

Internal Audit – Source Documentation

Written policies governing bonuses, leave, benefits, travel, depreciation, etc.

General ledger totals can be reconciled to financial statements, any adjusting entries include or reference work sheets listing specific transactions.

Project ledgers, indirect cost proposal amounts, and rate development amounts can be reconciled to the general ledger.

Payroll distribution records can be reconciled to the general ledger totals and to the payroll tax forms submitted to the IRS. Direct labor amounts cannot be "backed into" by deducting indirect salaries and paid leave amounts from total labor.

Separate "cost centers" are established to accumulate costs and usage information for any rates used for non-salary direct costs. These rates must be based on actual cost and usage factors. Usage factors are best based on verifiable information such as odometer readings and copy meters.

Transactions are supported by invoices, purchase orders, etc.

Time sheets are prepared by all employees and owners and show all hours worked, including uncompensated overtime for salaried personnel.

Travel costs are supported by information showing (1) the amount of the expenditure, (2) time and place of the expense, and (3) the business purpose of the expenditure.

This list does not encompass all the information that may be requested during an audit. Each audit is unique and tailored specifically to a company based on their policies, internal control systems and the results of the auditor's preliminary survey.