

PAYROLL AUDIT PROCEDURE & CHECKLIST

Company Name:	_____
Audit Period:	_____ to _____
Auditor Name:	_____
Date of Audit:	_____

Phase 1: Document Gathering

- Master Employee Roster: (Active, terminated, and on-leave employees).
- Payroll Registers: Summary reports for the period being audited.
- Time & Attendance Records: Timesheets and timecards.
- Tax Filings: Form 941 (Quarterly), Form 940 (Annual), and state unemployment forms.
- Bank Statements: Specifically the account used for payroll funding.
- Deduction Reports: Health insurance invoices, 401(k) remittance reports, etc.

Phase 2: Employee Data Verification

- Verify "Ghost" Employees: Confirm every person receiving a check currently works there.
- New Hires: Check W-4s, I-9s, and direct deposit forms.
- Terminations: Ensure terminated employees were removed immediately after final pay.
- Pay Rates: Compare system rates with offer letters.
- Classification: Ensure correct Exempt or Non-Exempt status.

Phase 3: Wages, Hours, and Earnings

- Hours Worked: Spot-check 5–10% employees; match timesheets vs. payroll.
- Overtime Compliance: Check correct OT calculations.
- Paid Time Off (PTO): Validate deductions from accrued balances.
- Bonuses & Commissions: Cross-reference approvals.
- Negative Pay: Identify incorrect adjustments.

Phase 4: Tax & Deduction Compliance

- Tax Rates: Ensure payroll software uses current tax tables.
- Benefit Deductions: Compare deductions vs. insurance invoices.
- Retirement: Match 401(k) deductions to employee elections.
- Garnishments: Validate proper deduction and remittance.

Phase 5: Reconciliation

- Bank Reconciliation: Ensure payroll totals match bank statements.
- Uncashed Checks: Identify checks older than 90 days.
- Tax Liability: Validate payroll register vs. Form 941 deposits.

Phase 6: Findings & Remediation Plan

Discrepancy Found	Corrective Action	Owner	Due Date
_____	_____	_____	_____

Auditor Signature: _____

Management Sign-off: _____

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