



# State of Arizona Accounting Manual

Topic 05 Internal Controls  
Section 30 Fraud, Theft, Waste, and Abuse

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## INTRODUCTION

The purpose of this section of SAAM is to clarify agency responsibilities to effectively implement internal controls that aid in the prevention and detection of fraud, theft, waste, or abuse, along with the requirements for reporting. This policy applies to any fraud, theft, waste, or abuse or suspected fraud, theft, waste, or abuse involving any employee (including management), consultant, vendor, contractor, outside agency, or person doing business with an agency or in any other relationship with an agency.

State financial policy does not tolerate any type of fraud or theft, and all instances must be reported to the GAO, the Auditor General, and the Attorney General. It is management's responsibility to control waste and abuse; however, this does not relieve agency management of reporting any abuse or excessive waste. The GAO is available for consultation regarding internal controls and opportunities to reduce waste and abuse. The State's policy is to promote consistent, legal, and ethical organizational behavior by assigning responsibility for reporting fraud, theft, waste, or abuse.

This policy strengthens the foundation established by the *Code of Conduct for State of Arizona Employee Engaged in Accounting, Financial, and Budgeting Activities* published as a part of SAAM Section 0515, which addresses the moral, ethical, legal, and professional aspects of personal conduct. This section of SAAM further demonstrates and clarifies the State's intention to hold its employees to high standards of ethical conduct through additional internal controls and policy.

Although the *Code of Conduct* was originally intended for staff engaged in accounting, financial, and budgeting activities, the concepts are also applicable for all management and staff involved in awarding contracts or grants, or involved in establishing or applying policies which impact State finances directly or indirectly.

Failure to comply with this policy subjects an employee to possible disciplinary action, as appropriate, including and up to immediate termination. Failure to comply by a consultant, vendor, contractor, outside agency, or person doing business with the State or in any other relationship with the State could result in cancellation of the underlying contract or other relationship between the entity and the State.

The State will thoroughly and expeditiously investigate any reported cases of suspected fraud to determine if disciplinary action, financial recovery, and/or criminal prosecution should be taken. All reports of suspected fraud must be handled under the strictest confidentiality. Information related to the matter should only be given to the GAO, the Auditor General, the Attorney General, or others directly involved in the investigation, such

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as law enforcement, agency and State Human Resources, and essential agency management.

The State Comptroller will refer the matter to the Attorney General to consider prosecution if the results of an investigation indicate the possibility of criminal activity.

## **POLICY & PROCEDURES**

1. Any State employee, contractor of the State, or other individual who observes or receives a report of an activity that is suspecting of involving fraud, theft, waste, or abuse related to State activities is required to report it to the GAO, the Auditor General, the Attorney General, and, as may be relevant, the applicable law enforcement organization (collectively herein, the appropriate authorities) as soon as possible, not to exceed one (1) week, unless the circumstances fall within one of the exceptions listed below in SAAM 0530-5 for investigations conducted by an Office of Inspector General (OIG). Updates are required and should be provided as they are available, which could be as soon as the same day or over a period of time. If and when a report is resolved, this also must be communicated.
- 1.1. Timely reporting to the GAO will also help to facilitate the best possible coordination of any additional resources that may be called upon to assist state agencies depending on the circumstances including but not limited to, ADOA Human Resources, ADOA Risk Management, ADOA ASET, Arizona Department of Homeland Security, the Office of the Arizona State Treasurer, etc. Additional research time may be required if a situation arises that could impact the State's ability to mitigate potential loss; therefore, reporting any information as soon as possible is in the State's best interest and will help in determining the best resources and options. Reporting can begin with limited information. Whenever possible, reports should be made within one (1) business day.
- 1.1.1. Pursuant to ARS § 41-621, the ADOA Risk Management provides certain self-insurance and insurance for crimes that result in the direct loss of funds to state agencies. This may include crimes by employees or third parties, such as theft, embezzlement, fraud, electronic theft of funds, and forgery. To submit a crime claim for consideration, agencies must follow the property loss claim reporting procedures. This includes the submission of sufficient evidence to ADOA Risk Management to support the claim, even if such evidence includes confidential information. Questions concerning the release of confidential information to ADOA Risk Management should be directed to the submitting agency's general counsel. Claims cannot be paid without supporting evidence. Contact ADOA Risk Management directly to discuss any insurance-related questions. Reports of loss to ADOA Risk Management must also be reported to GAO at the email address below.
- 1.2. The GAO has established the e-mail address [reportfraud@azdoa.gov](mailto:reportfraud@azdoa.gov) to facilitate this reporting.

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- 1.3. By whatever means reported, the person making the report (the informant) should be prepared to provide, to the extent known, the following information to the appropriate authorities:
  - 1.3.1. The nature of the suspicious activity, to include any known details which includes why the activity may be fraud, theft, waste, or abuse.
  - 1.3.2. How the suspicious activity became known to the informant (i.e., by direct observation, through communication with another, etc.).
  - 1.3.3. The name, names or group involved in the suspicious activity. It must be remembered that an accused person is innocent until proven guilty.
  - 1.3.4. The date, time, place and other particulars related to the suspicious activity.
  - 1.3.5. The possible dollar amount or range if known.
  - 1.3.6. How the State is involved to include the name of the agency(s) or state personnel possibly involved or impacted.
  - 1.3.7. Forward any supporting documentation (e.g. emails, memorandums, letters, photos, logs, etc.)
  - 1.3.8. An informant may choose to disclose his identity or remain anonymous. If an informant chooses to remain anonymous, the ability to ask follow-up questions will be limited, and it may impact the State's ability to investigate the report.
2. The appropriate authorities shall conduct investigations of potential fraud, theft, waste or abuse by State employees, public assistance recipients, providers, contractors, subgrantees, etc.
  - 2.1. The GAO will not conduct any investigations for reports of fraud, theft, waste, and abuse. Reports received will be communicated to the appropriate agency to conduct the necessary investigation. As investigations are in progress, the GAO may not be able to provide status updates. The agency is required to provide updates as the investigation proceeds to address if the allegations are founded and what actions have been taken. Agencies may be required to conduct their own investigations and/or contact the appropriate authorities or resources to conduct any investigations.
  - 2.2. Information reported to the GAO to include updates should address as many details as can be provided without jeopardizing any potential litigation or criminal investigations. Information provided will only be shared with appropriate sources.
  - 2.3. Agency reports to the GAO must include whatever information is known to include details of the possible fraud, theft, waste, or abuse including the potential dollar amount, the date or dates, and the details to be able to best assess the potential or

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actual risk to the State and to be able to determine what if any reporting will be required by the State.

- 2.3.1. Failure by an agency for timely reporting could result in several undesirable outcomes including, but not limited to, findings and unfavorable audits, qualified opinions on financial statements, inability to collect insurance payments, inability to prosecute, a loss of grant funds, etc.
- 2.4. The requirement for timely reporting will not be suspended or extended due to possible concerns regarding the disclosure of certain identifying details. When necessary, certain identifying details may be redacted or replaced with an alias or other means of identification, however, this can make it more difficult when following up on reports in the future. Any agency concerned about what can and/or should be reported can reach out to the GAO email provided above to discuss the particular situation further, as well as, work with their agency's legal counsel regarding what level of information can be shared. Necessary accommodations can be discussed on a case-by-case basis.
3. If an informant has chosen to disclose his identity, the appropriate authorities may, if necessary, contact the informant for additional information.
4. Periodic communication through State and agency newsletters and meetings should emphasize the responsibilities and channels (agency and statewide) to report suspected fraud, theft, waste, or abuse.
5. Portions of this policy permit agencies under the particular circumstances described, to report suspected fraud, theft, waste, or abuse under a delayed timeframe and separate threshold. All other agency activity outside of these circumstances must be handled in the manner previously described.
  - 5.1. If an agency has an Office of the Inspector General (OIG) or an equivalent that receives and conducts internal investigations, for the reports received and reviewed, once a credible allegation of fraud, theft, waste, or abuse has been found, the agency must notify the GAO, the Attorney General, and the Auditor General as soon as possible, not to exceed one (1) week with all known relevant information including the potential risk to the State to include an estimated dollar amount or range if known or can be estimated. Additional follow-up communication and updates will be required from the agency to accurately report any potential risk in the financial statements and/or audit reports. Allegations determined to be unfounded, should not be reported.
  - 5.2. If an agency with an OIG or an equivalent is aware of or receives a report of fraud, theft, waste, or abuse that would not be investigated by their OIG or equivalent, the report must be addressed in the manner previously described for those without an OIG or equivalent.
  - 5.3. The Arizona Health Care Cost Containment System, with respect to Medicare, who utilizes their OIG, will continue to follow the federal and state requirements for the

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program and investigate allegations of potential fraud, theft, waste, and abuse. Once the agency has a credible allegation of fraud and has made a referral to the Attorney General, upon receipt a response from the Attorney General, the agency will notify the GAO and Auditor General within one (1) week with relevant information regarding the potential risk to the State. Additional future communication and updates will be required from the agency to accurately report any potential risk in the financial statements and/or audit reports.

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