2701.2 ADDENDUM - INTERNAL CONTROL STANDARD #2: CONVERSION CYCLE

Subject: Internal Control
Effective: December, 1986
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Responsible Office: Comptroller
Approval: Comptroller

DEFINITION

The conversion cycle includes transaction flows pertaining to the production of goods and services, resources held, used or transformed, and related controls over such activities as inventory transfers and charges to production for labor and overhead.

GENERAL STANDARDS

1. In order to make and/or support the entries in the inventory records, control should be established over:
   A. Issues from inventories of materials and supplies to production (operations), and returns from production to inventory;
   B. Charges to production for labor and overhead; and
   C. Transfers from production to inventories of supplies, parts and finished goods.

2. Accurate inventory records should be maintained of work-in-progress.

3. General ledger entries arising from the conversion cycle should be accurately determined.

4. Accurate records should be maintained of internal production projects (e.g., construction of property, plant and equipment, major maintenance or overhauls) so as to determine the amounts to be capitalized, deferred or written off.

5. Accurate records should be maintained of goods held on behalf of third parties (e.g., customers' goods to be returned after processing) so as to:
   A. Enable such goods to be identified separately from those owned by the University; and
   B. Provide a basis to establish the liability for any such goods not ultimately returned.