



OFFICE OF THE STATE AUDITOR

E-Update

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**State Auditor
Rebecca Otto**

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1. Released: Investigative Report
 2. Pension Update: Volunteer Fire Relief Association Working Group
 3. Training: Annual Office of the State Auditor Training
 4. Avoiding Pitfalls: "Phantom Vendors"
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1. Released: Investigative Report

The Office of the State Auditor has released an Investigative Report on the Norman County East School District. The Report found that \$118,701.33 in school district funds were not deposited in the school district's account over a 21-month period. Copies of the Report and letter sent by the Office of the State Auditor to the School Board that included internal control recommendations to better protect school district funds can be viewed at:

<http://www.auditor.state.mn.us/default.aspx?page=20081219.000>.

2. Pension Update: Volunteer Fire Relief Association Working Group

The Volunteer Fire Relief Association Working Group met on December 16 and discussed several complex topics, including break-in-service issues and pension uniformity requirements. Other topics discussed included allowing special fund assets to be used to purchase insurance through the Volunteer Firefighters' Benefit Association or a comparable insurance company; the \$200,000 audit threshold; allowing bylaws to define what constitutes a month of service; and exchange-traded fund investments. To view the meeting materials go to:

<http://www.auditor.state.mn.us/default.aspx?page=reliefworkinggroup>.

The final Working Group meeting will be held on Tuesday, January 27. If you have questions, please contact Rose Hennessy Allen at (651) 296-5985 or Rose.Hennessy-Allen@state.mn.us.

3. Training: Annual Office of the State Auditor Training

The Office of the State Auditor is once again making professional training available to people working with local government finances. The training seminar is scheduled for Wednesday, January 28, 2009 at the Crowne Plaza Hotel Minneapolis North in Brooklyn Center. Topics will include a GASB update as well as accounting, legal compliance and auditing issues. More information, including a final agenda and registration form, should be available by December 24th at:

<http://www.auditor.state.mn.us/default.aspx?page=trainingopportunities>.

4. Avoiding Pitfalls: “Phantom Vendors”

One method of fraud involves payments to fictitious companies for goods never delivered or services never provided. To protect themselves, public entities need procedures in place to determine if new vendors added to the accounts payable system are legitimate vendors.

The ability to set up new vendors on the accounts payable system should be limited to those individuals with a logical need for this function. When new vendors are added to the system, the vendors should be reviewed by someone outside the accounts payable system. The outside reviewer should verify that the new vendor is legitimate. Finally, the vendor list should be reviewed periodically, and unused vendors should be removed from the system.

This fraud is more likely in an entity with a large number of vendors. Warning signs of a potential “phantom vendor” include:

- sequentially numbered invoices from the vendor;
 - invoice amounts just below the amount needing additional approval for payment; and
 - companies with only P.O. Box addresses, companies lacking taxpayer identification numbers, or vendor identification numbers that match an employee’s social security number.
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