

AUDIT OF LABOR AND ACCOUNTING CONTROLS

CONTROL OBJECTIVES

CONTROL ACTIVITIES

AUDIT PROCEDURES

<u>1. MANAGEMENT REVIEWS</u>		
Monitor the overall integrity of the labor/timekeeping system.	Examinations of the labor accounting system, including the testing of labor charges for accuracy, and performance of unannounced floorchecks in accordance with company policy and/or IIA standard.	<p>a. Consider the plans/results of prior internal, external, or coordinated audits of the labor system for deficiencies which could materially impact government contract risk and vulnerability. Determine if the objectives of the internal reviews are relevant to government risk areas, in accordance with CAM 4-1000.</p> <p>b. Determine if any required corrective action was taken or why no action was taken.</p> <p>c. Adjust the scope of this audit based on the results of the compliance examinations.</p>
<u>2. EMPLOYEE AWARENESS TRAINING</u>		
Reasonably assure that all employees are aware of the importance of proper time charging.	<p>The contractor's procedures address formal company-wide timekeeping and labor charging training with provisions for refresher courses, covering the following:</p> <ul style="list-style-type: none"> • Programs for new hires emphasizing the employee's responsibility for accurate recording of labor. • Programs stressing management's responsibility to provide for the accurate recording of labor hours. • Periodic refresher courses on proper timekeeping and labor charging practices, especially for employees found not to be complying with company labor charging procedures. • An explanation of the penalties for knowingly mischarging time. This should include penalties imposed by the company and those by the government (i.e., False Claims Act). • The importance of maintaining a segregation of duties for labor-related activities to prevent the appearance of and opportunities for improprieties. 	<p>a. Determine whether the policies and procedures address formal company-wide timekeeping and labor charging training with provisions for refresher courses, and require formal documentation of employee attendance.</p> <p>b. On a test basis, examine the contractor's employee sign-in logs, memoranda recording attendance, agenda, etc., to verify that training has occurred.</p>
<u>3. LABOR AUTHORIZATION/APPROVALS</u>		
Controls the accumulation and recording of labor costs allocable to cost objectives for the purpose of determining proper cost reimbursement on government contracts.	Work authorization and/or job assignments, to the extent practical, are controlled and issued independent of those responsible for performing the work.	<p>a. Determine if policies and organizational structure provide for adequate control over work authorizations and require authorizations to be issued independently of those performing the work, to assure the integrity of labor recording procedures.</p>

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		Particular attention should be given to the procedures used to control the opening and closing of work authorizations.
		b. Select a preliminary random sample of work authorizations to determine who initiated the documents. Compare these authorizations to the organizational chart to verify separation of duties.
	Labor documentation/work descriptions clearly identify the nature of the work performed and are trackable to an end-cost objective, whether allowable or unallowable/direct or indirect. Work descriptions are sufficiently detailed to determine the allowability and allocability of the labor charges to government contracts.	<p>a. Determine if policies require detailed descriptions of the work to be performed.</p> <p>b. In conjunction with steps 6.d., request the purchase orders, contracts, etc., for the work authorizations selected in step 3.b. Verify that the description on the work authorization clearly relates to the item(s) required on the originating document(s).</p>
4. TIMEKEEPING		
Assure that labor hours are accurately recorded and that any corrections to timekeeping records are documented, including appropriate authorizations and approvals.	<p>Manual systems provide for the accurate and complete recording of labor hours, as well as appropriate controls to ensure corrections to labor records are accurate and authorized. Generally, they may be categorized as procedures which pertain to:</p> <ul style="list-style-type: none"> • Supervisory observation of employee arrival and departure to prevent improper clock-in/clock-out. • Employee possession of timecard/time sheet. • Employees prepare their timecards in ink, as work is performed. • (I) Only one card/sheet is prepared per employee per period; (ii) Cards/sheets are preprinted with employee name and identification number; and (iii) Cards/sheets are turned in to the designated timekeeping office or collected by an authorized person. • Precoded data is printed on the job cards for identification purposes and so employees will know the job being charged and can relate it to the task being performed. • Direct labor employees record their time no less often than daily. Sufficient formal subsidiary records are maintained, if necessary, to assure accurate time recording and allocating to 	<p>a. Determine if the contractor's procedures are adequate to maintain the integrity of the timekeeping system.</p> <p>b. In conjunction with step 5.e., select a preliminary random sample of employees for floorchecks, verifying that the established timekeeping procedures are being followed. (Note: to the extent possible, the auditor should rely on work performed under MAAR 6.)</p>

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	<p>intermediate and final cost objectives when multiple jobs are worked in a day.</p> <ul style="list-style-type: none"> • Corrections are made in ink, initialed by the employee, properly authorized, and provide a sufficient and relevant explanation for correction. • Employees and supervisors sign the timecards/timesheets in accordance with procedures, verifying the accuracy of the recorded effort. 	
	<p>Automated systems provide for the accurate and current recording of labor hours by authorized employees, as well as appropriate controls to ensure corrections to labor charges are accurate and authorized. Generally, they may be categorized as procedures which pertain to:</p> <ul style="list-style-type: none"> • Only the employee uses their labor charging instrument to access the labor system. • Employee badge issuance is sufficiently controlled so that no number is duplicated and badges are not issued to unauthorized persons. • Procedures are in place which require the employee to report lost badges promptly. • Changes are initialed and dated by the employee and supervisor and describe the reason for the change, unless controlled by bar coding, etc. 	
5. LABOR DISTRIBUTION		
<p>Reasonably assure the proper recording of labor costs to cost objectives.</p>	<p>The total labor hours reflected in labor distribution summaries agree with the total labor charges as entered into the timekeeping and payroll systems. All of each employee's time is distributed as recorded and reflects the accounting for all hours worked.</p>	<p>a. Determine if policies and procedures require that hours recorded in the timekeeping system are reconciled, either manually or automatically as part of normal EDP operations, with attendance records and labor distribution summaries.</p> <p>b. Verify that the contractor performs reconciliations of timecards to attendance records and labor distribution summaries. If these reconciliations are performed as part of the EDP operations, the auditor should indicate as such and design appropriate tests to verify the effectiveness of the computerized procedures.</p>
	<p>The contractor has procedures to ensure that all hours worked include both compensated and uncompensated</p>	<p>c. Determine if procedures exist for equitable recording of uncompensated overtime, as covered in CAM 6-410,</p>

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	overtime, to assure the proper distribution of labor costs.	“Evaluation of Uncompensated Overtime.”
	An audit trail exists which documents direct and indirect labor charges to the appropriate cost objectives, depending on the system used.	d. Determine if procedures require that direct and indirect labor charges be supported by sufficient evidential matter to verify the allocability to final cost objectives, and are that they traceable to approved work authorizations. e. Concurrently with step 4.b., request that work authorizations for the labor charges sampled by verify that the charges are valid and traceable to final cost objectives.
6. LABOR COST ACCOUNTING		
Reasonably assure that labor costs charged to the government are in compliance with promulgated Cost Accounting Standards, Acquisition Regulations, Generally Accepted Accounting Principles, and contract terms/clauses.	The contractor has procedures which address significant increases in direct/indirect labor accounts for reasonableness and allocability.	a. Evaluate the procedures to determine if they address comparative analysis of sensitive accounts.. Procedures should also address changes in labor charging practices to assure consistency with CAS. b. Request contractor’s documentation of its review of sensitive accounts to verify compliance and to identify any areas which require further analysis.
	Policies and procedures address briefing of special contract terms and advance agreements relative to allowability and allocability of labor costs. The contractor identifies all contract terms with government costing implications such as military standards, overtime, skill mix requirements, etc., to ensure compliance with those terms. Direct and indirect labor costs directly associated with unallowable costs are identified and segregated. While this is an important control procedure during indirect cost examinations, the auditor should be aware of this requirement under FAR 31.201-6 and CAS 405.	c. Determine if policies require the briefing of contracts for relevant contract terms and conditions impacting labor. d. In conjunction with step 3.d., request contractor briefing documents or contracts impacting overtime, skill mix, etc. Obtain a sample of payroll/personnel records to evaluate for compliance with contract terms. e. Determine if policies require the identification and segregation of unallowable direct and indirect labor costs. f. Verify that the chart of accounts and the contractor’s disclosure statement identify and describe the treatment of unallowable direct and indirect labor costs.
	Lump Sum wages resulting from union contracts are	g. Determine if policies require that Lump Sum wages

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	accounted for in accordance with EITFIS 88-23. The matching concept requires that lump sum payments benefiting future periods should be deferred and amortized over the period benefited (i.e., the period covered by the union contract).	resulting from union contracts be amortized per, if applicable (See CAM 7-2119.) h. If applicable, request an amortization schedule from the contractor and evaluate for compliance with the requirements noted in CAM 7-2119.)
	The contractor has procedures which address overtime authorization requirements prescribed by FAR 22.103, if applicable.	i. Determine if policies regarding overtime authorization and the allocability of overtime premiums address the concerns in CAM 6-409.
		j. On a test basis, examine documentation supporting the authorization of overtime to determine that the contractor is in compliance with FAR 22.103, where applicable.
	Policies and procedures address retention of labor records which comply with the current FAR requirements. The contractor has procedures which address the retention of labor records such as payroll records, labor distribution records, work authorizations, etc.	k. Determine if adequate policies exist for the retention of records, as outlined in FAR 4.705-1.
7. PAYROLL PREPARATION AND PAYMENT		
Provide reasonable assurance that payrolls are prepared by persons independent of those responsible for the timekeeping operations and actual payroll payment, and pay rates are appropriately authorized and accurate.	Segregation of responsibilities between timekeeping and payroll, to reduce the opportunity to allow any person to be in a position to both perpetrate and conceal errors or irregularities such as fictitious employees, improper time charges, etc.	a. Evaluate current organizational charts, job descriptions, etc., to determine if there is a sufficient division of duties between personnel responsible for the preparation of time and attendance records, and those responsible for the preparation and distribution of the payroll.
	Policies and procedures address the accuracy of the labor costs; in particular, that pay rates are appropriately authorized.	b. Ascertain whether procedures require that the pay rates in effect be supported by written authorization from the personnel department or other authorized source.
		c. On a test basis, verify that pay rates are officially authorized.
		d. Determine if procedures require cross-checks, either manual or computerized, within the payroll department for verifying the accuracy of names, rates of pay, hours worked, extensions, and accounting distributions.
		e. Verify that the contractor performs the required cross-checks in accordance with established procedures by analyzing evidentiary documentation.

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		If these cross-checks are computerized, the auditor should indicate as such and design appropriate tests to verify the effectiveness of the automated procedures.
8. LABOR TRANSFERS AND ADJUSTMENTS		
Provide reasonable assurance that labor transfers or adjustments of the labor distribution are documented and approved.	Management has established a system for documenting, approving, and reviewing the transfer of labor costs from one cost objective to another. Written justification is required for any such transfer, to ensure the proper allocation of labor costs to final cost objectives.	a. Determine that adequate policies and procedures exist for approving and reviewing labor transfers, and that a relevant written explanation is required for the transfer. NOTE: Particular attention should be given to “on-line” adjustments. In these cases, the auditor should evaluate controls in place to ensure that unauthorized or undocumented adjustments are prevented or detected in a timely manner.
		b. On a test basis, verify the contractor’s compliance with established procedures for labor transfers by analyzing evidentiary documentation.
	Labor distribution edit errors are processed into a suspense account and billed to customers only after correction.	c. Determine if policies require that labor charging errors be suspended until evaluated, officially authorized, and corrected.
		d. On a test basis, verify the contractor’s compliance with established procedures for labor charging errors by evaluating evidentiary documentation. Note: To the extent possible, the auditor should rely on work performed under MAAR 10.
	Reports of suspense labor and edit errors are generated and provided to the appropriate personnel for review and corrective action.	See steps 3.a. & b. above.