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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**DEPARTMENT OF  
AGRICULTURE AND  
MARKETS**

**CONTROLS OVER STATE  
FAIR PAYROLL**

**Report 2007-S-130**

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## AUDIT OBJECTIVE

Our objective was to determine whether the Department of Agriculture and Markets (Department) has established an effective system of internal control over the New York State Fair (Fair) payroll.

## AUDIT RESULTS - SUMMARY

We found that the Department has not established an effective system of internal control over the Fair payroll. Although we found that most of the Fair employees we tested had been paid correctly for the time that we observed their work during our test period, we identified serious control weaknesses that need to be corrected to strengthen the Department's controls over the \$1.2 million payroll.

Most Fair employees are not required to sign in or out each day or maintain any other documentation to support their daily attendance. To verify that employees worked their scheduled hours and that their summary time records were accurate, we judgmentally selected 290 out of the 1,623 employees that were paid to work during the Fair. We attempted to locate each employee on various occasions throughout their work shift, between August 26 and 31, 2007. We were able to verify that 279 of the 290 employees correctly reported their hours on their time sheets for the times we observed them.

However, for the remaining 11 employees, we noted various discrepancies in their work times, as well as three who we could not know if the employee was working or the employee's work location. Nevertheless, the related time sheets were subsequently approved by the supervisors and the missing employees were paid for the hours in question.

We also found that the Department has not overseen the payroll process to ensure there is a proper separation of duties. The Department, which works in conjunction with the Industrial Exhibit Authority (Authority) to present the Fair, has given total control over the payroll to the Authority. A system of checks and balances should be established over the payroll and timekeeping process so that one person does not exercise control over all or a substantial part of the process. We found that only one full-time Authority employee controls the process for Department employees who work during the Fair. With the assistance of a seasonal employee, this person is responsible for processing a \$1.2 million payroll for the 12 days the Fair runs. This includes adding employees to and terminating employees from the payroll, verifying the hours worked and the amounts paid to employees, entering payroll information into the State payroll system (PayServ), mailing out pay checks, and handling undelivered checks.

This weakness is exacerbated by the Department allowing temporary employees to remain on the payroll records indefinitely. According to PayServ, there were 4,456 active Fair employees on the Department's payroll as of August 16, 2007; 2,833 more than the 1,623 who actually worked at the Fair. By allowing inactive employees to remain active on the payroll, the Department increases the risk that a paycheck can be improperly generated for them.

Our audit report contains five recommendations to improve controls over the Fair's payroll.

This report, dated April 10, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The Department works in conjunction with the Authority to present the annual State Fair in Syracuse, New York. Approximately 936,000 people attended the Fair in 2007, which ran from August 23, 2007 through September 3, 2007. The Fair offers a wide variety of exhibits, attractions, competitions and concerts each year. The fairgrounds encompass 375 acres and offer eight primary facilities, temporary RV parking sites and parking and shuttle service for 23,000 vehicles.

The Department employs six full-time Fair employees who work year around. Several months before the Fair, an additional 20 to 30 seasonal employees are hired to begin preparations for the Fair. The majority of Fair workers, however, are temporary employees. For the 2007 Fair, the Department hired 1,623 temporary employees. There are two types of temporary Fair employees: hourly employees who are paid an hourly rate for the actual hours they work; and per diem-based employees who are paid a daily rate regardless of the number of hours they work a specific shift each day. Of the 1,623 temporary employees, 622 (38 percent) were per diem-based employees. The Fair payroll is processed through New York State's payroll processing system, called PayServ.

## AUDIT FINDINGS AND RECOMMENDATIONS

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### *Controls Over Employee Time and Attendance*

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Department policy requires supervisors to complete schedules for all employees prior to the start of the Fair. The schedules show the hours and days each employee is expected to work. Generally, we were able to locate individuals working at various times during their scheduled shifts. However, there were some employees who we could not locate even though they were scheduled and paid to work.

Most of the Fair employees, with the exception of about 600 parking, grandstand, ticketing and security employees, are not required to sign in or out each day or maintain any other documentation to support their daily attendance. To verify that employees worked their scheduled hours and that their summary time records were accurate, we judgmentally selected 290 out of the 1,623 employees that were paid to work during the Fair. We attempted to locate each employee on various occasions throughout their shift, from one to three times per shift, between August 26 and 31, 2007.

We were able to verify that 279 of the 290 employees were working during the scheduled times that we looked for them and had correctly reported those hours on their time sheets. For the remaining 11 employees, we noted various discrepancies in their reported working times. For example, some arrived late for work or left work early on the day we checked them, yet they reported they worked their scheduled hours on their time sheets. In three cases, the employees' supervisors were unaware of their employee's work location and did not know if these

people were present or absent. However, all three submitted time sheets showing they were working at the times we could not locate them. In addition, their time sheets were subsequently approved by their supervisors and they were paid for the hours in question.

Of the 11 discrepancies we found, six involved per diem-based employees. Two of the six reportedly left work early and one was late to work. We could not locate the other three (one was not at the scheduled work location, one supervisor did not know if the second employee was working and another supervisor did not know the third employee's work location).

Department officials stated that supervisors have the discretion to pay the per diem-based employees their full daily rate or to adjust it if the employees do not work a complete shift. However, the pay for these employees was not adjusted and the Department could not provide us with any policies or regulations that govern when supervisors should adjust a per diem employee's pay. As a result, supervisors may not be treating all per diem-based employees consistently.

In responding to our report, Department officials characterized the effect of our observations as "minimal", noting by their calculation that our exceptions represent only four percent of the staff sampled and payroll costs of \$299. Officials further contend that this error rate equates to only about \$1,661 when applied across the entire \$1.2 million Fair payroll. As a result, they conclude that the internal control system must be effective. However, this analysis suffers from several inappropriate assumptions.

- First, our sample was only designed to determine if each person was working at a particular point in time during their shift, not

for the entire payroll period. The Department's analysis assumes that each person sampled was present for every minute for which they were paid by the Fair except for those few times that our auditors observed them missing.

- Secondly, our sample was not designed to project to the entire payroll since it was not randomly selected, either in terms of the individuals tested or the days and times observed. Accordingly, we did not attempt to make such a projection. However, to the extent that our sample may be representative of the entire workforce, a more appropriate conclusion based on our results would be that 1 in 25 Fair employees are not present at the scheduled times for which they are paid.
- Lastly, while effective internal controls do reduce the risk of errors and irregularities, the reverse logic does not hold true; the absence of problems does not necessarily mean controls are strong. Conversely, the fact that 11 people whose coworkers were queried about their whereabouts can still submit time cards claiming they were at work at the times our auditors were searching for them, and then have those records approved by the same supervisors who were unable to account for their absences at the time of our tests, is a clear indication that internal controls need to be strengthened.

### Recommendations

1. Require all Fair employees to sign in and out on a daily basis.
2. Instruct supervisors on their responsibility for certifying the accuracy of the total time worked for each employee.
3. Establish time and attendance policies and procedures for per diem-based employees, including when adjustments should be made to their pay for any absences during their scheduled shifts. Communicate the policies and procedures to the per diem-based employees and their supervisors.

(Department officials agreed with recommendations 1 and 3. Although they agreed with recommendation 2 as well, they characterized it as unnecessary since they already instruct supervisors about their duties prior to each year's Fair.)

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### *Payroll Processing*

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A key principal of internal control is to ensure that one person does not have un-checked access to an entire processing cycle. Therefore, in the payroll and timekeeping cycle a system of checks and balances should be established so that one person does not exercise control over all or a substantial part of the process. We found that the Department has neither devoted the necessary resources nor overseen the payroll process to ensure there is a proper separation of duties. As a result, there is no independent verification of hours worked by employees, the accuracy of time sheets, and the accuracy of information inputted into PayServ.

While the Department manages most of its own payroll, it gives the Authority total control over the payroll for all Department staff assigned to the Fairgrounds, including six year-round staff and over 1,500 temporary employees. There is only one full-time Authority employee, assisted by a seasonal employee hired for the two weeks of the Fair, who controls this payroll process. They are responsible for processing a \$1.2 million payroll for the 12 days the Fair runs. This includes adding employees to and terminating employees from the payroll, verifying the hours worked and the amounts paid to employees, entering payroll information into PayServ, mailing out pay checks, and handling undelivered checks. We found the Department has not devoted the necessary resources to either properly oversee the payroll process or ensure an adequate separation of duties.

This poor internal control condition is exacerbated by the Department having temporary employees remain on their payroll records from year to year. Since these Fair employees are temporary, once their work is completed, they should be removed from the payroll records. According to PayServ records there were 4,456 active Fair employees as of August 16, 2007; 2,833 more than the 1,623 people who actually worked at the Fair. Officials stated they were aware of the additional active employees and preferred to leave them active so they do not have to enter employee information into PayServ each year. Allowing inactive employees to remain on the payroll, increases the risk that time can be entered mistakenly or intentionally for hours not worked, generating a paycheck for non-employees. This risk is magnified because primarily only one person is responsible for all of the payroll functions. (We note that, since we brought this to their attention, officials have started to terminate

employees from PayServ who have not worked the Fair in several years).

### **Recommendations**

4. Oversee the State Fair payroll process to ensure that appropriate internal controls are in place, including the adequate separation of duties.
5. Create and implement written procedures for the timely termination of inactive employees from the Fair's payroll.

(Department officials agreed with recommendations 4 and 5, and reported steps have already been taken to implement them.)

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the Department to determine whether it has established adequate controls so Fair employees were paid only for hours worked. Our audit period was from August 23, 2007 through September 3, 2007.

To accomplish our objective, we interviewed Department and Authority officials, reviewed time records and employee schedules, and conducted unannounced floor checks from August 26 through August 31, 2007.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public

authorities, some of who have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

### **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

### **REPORTING REQUIREMENTS**

A draft copy of this report was provided to Department officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. Our rejoinders to the Department's comments are presented in Appendix B.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Agriculture and Markets shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Frank Houston, John Buyce, Greg Petschke, Heather Pratt, Michele Krill, Constance Walker, Dave Reilly, Richard Podagrosi, Diane Hardy, Andre Spar, Laurie Burns, Donald Cosgrove, Andrea Dagastine, Raymond Barnes and Sue Gold.

## APPENDIX A - AUDITEE RESPONSE



STATE OF NEW YORK  
DEPARTMENT OF AGRICULTURE AND MARKETS  
10B Airline Drive, Albany, New York 12235  
1-800-554-4501  
www.agmkt.state.ny.us

Office of the Commissioner

March 21, 2008

Mr. John Buyce, Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, New York 12236

Dear Mr. Buyce:

Enclosed is the Department's response to the Office of the State Comptroller's Draft Report 2007-S-130, regarding Controls Over State Fair Payroll. We welcome your agency's independent review and acknowledge that within every organization there are opportunities to implement additional or enhance controls. While the attached response addresses the specific recommendations made in the draft report, it also provides clarifying information regarding selected statements made within other areas of the report. It is my expectation that this additional information will result in the modification of your findings and, therefore, will have an impact on your summarization that the Department has not established an effective system of internal control over the Fair payroll and serious control weaknesses exist within the process.

Please contact Ms. Tracy Robbins, the Department's Director of Internal Audit, if you have any questions regarding the enclosed response or require any additional information or documentation. Ms. Robbins can be reached at (518) 485-7728.

Sincerely,

A handwritten signature in cursive script that reads "Patrick Hooker".

Patrick Hooker  
Commissioner

Enc.

**New York State Department of Agriculture and Markets  
Response to Office of the State Comptroller's Draft Report  
Controls Over State Fair Payroll (2007-S-130)**

**AUDIT RESULTS – SUMMARY (Page 2)**

*"We found that the Department has not established an effective system of internal control over the Fair payroll."*

Only one audit finding had a financial impact. That audit finding involved eleven employees that were found to have discrepancies between the floor checks and the recorded time on their time sheets. These eleven discrepancies were from a judgmentally selected sample of 290 employees. Eleven discrepancies represent less than 4% of the sample. Additionally, we estimated the financial impact of the discrepancies to be \$299. If extrapolated to the entire Fair payroll of \$1,341,963, the financial impact of all discrepancies between attendance and time recorded on time sheets would approximate \$1,661.

\*  
**Comment  
1**

The minimal number and financial impact of the discrepancies identified by the audit indicate the presence of an effective system of internal control over the Fair payroll.

*"Although we found that most of the Fair employees we tested had been paid correctly for the time they worked during our test period, we identified serious control weaknesses that need to be corrected to strengthen the Department's controls over the \$1.2 million payroll."*

While the audit identified areas where existing policies and procedures could be enhanced, the Department does not feel the terminology of "serious control weaknesses" is justified. Our response provides information to clarify, and in some cases corrects, statements made in the draft report. Hopefully this additional information will prompt you to reconsider the terminology used.

\*  
**Comment  
2**

*"Most Fair employees are not required to sign in or out each day or maintain any other documentation to support their daily attendance."*

Parking employees, ticket sellers, grandstand security, night time security, grandstand ticket takers, grandstand ticket checkers and grandstand ushers are all required to sign in and out each day or maintain another method to support their daily attendance. These various work titles account for approximately 600 positions of the total 1,623 temporary personnel hired for the Fair.

\*  
**Comment  
3**

\*See State Comptroller's Comments, page 12

*"We also found that the Department has not overseen the payroll process to ensure there is a proper separation of duties."*

The Department Internal Auditor conducts an annual audit of the Fair payroll which provides oversight of the payroll process. Though not a replacement for a process that ensures the segregation of duties, the annual audit is conducted to detect any fraudulent or erroneous payroll transactions.

\*  
Comment  
4

*"We found that only one full-time Authority employee controls the process for Department employees who work during the fair. With the assistance of a seasonal employee, he is responsible for processing a \$1.2 million payroll for the 12 days the Fair runs."*

This statement does not take into consideration the hours worked by two Department employees. The Finance Office employees worked a combined 37 hours to assist with the 2007 Fair payroll.

\*  
Comment  
5

**AUDIT FINDING AND RECOMMENDATIONS - Controls Over Employee Time and Attendance** (Page 3)

*"Most of the Fair employees, with the exception of parking employees and grandstand security, are not required to sign in or out each day or maintain any other documentation to support their daily attendance."*

In addition to the positions listed above, ticket sellers, night time security, grandstand ticket takers, grandstand ticket checkers and grandstand ushers are all required to sign in and out each day or maintain another method to support their daily attendance. These various work titles account for approximately 600 positions of the total 1,623 temporary personnel hired for the Fair.

\*  
Comment  
3

*"We were able to verify that 279 of the 290 employees were working during their scheduled hours and had correctly reported those hours on their time sheets, for the times we observed them. For the remaining 11 employees, we noted various discrepancies in their reported working times."*

The sample of 290 employees represents 18% of the 1623 employees paid to work during the Fair. Eleven employees were found to have discrepancies between the floor checks and the recorded time on their time sheets. This represents less than 4% of the sample. Three of the eleven employees were found to have minor discrepancies of less than an hour in each case. One of the remaining eight was a person who worked on the gates for all twelve days of the fair. On the day the auditors were looking for him, they were looking at the grandstand. A "co-worker" indicated that he was not working that day. One of the remaining seven discrepancies noted was a person assigned as Production Manager at the

\*See State Comptroller's Comments, page 12

Cheese Booth in the Dairy Products Building. This individual was paid a flat stipend of \$1,000 for those duties performed from 8/20/07 to 9/4/07. This fee is established by the Dairy Task Force and the State Fair was reimbursed by them.

That leaves discrepancies involving six employees in question. Taking the audit's findings without question, the discrepancies represent a financial loss of \$299 for the specific positions and times cited. Based on our records, the payroll for the 2007 Fair totaled \$1,341,963. If the error rate of \$299 based on an 18% sample size was applied to the entire population, total discrepancies could be approximated to be \$1,661. When compared to the total Fair payroll, the dollar amount of the discrepancies is immaterial.

Having made that point, the audit was helpful in identifying areas where policies and procedures could be enhanced to establish better controls in monitoring employee attendance during the Fair.

**RECOMMENDATIONS** (Page 4)

1. Require all Fair employees to sign in and out on a daily basis.

Response: Agree. State Fair management is considering different options to satisfy this recommendation.

2. Instruct supervisors on their responsibility for certifying the accuracy of the total time worked for each employee.

Response: Agree with comment. Inclusion of this recommendation in the report gives the appearance that the Department did not have a policy in place prior to the audit which is not true. During the month of August 2007, supervisors were instructed, in writing, of their fiduciary responsibility to certify the time records of all their employees. The Department intends to continue this practice in the future. Due to the fact that an existing policy was in place and executed prior to the audit, we feel this recommendation should be removed.

3. Establish time and attendance policies and procedures for per diem-based employees, including when adjustments should be made to their pay for any absences during their scheduled shifts. Communicate the policies and procedures to the per diem-based employees and their supervisors.

Response: Agree and implemented. Policies have drafted and incorporated into the Procedure Manual. Those policies and procedures will be communicated to per diem-based employees and their supervisors upon employment for the 2008 Fair.

* <b>Comment</b> 1
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\*See State Comptroller's Comments, page 12

**AUDIT FINDING AND RECOMMENDATIONS – Payroll Processing (Page 4)**

*"We found that the Department has neither devoted the necessary resources nor overseen the payroll process to ensure there is a proper separation of duties. As a result, there is no independent verification of hours worked by employees, the accuracy of time sheets, and the accuracy of information inputted into PayServ."*

The Department recognizes the Authority's difficulty with instituting a payroll process that ensures the proper separation of duties. The Authority's payroll office is indeed staffed by one full-time employee which is sufficient to meet the Authority's needs, with the exception of fair-time. However, the Department has additional controls in place to compensate for the lack of adequate separation of duties. The Department Internal Auditor conducts an annual audit of the Fair payroll. This audit serves as an independent verification of hours worked by employees and the accuracy of the time sheets. The Authority and the Department are working together to create a process that will verify the accuracy of information inputted into PayServ.

*"There is only one full-time Authority employee, assisted by a seasonal employee hired for the two weeks of the Fair, who controls this payroll process."*

As previously noted, this statement does not take into consideration the hours worked by two Department employees. The Finance Office employees worked a combined 37 hours to assist with the 2007 Fair payroll.

**RECOMMENDATIONS (Page 5)**

1. Oversee the State Fair payroll process to ensure that appropriate internal controls are in place, including the adequate separation of duties.

Response: Agree. Although the annual Fair Audit conducted by the Department Internal Auditor provides oversight of the temporary Fair payroll, we will address the need for improved controls over the process, including the proper separation of duties.

2. Create and implement written procedures for the timely termination of inactive employees from the Fair's payroll.

Response: Agree and implemented. State Fair and the Authority have drafted and adopted written procedures for the timely termination of inactive employees from the Fair's payroll.

\*  
Comment  
4

\*  
Comment  
5

\*See State Comptroller's Comments, page 12

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## APPENDIX B - STATE COMPTROLLER COMMENTS

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1. As further discussed in the body of the report, our tests were not designed to be projected to the entire workforce. As a result, the Department's estimates of effect are inaccurate and based on invalid assumptions.
2. The inadequate separation of critical payroll functions discussed in this report, coupled with the Department's failure to remove former employees from its active payroll, represent serious internal control weaknesses.
3. Conversely, over 1,000 State Fair employees (over 63 percent) maintain no form of daily attendance record.
4. The internal audit does not address internal control issues and has not corrected the separation of duties problems inherent in the one-man payroll and personnel operation at the Fair.
5. The two Department employees cited, worked a combined total of less than one work week during the 12 days of the Fair. They did not oversee payroll operations, but rather worked from their Albany office processing payroll transactions and inputting tax withholding information at the direction of the Authority employee in charge of the payroll.