

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

MAKE AND PACKAGE PRODUCT

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of making and packaging product. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

- A. Production downtime is minimized.
- B. Production quantity and quality specifications are met.
- C. Production is completed on a timely basis.
- D. Scrap is properly handled and accounted for.
- E.

- H. All completed production orders are accurately and completely recorded on a timely basis.
- I. Standard costs calculations are complete, accurate, and properly authorized.
- J. Actual production costs are accurately and completely recorded on a timely basis.
- K.

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MAKE AND PACKAGE PRODUCT**

Effectiveness and efficiency of operations

A. Production downtime is minimized.

Business risks

- Employees will perform excessive work steps as a result of engaging in a poorly organized production process.
- The company will incur excessive labor costs.
- Production will be delayed as a result of equipment failure, inadequate skilled labor, or natural or other disasters.
- Production runs will not be sufficient to meet product demand on a cost-effective basis.

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MAKE AND PACKAGE PRODUCT**

C. Production is completed on a timely basis.

Business risks

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MAKE AND PACKAGE PRODUCT**

E. Packaging size and type are aligned with customers' needs and wants.

Business risks

- Company products will fail to reach expected sales levels due to poor packaging.
- Customer satisfaction will be reduced if products arrive damaged due to poor packaging.

Control practices

1. Use packing materials, containers, or procedures best suited for t

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MAKE AND PACKAGE PRODUCT**

H. All completed production orders are accurately and completely recorded on a timely basis.

Business risks

- Completed production will not be reported as available for sale or ready for shipment.
- Inputs for preparation of accounting journal entries will be incomplete.
- Incorrect advice will be given to customers regarding product availability.

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MAKE AND PACKAGE PRODUCT**

I. Calculations of standard cost are complete, accurate, and properly authorized.

Business risks

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MAKE AND PACKAGE PRODUCT**

K. Production order and production cost transactions are reliably processed and reported.

Business risks

- Unauthorized changes will be made to programs, resulting in unauthorized processing results.
- Unauthorized versions of files and/or programs will be used to process transactions, resulting in unauthorized or incorrect business transactions.
- Files (transaction, reference, or master) will be lost, altered, or damaged, r4 (u)31.2 (l)-3.28 (4 (u)31.2 64

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M. Variances are analyzed on a timely basis.

Business risks

- Variances will be computed or recorded incorrectly. Analyses of variances will not be useful.
- The impact on inventory and cost of sales will not be determined.

Control practices

1. Ensure variances are computed by product, by resource, and by stage of production. (For example, compute variances such as labor efficiency and rate variances, materials usage and price variances, and volume variances.)
2. Verify completeness of product variance analyses by comparing them to a product list or other appropriate documents.
3. Review the general ledger to ensure that variances are recorded accurately.
4. Review variances to determine whether they are production related or inventory related.
5. Involve production personnel in the variance reviews.
6. Verify variance accuracy by re-computation or other appropriate methods.

N. Performance measurements used to control and improve the process are reliable.

Business risks

- Inaccurate measurements will result in erroneous perceptions about process performance, resulting in inappropriate decisions.
- Measurements calculated with inaccurate data will drive behavior that is inconsistent with management objectives.

Control practices

1. Use the computer system to automatically calculate the process performance measures based on data captured at the transaction source. (For example, production time, inventory levels, and production delays.)
2. Assign production personnel to periodically review the performance measures to ensure they reflect process performance.
3. Use sources such as customer surveys, production personnel complaints, and a percentage of on-time deliveries to gather relevant information about the processes.
4. Communicate process information to all responsible employees on a timely basis.
5. Use cross-functional teams to identify potential process improvements.
6. Educate management and employees on the linkage of performance measures to customer satisfaction.
7. Ensure management and employees accept the measures as tools to improve process performance.
8. Link relevant performance measures to employee performance evaluations.

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Compliance with applicable laws and regulations

A. The production process complies with applicable laws and regulations.

Business risks

- The company will incur fines or other penalties; bad publicity and loss of reputation; industrial relations problems or union disputes.

Control practices

1. Require legal review of all relevant laws and regulations.
2. Consult with union or employee representatives about compliance with laws and regulations and possible future requirements.
3. Consult with industry organizations, trade unions, or regulatory bodies about compliance with laws and regulations and possible future requirements.
4. Document company policies and procedures concerning compliance with laws and regulations.
5. Distribute documentation of company policies and procedures concerning compliance with laws and regulations to employees and management involved in the production process.
6. Monitor safety violations and enforce disciplinary action on employees who violate safety procedures.
7. Conduct periodic safety tests.

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