to occur. As shown in the chart, 75 percent of the respondents cited

lack of internal controls, override of existing controls, and lack of management review as the primary factors that allowed fraud to occur.



### TO OBTAIN MORE INFORMATION

**(602) 553-0333**

or by visiting  
our Web site at:  
[www.azauditor.gov](http://www.azauditor.gov)

Contact person:  
Holly Graham



2011

## Controls to Prevent and Detect Fraud

Your organization can, and should, implement a number of internal controls to prevent and detect fraud, waste, and abuse. Following are a few controls that will eliminate weaknesses we commonly encounter during our audits:

**Policies and Procedures**—Ensure that these are in writing and that employees are familiar with policies regarding cash disbursements; attendance and leave; travel expenses/reimbursement; purchasing guidelines; petty cash; and conflicts of interest.

**Preventive Controls**—Require that an authorized employee reviews and approves purchases, payroll, and disbursements; separate cash handling—

receipt and deposit—from recordkeeping functions. Limit computer access so that employees are granted only the access rights necessary to perform their jobs. Establish strong computer passwords at least eight characters in length that use a combination of alphabetic and numeric characters; require users to change their passwords every 90 days; and prohibit password sharing.

**Detective Controls**—Ensure that supervisors review the activity of employees who have been granted heightened computer access. Require an employee who does not have bookkeeping or cash-handling responsibilities to complete monthly reconciliations.