COMPANY FRAMEWORK

The Audit

Your books are right and your jobs are lying to you. This is how to find out which ones, and what it is costing you to not know.

A FIELD METHOD FOR BUSINESSES THAT SELL JOBS

26 CHAPTERS

FIRST EDITION

What this is

A method for auditing your own business, written by somebody who ran the audits, got a fair number of them wrong, and kept the receipts.

It isn't an accounting book. It won't close your books, assess your controls, or make you compliant with anything. It answers a narrower question, and it's one most owners of job-based businesses genuinely cannot answer: **which work was worth doing, and how would you know.**

All of it came out of a live company. One residential contractor, about twenty people, four commissioned salespeople, one year of closed jobs. Six multi-section audits, ninety-eight pages of them. The findings were real. Several were wrong, and those are in here too, in one chapter, where they belong.

WHO IT IS FOR

You sell **jobs**. A discrete piece of work, priced before it's done, built by people who weren't in the room when it was sold, whose true cost shows up from third parties weeks after the customer already has a number.

Contracting, installation, field service, restoration, landscaping, cleaning, equipment work, fabrication to order. If your cost of goods is known at the moment of sale, or you sell hours against a rate card, most of this doesn't apply to you. Better you find that out here than on page ninety.

HOW TO READ IT

IF YOU HAVE	READ
Twenty minutes	The twelve rules. Everything else in the book is an application of them.
An afternoon	Parts One and Two. That's the method and how to set up any audit. You could run one after that.

IF YOU HAVE	READ
A specific problem	Go straight to its chapter in Parts Three and Four. Each one stands alone and says what it needs.
Doubts about all this	The chapter near the end where it all blew up. Every confident wrong answer this method produced, what caused each one, and what rule came out of it. If the book's going to lose you, better it loses you there than after you've acted on something.
Monday morning	The last chapter.

WHAT HAS BEEN TAKEN OUT

Every name, company, supplier, vendor, product, place and customer is gone, replaced with a role or a function. No price any real business pays for labor or material appears anywhere. Where a worked calculation needs a number and no safe one exists, the number is invented and the text says so on the spot.

What's kept is the part worth anything: the counts, the concentrations, the conversion rates, the shape of every finding, and the arithmetic of every mistake.

> THE ONE SENTENCE
>
> If you take nothing else from this book: **a total is not evidence.** Every summary you look at reconciles whether or not the parts underneath it are in the right place, which is exactly why the check that would catch the problem is the one nobody runs.

Nothing here is legal, tax or accounting advice, and no professional relationship is created by your reading it. A failed test in this method means a document and a record disagree. It never means anyone did anything wrong, and it is never evidence of anything. What you do with an exception is your decision and your liability.

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PART ONE

The Method

Four ideas and twelve rules. Everything after this is an application of them, and skipping this part is how people end up auditing the wrong thing beautifully.

CHAPTER 1

Your Books Are Right And Your Jobs Are Lying To You

Reconciling and costing are two different skills, and most businesses only have the first one.

An owner can close a month to the penny, open one job from that month, and be unable to say within a thousand dollars what it made. Nothing is broken. That's the normal condition, and it has five specific causes.

Picture an owner on a Thursday afternoon. The month closed clean. The bank ties out, the supplier statement ties out, the card statement ties out, and every dollar that left the business appears on the ledger exactly once. His bookkeeper is good. He knows she's good, because he's had bad ones.

Then a salesperson asks what a particular job made. The owner opens it. There's a number on the screen. He looks at it for a second and he can't defend it, so he says he'll come back to him. He won't come back to him. He'll open the job again in three weeks and the number will have changed, and he still won't know whether the new one is right.

Nothing that happened in that sequence is a bookkeeping failure. The books answer one question: how much money the business made over a period. Job costing answers a different one: which work produced it. Those two are independent, and only the first one ever gets checked by anybody outside the building. A dollar can be posted to the correct account, in the correct month, in the correct total, and still land on the wrong job, in the wrong column, after the job closed, or not land at all because a credit went somewhere else.

That's why the accountant and the owner can both be right and still disagree. The accountant is reporting the top. The owner is asking about the bottom. Nothing at the top is wrong. Nothing at the bottom is usable.

Five failures produce almost all of it. One at a time each looks like a rounding error, which is exactly why each one survives. They matter because they stack, and because they don't stack evenly. A uniform error is just a pricing adjustment: you find it once, you move your number, you move on. An uneven error changes the *order* of your jobs from best to worst, and the order is what you act on.

1. The cost lands late

Invoices arrive on the supplier's cycle and the subcontractor's habits, never on yours. Credits post later still. So a margin you read before every invoice, credit, chargeback and change order has posted isn't a number, it's a number in motion, and every decision taken against one gets re-argued the day it stops moving.

What people miss is that anything you build on posted cost inherits the delay. One contracting company designed an alarm to fire when an open job passed its budget by a fixed percentage. It got withdrawn before it shipped, on one sentence: an alarm on posted cost can't fire on cost that hasn't posted. The threshold was never the problem, and no threshold fixes a delay.

One caution, because it's the trap standing right next to this one. Late posting is usually a company-wide condition rather than a discriminator. In that same company, jobs that finished healthy showed the same posting lag as the jobs that blew out. It hides cost. It doesn't explain a shortfall, and if you treat it as the explanation you'll spend a quarter there.

2. The cost lands in the wrong column

Money goes in as material that isn't material, and in as labor that isn't labor. In one contracting company, freight didn't appear as freight anywhere in the ledger. It was distributed inside the material line. It surfaced only when somebody read all 889 supplier orders at line level and found it sitting in a subordinate charges field below the subtotal, which is a place nobody reads. Seven months of it came to a little over 2% of supplier purchases, and the same pass turned up a mid-year fuel surcharge increase of 86% that had

never been announced. No order-total view could have produced either figure. That isn't because the view was built badly. It's by construction: the field sits below the line the view adds up.

It runs the other way too. Non-labor rides inside labor invoices. In the same company one subcontractor billed waste container charges inside his labor billing, so a job could read zero waste cost and still have paid for the container twice over.

Now think about what that does to the two percentages you probably watch most. Your material percentage is too high and your labor percentage is too low, and neither one looks wrong on its own. Two errors, pointed at each other, holding the total perfectly steady. It's the most cooperative thing in the business.

3. The cost lands on the wrong job

Two jobs running, one truck, one order. A crew splits a day and the ticket carries one address, because a ticket has one line for an address. An invoice gets coded to the job that was open on the screen, because that job was open on the screen.

These errors come in pairs, and the pairing is the useful part. Every dollar on the wrong job is a dollar missing from the right one. A job that reads comfortably under budget might simply not be carrying its own cost, and the job beside it that reads over is carrying somebody else's. When you find one of these you've found two. Don't close the first until you've named the second.

4. The credit never lands

A return gets approved, the supplier issues the credit, and the credit posts somewhere other than the job that sent the material back. So the job keeps carrying a cost it's already recovered.

Two things make this worse than it looks. First, a return can be a net loss: a crew member who returns a small quantity of material exactly as the checklist instructs can generate a debit memo worth roughly a third of what went back. That story is told properly in the chapter on the order you work a

problem, because it teaches something bigger than returns. Second, the only independent record is the supplier's own portal. Your accounting system and your job system are usually mirrors of each other, so they can agree all day and neither one can check the other.

5. The rate was never written down

Somebody invoices you and you have nothing to test the invoice against. There's no rate card for that crew, or there's one and nobody can produce it, or it covers the trade but not the two exceptions everyone knows about verbally. You can't say the amount's wrong. You can't say it's right either. All you can say is that you can't say, and most people round that up to approved.

The same hole sits on the estimating side, quieter. A cost line your template prices at zero has no rate at all, so it can never come in over. Sales tax, fuel surcharge, pallet charges, delivery, restocking: priced at zero, they're pure leakage that no variance report can flag, because a variance report compares against the estimate and the estimate is silent.

NOT ONE OF THESE IS CARELESSNESS

Here's what the five have in common, and it's why no amount of care fixes them. Every one of them starts as a document arriving from outside your business in a shape nobody inside it chose.

The supplier bills on its cycle because that's its cycle. The charges field sits below the subtotal because that's where the supplier's software puts it, not because anyone hid it. The subcontractor's invoice bundles the container with the labor because that's how he bills, and he's been billing that way since before you opened. The crew that lost money on a return was following your checklist, under a fee schedule written by a company that isn't yours.

You don't control the shape of any of those documents. What you control is what happens when they arrive. That distinction is the whole book.

THE SENTENCE TO STOP ON

If your first response to any of the five is a version of making sure people are more careful, stop there and find the mechanism instead. The chapter on what to do when people have to remember is entirely about that move. For now it's enough to notice that none of the five is caused by anybody deciding not to bother.

WHAT IT COSTS YOU NOT TO KNOW

Two costs, and the second's bigger than the first.

You can't tell a pricing problem from an execution problem. Those two failures look identical at the top of the ledger and they have nothing in common underneath. A job priced too thin and a job priced correctly that got built expensively both show up as a disappointing margin. One of them is fixed by changing what you charge. The other's fixed by changing what happens in the field, and changing what you charge there will cost you the work and won't recover a dollar. Without clean job-level cost you're guessing which of the two you've got, and the guess tends to follow whoever spoke last. You won't experience that as a measurement problem. You'll experience it as a market that has gone strangely hard in one product line and strangely easy in another, and you'll adjust your pricing to suit a market that never moved.

The good news is the question's answerable. In one contracting company, fifteen jobs carried 85.6% of the year's shortfall against the margin floor. Two of the fifteen were deliberate company decisions, a charitable donation and a family discount, so thirteen were execution failures. The chapter on job-level forensics runs that out in full, including the part that matters most: nearly all of those jobs had sold at or above the floor. They'd been priced right and built expensive, and no pricing change on earth would have touched them.

If anyone is paid on job profit, you're moving money between paychecks without knowing it. This is the one that should make you uncomfortable. Where a salesperson earns a share of net profit per job, every mis-assigned

dollar is money in or out of a specific person's pocket. That isn't a reporting variance. That's payroll.

The deduction is also silent. A rep's expected commission quietly becomes a fraction of itself weeks later, with no threshold crossed, no notice issued, no written finding, and no bridge between the number he was told and the number he got. A pay formula can be mathematically perfect and still be impossible to trust, and a rep who can't rebuild his own pay has no way to raise it except as a complaint about you personally. The chapter on what happens when job cost becomes pay deals with that in full.

Window and basis for the figures above: one residential contracting company, roughly twenty employees, every job closed between 1 January and 31 July, both years, on a date-closed basis. Nothing annualized, nothing adjusted, nothing estimated. The freight and surcharge figures cover a seven-month supplier window read at line level across 889 orders.

WHAT THE REST OF THIS DOES

The next three chapters are method and they're short on purpose: the rules that decide when a number has earned belief, the order you work a problem in, and the one move that makes a recurring failure stop recurring. Everything after that applies those to labor, material, job cost, pay, leads, territory, documents and the work that never reaches the accounts at all.

None of it needs you to be an accountant. It needs you to open the line items, and to write down which window and which basis you're on before you say a number out loud.

BOTTOM LINE

Reconciled at the top and unusable at the bottom is the ordinary state of a service business, not a sign of a bad bookkeeper. Five failures produce it, every one of them arrives as somebody else's paperwork, and the expensive part isn't the money you lost. It's that you can't tell what kind of problem you have, and somebody's pay is riding on the answer.

CHAPTER 2

Twelve Rules I Paid For

Nobody writes a rule like these on a good afternoon.

Twelve specific ways a number gets believed before it's earned it. Each one's here because somebody, usually the man writing them down, believed a number that hadn't.

Start with a man reading purchase orders. Not scanning them. Opening each one, expanding it, reading the lines underneath the total, 889 times, because the totals had already told him everything they were going to tell him and it wasn't enough. He was looking for freight, and freight wasn't appearing as freight anywhere in the company's ledger.

He found it in a field called other charges, sitting below the subtotal. Seven months of it, a little over 2% of everything the company bought, plus a fuel surcharge that had gone up 86% mid-year without an announcement. His note to himself ran six words: below the subtotal, where nobody reads.

That's rule one. The other eleven cost about the same.

> RULE 1
>
> **A total is not evidence. Expand to leaf level.**
>
> A rollup, an order total, a summary line, a screenshot or a thumbnail is never proof of anything. If you can't see the line items, say you can't see the line items. The number you're being shown was produced by an addition you didn't watch.
>
> It holds at small amounts too, and that's where the discipline actually gets tested. In one month-end reconciliation an aggregate line covering eight months differed from the sum of its own leaves by $400.00. The leaf sum got used and the gap got published rather than smoothed, which is the only honest thing you can do with $400 you can't explain.

RULE 2

Never fill a gap with an estimate.

If a number won't pull cleanly, flag it and move on. A precise-looking figure built on an incomplete denominator is worse than no figure, because no figure invites a question and a wrong one ends the conversation. Your reader can't see which of your numbers you assembled and which you measured.

Two figures got dropped from a finished performance document rather than estimated: a year-over-year effective commission rate and a prior-year team close ratio, both sitting on columns that weren't fully populated. They're in the delivered document as flagged gaps. The corollary's the one people break without noticing: don't annualize a partial period without labeling it. Seven months times twelve sevenths isn't a year, it's a forecast wearing a measurement's clothes.

RULE 3

Label every finding PROVEN or OPEN.

Nothing ships unlabeled. An unlabeled finding defaults to proven inside the reader's head, and the reader isn't the person who knows what was and wasn't checked. You're handing over your own confidence along with your conclusion, and you're the only one who can calibrate it.

The label also has to survive being quoted. A figure that carries OPEN in the document it was born in, then gets printed on a card, a tile, a threshold or a slide without it, has quietly become proven on the way across the room. The test's a good one: if the label won't fit at the point of use, the figure isn't ready to be used there.

RULE 4

Publish what was ruled out.

End every analysis with the hypotheses you tested and couldn't support. The wording that works: these were tested and didn't hold, and they're recorded so nobody spends another quarter on them. It costs you a paragraph and saves the next person a month.

One labor audit killed nine theories in its closing section. Large jobs lose money: there's no relationship between contract size and margin. Crew rates have drifted: they're stable across every job examined. Late material posting is causal: healthy jobs showed the same pattern, which makes it a company-wide condition rather than a discriminator. That last kill's worth more than most findings, because it's the one everybody reaches for first.

RULE 5

Missing paperwork is not fraud.

Some subcontractors invoice by text message. Ask before you build a case out of an absent document. The paired rule from the same test table belongs on a wall: a hit's a question, never a conclusion.

Half the time the document exists. It's on a phone, in a group chat, under a photograph of somebody's dog. The cost of breaking this rule also isn't analytical, which is what makes it different from everything else in this chapter. You can withdraw a number in a paragraph. You cannot withdraw having suggested, in front of the office, that a crew chief's been helping himself.

RULE 6

Before reporting that a record is absent, enumerate what values actually exist in that field.

An absence is a claim about an entire field, and you can't make a claim about a field you haven't listed. A missing match means one of two things: the record isn't there, or your lookup list is short. Those aren't the same finding and only one of them is about your business.

It's the most expensive rule on this list to learn the hard way, and *Every Time This Blew Up In My Face* carries the case that produced it. Until then, read the rule as written. That's the whole of it.

RULE 7

A mechanism discovered late is retroactive.

When you find a new way for something to hide, stop and re-test everything you've already called clean. Don't file it as one more finding and keep walking. Everything you certified before you understood the mechanism got certified by an instrument that couldn't see it.

A scrub pass once found that a workbook's cell-comment layer had never been examined at all. Forty-seven comments, thirty-one of them carrying one company's actual pay rates, a named system and a named employee, all of it riding underneath cells that looked clean from every angle anybody had looked from. The rule forced a re-check of every workbook in the line, which turned up a second instance in a product that had already shipped.

RULE 8

Critique your own instrument before defending it.

When a measurement produces an implausible number of failures, suspect the measurement first. Ask whether the instrument's the problem rather than the result. A test that fails almost everything has stopped discriminating and turned into a formality.

A labor audit flagged jobs against a single 35% labor cost threshold applied to every job regardless of size. The note its own author wrote, before anybody challenged him: a single threshold across all job sizes is the wrong instrument, it over-flags small jobs that are fine and under-flags mid-size jobs that are not, so band it by contract size. There's a matching failure on the other side, named in three separate later documents: lowering a threshold to make the failure count look reasonable. Band the instrument. Don't move the line to make the answer comfortable.

RULE 9

Retract inside the same document as the finding.

A correction doesn't go in a separate note. It goes in the document whose authority it undermines, in the place your reader will be standing when the claim matters. Then you search that document for every other place the claim turns up, including the summary, the boxed bottom line and the figures up top.

A retraction that leaves the headline standing hasn't retracted anything, and it happens constantly, because the correction gets written where the claim lived rather than where it got quoted. What works is a dated header block on the document itself, naming what it replaces, with the dead text swapped out for the evidence that killed it.

RULE 10

Re-denominate before diagnosing.

Convert to the unit that makes comparison possible, per job, per dollar, per person, per matched window, before you interpret anything. Most disagreements about a number are disagreements about its denominator, and the people arguing usually don't know that's what they're arguing about. Get the units comparable or you aren't comparing.

It bites in places that don't look like analysis. One spreadsheet ran a drift check by testing a per-unit rate gap against a dollar floor meant to describe money at stake on the line. A rate that's $50 per unit out across ten units puts $500 in question, and the sheet was comparing $50 to a $250 floor and calling it agreement. The fix was a column computing dollars at stake, then testing the floor against that.

RULE 11

Always state the window and the basis.

Revenue is not a number. Collected, date-closed basis, 1 January to 31 July, both years, is a number. Every document you ship opens with those two lines, and writing them takes about eleven seconds.

An owner and a sales director once spent consecutive month-ends arguing about whether a month had been good, and neither of them was wrong. Two different meters were both being called our number, and the cash question was a third thing again. Neither man was lying and neither could prove it. The chapter on window, basis and denominator takes that apart properly.

RULE 12

Hedge judgment. Never hedge a figure.

Be uncertain out loud about what something means. Be exact to the cent about what it is. Those are opposite jobs, and most writing gets them the wrong way round.

This one got measured rather than asserted. Across two working meetings the phrase I think turns up 28 times in one and 35 in the other, while every dollar in the same sessions is quoted to the cent. The confidence lives entirely in the data layer, which is exactly what makes the unhedged sentences worth listening to. The inversion's the tell for a report you shouldn't trust: firm about what it means, rounded about what it is. That isn't a finding. That's a mood with a chart in it.

TWO MORE WITH NOWHERE ELSE TO LIVE

Twenty-six further rules came out of the same year. Most get worked out properly later in this book and the table below says where. Two don't, so here they are.

A gap only you can fill, that you keep not filling, is a decision in a data-gap costume. Before you build anything to go and get the missing data, test whether it's actually missing. Sometimes the number can't be produced because nobody's decided what it should be, and calling that a data problem is more comfortable than calling it an open decision. Build a collection process for it and the process will work perfectly and change nothing.

Push-back is data, not proof. Disagreement with a finding is evidence about the finding, never evidence for it. There's a genre of document that says the parts which make you defensive are the most accurate ones, and it turns every objection into confirmation. That's unfalsifiable, and it'd be rejected in any audit.

THE REST, AND WHERE THEY GET WORKED

RULE	WORKED OUT IN
An OPEN label doesn't travel by itself, so anything built on an OPEN figure must carry the label at the point of use. And **get one ground truth before you build the instrument, not after.**	The chapter on what movement costs.
Derive on the denominator, don't merely check against it. State a design in the same sentence as the pool it was derived on, never the pool it was checked against.	The chapter on auditing territory.
Name the population before touching the data, and **ask what the filter selects on.** A filter that correlates with the outcome you're measuring is never harmless.	The chapter on auditing territory.
Re-fit, don't re-run. The size of the move in a fitted constant is the size of the old error. And **a figure inherits the confidence of whatever sits beside it**, so never let an inference borrow a measurement's voice.	The chapter on auditing territory.
A precise measurement on the wrong variable is still wrong. Ask which variable you're allowed to move before you measure anything.	The chapter on auditing the thing you measure with.
A pass proves nothing until you've proven the test ran against what you're shipping. Run alone, one suite scored 48 of 48. Run first in a batch, it scored 45 of 48, because it rebuilt the target underneath everything that followed. And **a clean recalculation is not a test**: use real data, hand-computed first.	The chapter on auditing the thing you measure with.
Two failed patches on one defect means the model is wrong, not the patch. The signal to re-open the model is the second failure, not the third. And **never let absence of evidence default to a pass.** Decide, or say undecided.	The chapter on what a failed test means.

RULE	WORKED OUT IN
Any premise that changed inside the last quarter must be re-established from the system before you use it. A stale premise fails silently and takes a correct conclusion down with it.	The chapter on when job cost is pay.
A filename is not evidence. Open the file. Companion: opened is not edited, so date the content and not the container. And **a heading is a claim**, carrying the same evidence standard as a figure.	The chapter on auditing your documents.
When two live documents give different values for the same quantity, the conflict is the finding. Surface it before either number gets used. Related: **an ownership filter is not an inventory**, and **compare against the finished set, never a snapshot of it.**	The chapter on where things get lost.
Read what's already written down before you reconstruct it. One session rebuilt a method from a tooling file while eleven documents describing that method sat unopened in the attached project.	The chapter on auditing a role.
Reconcile in bulk mechanically first, then investigate only the dollars that fail to reconcile. And **state where you stopped**, because coverage honesty is part of the finding.	The chapter on reconciling in bulk.
Magnitude claims need their own denominator, and a claim nobody can source should be retired. Say which figure you're using and why.	The chapter on where the work comes from.
A retraction doesn't travel either, and **carry the error history inside the deliverable** rather than shipping the clean version.	*Every Time This Blew Up In My Face*.

THE RULES AREN'T INDEPENDENT

Three of the most expensive errors in the whole year are one rule wearing three costumes. A territory design derived on the wrong pool, a spreadsheet testing a per-unit gap against a dollar floor, and a quarter read as a volume collapse when it was a mix shift. They're all rule 10. One happened in an analysis, one in a formula, one in a meeting, and nobody involved in any of the three noticed they were making the same mistake.

That changes how you should use this chapter. You aren't memorizing twelve separate cautions. You're learning a small number of ways a number stops describing what its label says it describes, and they show up in every medium you work in, including the ones that don't feel like analysis at all.

BOTTOM LINE

Every rule here is a receipt for something already paid for. If you can only take two today, take rule 1 and rule 11: open the line items, and write down the window and the basis before you say the number out loud. Those two alone will stop most of what goes wrong in the rest of this book.