

# Fraud Triangle Part 1: Opportunity

## FRAUD PREVENTION ALERT

### WHY ARE WE ISSUING THIS ALERT?

Throughout the last 25 years, our Office has issued numerous reports on fraud involving Arizona government employees from universities, community college districts, school districts, special taxing districts, counties, and state agencies.

Understanding why and how employees commit fraud is crucial to preventing fraud from occurring. The fraud triangle summarizes three elements that are present when an individual commits fraud: opportunity, pressure, and rationalization. Public officials can help prevent fraud by diminishing any one of the triangle's three elements and, ideally, taking steps to diminish all three elements.

This alert, first in a three-part series, will focus on the opportunity element and outline how public officials can reduce dishonest employees' opportunities to steal and increase their likelihood of getting caught by instituting appropriate internal controls and oversight and establishing a culture of accountability.



2015

May • Report No. 15-403

### Using the fraud triangle model to help prevent fraud

Public officials, including the entity's management, have the most control over the fraud triangle's opportunity element because they can implement internal controls and provide oversight that impedes fraudsters from committing crimes. Moreover, public officials' actions can help deter potential fraudsters and increase a fraudster's likelihood of getting caught and prosecuted. Employees who are in certain positions or who have extensive knowledge of organizational processes may become aware that they have an opportunity to commit fraud and avoid detection. For example, our Office recently issued a report describing how a high school bookstore manager was able to take advantage of the district's lack of oversight, using her control over cash receipts and deposits to steal more than \$70,000.<sup>1</sup> Although public officials took action by contacting our Office when they suspected a problem, this fraud could have been prevented or detected earlier by restricting the bookstore manager's opportunity with certain controls and oversight.

Fraud triangle



### Public officials can limit opportunities to steal

Some important ways public officials can limit opportunities to steal is by instituting internal controls and oversight that include:

- Segregating duties to ensure that no single employee has the ability to control all aspects of transaction cycles. For example, one employee should not collect, record, and deposit cash receipts. Likewise, one employee should not prepare, record, and authorize payments.
- Requiring an independent review and comparison of original source documents such as invoices, checks, and receipts to entity accounting records.
- Safeguarding and restricting access to entity resources such as cash, check stock, and signature stamps.

Public officials can establish a culture of accountability and increase a fraudster's likelihood of getting caught by:

- Cultivating a strong whistleblower system using a fraud hotline or anonymous tip forms.
- Requiring all employees to acknowledge and document their understanding of how to report fraud concerns, as well as what the consequences are for violating entity policies or committing fraudulent acts.
- Reporting suspected fraud to our Office or law enforcement officials.

<sup>1</sup> See Office of the Auditor General, Special Investigation Report: *Glendale Union High School District*, February 2015, Report No. 15-401.



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The Auditor General's fraud prevention alerts  
are available at:  
[www.azauditor.gov](http://www.azauditor.gov)  
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