EVALUATION OF INTERNAL CONTROL OVER PURCHASING ACTIVITIES AT PT JOPURI LESTARI MANDIRI

(A Case Study)

SKRIPSI

By

Maria Adelheid

008201000045

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PANEL OF EXAMINERS APPROVAL SHEET

Herewith, the Panel of Examiners declares that the skripsi entitled “EVALUATION OF INTERNAL CONTROL OVER PURCHASING ACTIVITIES AT PT JOPURI LESTARI MANDIRI” submitted by Maria Adelheid, Accounting Study Program, Faculty of Business, has been assessed and proved to pass the Oral Examination on Friday, March 14th 2014.

Chairman, Panel of Examiner,

(Misbahul Munir, MBA, Ak, CPMA)

Examiner 1

(Drs. Umar Subandijo, MBA)

Examiner 2

(Dr. Fachruzzaman, SE, MDM., Ak., CA)
RECOMMENDATION LETTER OF SKRIPSI ADVISER

The skripsi prepared and submitted by

Name : Maria Adelheid
Student ID : 008201000045
Faculty : Business
Study Program : Accounting
Field of Study : Accounting
Skripsi Title : EVALUATION OF INTERNAL CONTROL OVER PURCHASING ACTIVITIES AT PT JOPURI LESTARI MANDIRI

has been reviewed and found to have satisfied the necessities for Oral Defense as partial fulfillment of the requirements for Bachelor Degree in Economics - Major in Accounting.

Cikarang, Indonesia, March 6, 2014

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Skripsi Advisor,

DR. Sumarno Zain, SE.Ak., MBA
CPMA

Misbahul Munir, MBA, Ak.,

Head, Accounting Study Program

Advisor
DECLARATION OF ORIGINALITY

I hereby declare that the skripsi entitled “Evaluation of Internal Control over Purchasing Activities At PT Jopuri Lestari Mandiri” is originally written by myself based on my own research and has never been used for any other purpose before.

I, therefore, request for Oral Defense of the Skripsi.

Cikarang, Indonesia, March 10, 2014

Researcher,

MARIA ADELHEID
(008201000045)
EVALUATION OF INTERNAL CONTROL OVER PURCHASING ACTIVITIES AT PT JOPURI LESTARI MANDIRI

ABSTRACT

Purchasing is one of important aspect in company. The researcher feels intrigued to evaluate the internal control over Purchasing Activities at PT Jopuri Lestari Mandiri because there is no purchasing division in this company. Questions keep appearing in writer mind, how the purchasing activities can run without purchasing division. The objectives of this research is to find the weakness of the internal control especially in purchasing activities at PT Jopuri Lestari Mandiri and gives recommendation to the company.

The writer uses qualitative method to do the research and analyzes the internal control by conducting observation and collecting several documents related to purchasing activities.

During the research, the writer finds out some findings. The findings are that there is no a written Standard Operating procedure of company, There is no proper security for warehouse, there is still no a written job description of the company, and also the writer finds that the company receives material with wrong specification.

Based on these problems, the writer suggests several recommendations for company to develop a written SOP and also Job Description.

Key word: Internal control, Purchasing, SOP, Job Description
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The writer realizes that this skripsi is far from perfect due to the lack of knowledge and experience the writer possess. Therefore critics and suggestions are really appreciated in order to improve the writer’s performance in the future.

Cikarang, March 2014

Maria Adelheid
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CHAPTER 1

INTRODUCTION

I.1 RESEARCH BACKGROUND

In manufacturing company, purchasing process holds an important key. In manufacturing company, raw materials are converted into finished products. This finished products later on will be sold to customers and bring revenues to the company. The process of production will not run smoothly unless the right materials are bought in the right time with the right quantity and quality. Purchasing process is responsible as the one of the company’s wheels that helps the company running.

As an important aspect in the manufacturing company, purchasing process needs to be controlled to prevent it from misappropriation that brings problems to the company. How if company fails in inspecting the materials received and receives the wrong materials? Has the company set a proper safe guarding for ware house? These are the examples of problems that frequently occur in purchasing process. Needless to say, these problems may bring disadvantages to the company. To prevent from these problems, a company needs to establish a proper internal control suitable with the condition of the company. Internal control has three objectives which are reliability of financial reporting, efficiency and effectiveness of operations, and, compliance with laws and regulations. These objectives are designed to assist the organization in assuring that a company can
safeguard of its assets from theft and fraud and prepare accurate financial information, keep activities are in compliance with applicable laws and regulations, and also increase effectiveness and efficiency of operations.

PT JOPURI LESTARI MANDIRI is a company that range in engineering fabrication and construction. The company was established in 1998 and is located in South Bekasi, Indonesia. Despite of its business size, PT JOPURI LESTARI MANDIRI has a lot of customers. This company does not have a proper job description and also does not have a division for purchasing process.

The writer is challenged to assess whether the purchasing process in this company has been done properly. For this reason the writer then decides to conduct a research called “EVALUATION OF INTERNAL CONTROL ON PURCHASING ACTIVITY”.

1.2 PROBLEMS IDENTIFICATION

As the writer has stated above, purchasing plays big role in company’s activities. Every manufacturing company, which should purchase raw material in order to keep their business grows, has big responsibilities to manage its purchasing activities properly.

Some problems related to purchasing activities can be anticipated are:

1) Has the company properly inspected the materials received?
2) Does company have a proper system to safe guard ware house?
3) Has the company properly separated each roles in purchasing activities?
I.3 RESEARCH OBJECTIVES

By doing this research, there are several objectives that the writer wants to achieve such as:

1) To understand how the company control its purchasing activities
2) To identify weaknesses and problems occur in purchasing activities of PT JOPURI LESTARI MANDIRI
3) To formulate recommendations for PT JOPURI LESTARI MANDIRI

I.4 SCOPE & LIMITATION

This thesis discusses the case study of internal control of purchasing process in PT JOPURI LESTARI MANDIRI. The writer decides to limit the scope of research by focusing only in the domestic purchasing process for the materials of the core business of this company, which are steel used as the main raw material for their production. The process assessed by the writer only consists from the initial offering process until the process of receiving goods.

Discussion about internal control will be focused on “control activities” This component later will be explained on the second chapter. This research will not discuss any quantitative data since it is considered by the company as confidential.

I.5 RESEARCH BENEFIT

This research is purposed to give benefits, such as:

1) For the company
As feedback about weaknesses found and recommendations that can be considered to be implemented in order to overcome the problems

2) For the reader
   a) To give more understanding about internal control over purchasing activities
   b) To give clear explanation about the problems over purchasing department and understand how to solve the problems

3) For the writer
   a) To gain more understanding about internal control
   b) To get a chance to implement the theories learned in classes into the real world

I. RESEARCH METHOD

The research used qualitative method. In gathering the data, the writer chooses several methods, such as:

1) Literature Review
   The writer obtains secondary data as the fundamental theory in analyzing this research. To conduct this method, the writer gathers information from internet sources and other necessary references related to the topic discussion.

2) Field Research
   Field research is executed by obtaining primary data directly from company. The process of Field research consists of:
a. Observation

b. Documentation
CHAPTER II

LITERATURE REVIEW

2.1 Internal Control

2.1.1 Definition of Internal Control

A broadly accepted definition internal control comes from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission’s report entitled *The Control-Integrated and Framework* (COSO Report) (2011) as follows “Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objective in the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.” (p. 13)

2.1.2 Objectives of Internal Control

Internal control consists of policies and procedures that make sure the user to be able to achieve its objectives and goals. These designed policies and procedures are referred as control. Arens (2011) explainsthat “the objectives of internal control consist of:

1) Reliability of financial reporting.

Management is responsible for preparing statements for investors, creditors, and other users. Management has both a legal and
professional responsibility to be sure that the information is fairly presented in accordance with reporting requirements of accounting frameworks such as GAAP and IFRS. The objective of effective internal control over financial reporting is to fulfill these financial reporting responsibilities.

1) **Efficiency and effectiveness of operations.**

Controls within a company encourage efficient and effective use of its resources to optimize the company’s goals. An important objective of these controls is accurate financial and nonfinancial information about the company’s operations for decision making.

2) **Compliance with laws and regulations.**

Management of all public companies is required to issue a report about the operating effectiveness of internal control over financial reporting. In addition, public, nonpublic, and not-for-profit organizations are required to follow many laws and regulations. Some relate to accounting only indirectly, such as environmental protection and civil rights laws. Others are closely related to accounting, such as income tax regulations and anti-fraud legal provisions. Management designs systems of internal control to accomplish all three objectives. The auditor’s focus in both the audit of financial statements and the audit of internal controls is on controls over the reliability of financial reporting plus those controls over operations and compliance with laws and regulations that could materially affect financial reporting.” (p. 290)
2.1.3 Components of Internal Control

Arens (2011) explains that there are five components of the internal control which consists of:

1) Control environment
2) Risk assessment
3) Control activities
4) Information and communication
5) Monitoring

2.1.3.1 Control Environment

Whittington and Panny (2003) state that “Control environment is the control consciousness of an organization: it is an atmosphere in which people conduct their activities and carry out their control responsibilities” (p. 233)

Furthermore, Arens (2011) explains that the attitude of the people in an organization is consciously related to the attitude of its top management. If the members of the company believe that control is an important concern of top management, the management control’s objectives can successfully achieved, an opposite effect will occur if the members of the company not believing it. The top management reflects their attitude by showing actions and creating policies and procedures to the organization. There are several important subcomponents of control environment:

a) Integrity and Ethical Values
Integrity and ethical values mean the entity’s ethical and behavioral standards; emphasizes on how the procedures and policies delivered and reinforced in practice.

b) Commitment to Competence

Competence is needed as the tool to achieve tasks that define an individual’s task. The term ‘commitment to competence’ means the consideration of management to translate competence level to specific jobs and decides how to translate those levels into required skill and knowledge.

c) Board of Director or Audit Committee Participation

Board of Director is responsible to monitor the internal control and also its implementation in company. An active and objective board can help to keep the management on the right track.

d) Management’s Philosophy and Operating Style

The philosophy and operating style of the management is able to give the employees clear picture of the importance of internal control. This also may indirectly tell the auditor the management’s attitude of internal control.

e) Organizational Structure

By understanding the company’s organizational structure, auditor will be able to know the management and functional elements of the business and see the big picture of how the controls are implemented.

f) Human Resource Policies and Practices
Human Resource and practices is important of internal control. Employees are prone to commit fraud or make mistake. Dissatisfaction, boredom, personal problem can influence their mentality and also the employee’s performance which indirectly also will influence the company’s business process. Effective control is needed to overcome those problems.

2.1.3.2 Risk Assessment

Arens (2011) explains that “risk assessment for financial reporting is management’s identification and analysis of risks relevant to the preparation of financial statements in conformity with appropriate accounting standards.” (p. 298)

A company may have a lot of risks such as new technology, economic condition, complexity of the business processes, and also competitors. By understanding these risks, the management will be able to estimated the significance of the risk, the likelihood of the risk occurring and in the end will be able to develop actions to overcome the problems. Auditor also can take a look at those risks in order to decide which part of company needed to be focused on audit or which evidence should be collected assess those risks.

2.1.3.3 Control Activities

On his book, Arens (2011) says that control activities are the complement of the other four control components which contain of entity’s both manual and automated controls. Control activities are divided into five types, which are:
1) Adequate separation of duties

Activities in the company are made by combination of functions that work together. In every function there must be a single individual that is in charge to do their duty. By separating the employee’s function, the company has made its way to reduce the risk of fraud and embezzlement.

2) Proper authorization of transactions and activities

In company, decisions are made everyday. Decisions like purchasing new material at specific cost, decision to promote the products to specific market and etc. If the employees are given freedom to take action or decide to do business activities by themselves, the company will be in complete chaos as not everyone can see the big picture or how actually the decision can influence the whole company’s business process. This is why company needs to make a proper system of authorization in order to reduce the irregularities and mistakes that can harm the company.

There are two types of authorization; general authorization and specific authorization. General authorization emphasizes on the instruction or policies that approves all the transaction within the limits set by the policy. The example of general authorization such as price lists of products and also credit limits for customer. Specific authorization emphasizes on individual or certain transactions that is needed to be authorized separately.
Employee often gets confused between the term of ‘authorization’ and ‘approval’. The policy decision for either a general class of transactions or specific transactions is classified as authorization. The implementation of management’s general authorization decisions then classified as approval.

3) Adequate documents and records
   Every transactions occur in a company should be entered and summarized in form like documents and records. These documents and records are related with each other.
   There are several dictates that can be used to design documents and records:
   a) Because there are a lot of documents and records, company needs to form pre-numbered system to facilitate control over missing documents and records. This system also will be helpful to be used in sorting the document.
   b) To minimize timing errors, the documents and records should be prepared at the time a transaction occurs.
   c) The design should allow for multiple functions to reduce the number of different forms.
   d) The design of documents and records should be constructed in a manner that is able to encourage correct preparation.

4) Physical control over assets and records
   Records and assets are both important for company. Company needs to monitor and keep both of records and assets safe and
protected. Because if those are stolen, it will bring disturb the accounting process and business operation of a company.

Nowadays technology has became more advanced and most of company has used computer to keep the records. The data may be infected with virus and this kind of problem is severe. In order to protect the assets and records company needs the use of physical precautions.

5) Independent checks on performance

After fulfilling types of control activities stated above, company needs to review the activities carefully and also continuously. Even though the system that established by company has been built perfectly but there are still flaws underlies it. Personnel, for example, are likely to fail in following procedures and the whole perfect systems may fail to work effectively.

2.1.3.4 Information and Communication

Arens (2011) defines “The purpose of an entity’s accounting information and communication system is to initiate, record, process, and report the entity’s transactions and to maintain account ability for the related assets” (p. 301)

Every accounting information and communication system has several subcomponents that made up of classes of transaction. Purchasing, for example, made up from purchase, purchase order, cash
disbursement and so on. The accounting system must satisfy all of the transaction related audit objectives. Auditor should determine:

a. The major classes of transactions
b. How those transactions are initiated and recorded
c. The existence of accounting records and its nature
d. The process of the system captures other events that are significant to the financial statements
e. Financial reporting process’ nature and details and also the procedures to record transaction and adjustments in general ledger

2.1.3.5 Monitoring

Monitoring process is purposed to control whether the system has been operated as intended and whether modification of system needed due to changes in condition. Assessing ‘monitoring’ information needs a lot of sources such as existing internal controls, internal audit reports, exception reporting on control activities, reports by regulators like bank regulatory agencies, etc. Mostly in larger-sized business, the company form a group of internal audit. The internal audit must be performed by competent and independent staff. External auditor may use the data gathered by internal audit as consideration when audit a company.

2.2 Purchasing

2.2.1 Purchasing Definition

James Hall through his book ‘Accounting Information System’ (2011) refers that purchasing activities is included in expenditures cycle. He explains that “The objective of expenditures cycle is to
convert the organization’s cash into the physical materials and the human resources it needs to conduct business.” (p. 217)

Hall also divides purchasing process into two phases; (1) the physical phase, which involves the process of obtaining the resource, and (2) the financial phase, which involves the disbursement of cash. In this thesis, as the writer has stated through chapter one, it will not discuss ‘the financial phase’ of purchasing process.

2.2.2 Purchasing Process

Manufacturing firms purchase raw materials, later these materials will be processed further and then sold to customers. Hall (2011) on his book ‘Accounting Information System’ explains that purchasing process consists of:

Monitor Inventory Records

A company can transfer their inventories into raw materials (production cycle) and selling it (revenue cycle). Procedures of purchasing may vary from firm to firm, each transactions or activities related to purchasing has separated document. When company wants to purchase material, the employee will prepare purchase requisition for each inventory item. This will create multiple purchase requisitions, to make it simpler the company may combine the materials they intend to buy from one vendor in one document, this is to make the transaction easier, rather than sending purchase requisitions to every material
purchased. The purchase requisitions needs to but combined into a single purchase order and sent to the vendor.

**Prepare Purchase Order**

Company prepares purchase order for each vendor. Not only the purchase order but also the copy of purchase order to the set up account payable function for filling temporarily in the Account Payable pending file, and also a blind copy to be sent to the staff who is in charge of receiving goods and should be held until the inventories arrive. Another copy is purposed to filing. In purchase order company needs to gather information of the suppliers such as the address of the suppliers, the exact date (the date ordered and the date needed), the purchasing agent’s name, the payment term, the economic order quantity for the item, and the standard or expected unit cost. This will prevent company to obtain scarce, expensive or unusual inventory needs. In order to obtain the best prices and terms, purchasing department need to make detailed product specifications and request bids.

**Receive Goods**

The next procedure is receiving goods. When the company received the goods, it must be completed with delivery order. The staff who is in charge to receive the goods should get blind copy. Blind copy is purchase order that contains no quantity or price information about the goods purchased. This type of document should be made to force the receiving staff to inspect the goods received properly. Sometimes, the staff that is in charge to inspect the goods received become lazy and
just accept the goods without further notice or inspection. Blind copy of purchase order is purposed to prevent this kind of attitude.

Using blind copy, the receiving staff should complete the inspection by stating the quantity and condition of the inventories. One copy should be placed to warehouse for safekeeping and another copy is used to close out the PO. Third copy of the receiving should be sent to Account Payable department and fourth copy sent to inventory control for updating the inventory records. Another copy of receiving report should be place in the receiving report file.

**Update Inventory Records**

![Inventory Subsidiary Ledger-example](image)

This document emphasizes on the quantity of the inventories. Updating the actual cost inventory ledger needs additional financial information like the supplier’s invoice. This document usually contains the name of inventory, the date of inventory released and received and also the remaining materials.
2.2.3 Purchasing Cycle Controls

Hall (2011) mentions and explains the control of expenditure cycle or purchase cycle. Purchasing cycle has six subcomponents; Transaction Authorization, Segregation of duties, Supervision, Accounting records, Access control and the last is independent verification.

Transaction Authorization

1) Purchases subsystem

Company needs to formalize the authorization process to propose efficient inventory management and make sure the legitimacy of purchase transactions. Without proper authorization, staffs that includes in purchasing activities may purchase inventories for their own interest using the company’s money, because they are in a position of performing and authorizing the purchasing process at the same time, this will lead into a ‘temptation’ to commit fraud.

2) Cash disbursement subsystem

In order to provide effective control over the flow of cash, the cash disbursement function should write checks with proper authorization.

Segregation of duties

a) Segregation of inventory control from the warehouse

The primary physical assets in purchasing activities is inventory, company needs to maintain and prepare internal control to keep the detail records of the asset, even though company has custody to protect the inventory.
b) Segregation of the general ledger and accounts payable from cash disbursement

This type of segregation emphasizes on cash. Records that controlling this are the Account Payable subsidiary ledger and the cash account in the general ledger. Staff that is given responsibility to write checks, post to the cash account, maintaining account payable might able to commit fraud against the firm. Segregating this function will reduce the risk of fraudulent.

**Supervision**

a) Inspection of Assets

When the company received goods from supplier, the receiving staff must inspect the goods. This should be done to protect the company from incomplete orders and damaged goods. To make sure that the staff who receive the goods perform the duty, supervision is really advised. Supervisor needs to monitor the receiving staff in receiving and inspecting the goods.

b) Theft of Assets

In a busy environment, the company may neglect the goods received and this may increase the risk of theft. Without supervision and also with improper inspection procedure can cause a situation that may raise the chance of theft.

**Accounting records**

Purchasing cycle mostly consists of several accounting records like AP subsidiary ledger, voucher register, check register, etc. The main
concern of auditor for accounting records control is misstatement on financial statement due to unrecorded transaction. To prevent both unintentional and intentional misstatement, purchasing cycle system must be designed to provide supporting information like the purchase requisition file, the PO file, and the receiving report file. Reviewing those files, may give auditor evidence of transactions that have not been recorded.

**Access Control**

There are two types of access control; Direct access and indirect access. Direct access means a company must control the access to physical assets such as cash and inventory. The controls include locks, alarms, and restricted areas that contain inventories and cash. Indirect access means the limitation for access of documents that control the physical assets company owns. If the access of physical assets document can freely be accessed by anyone, the greater the risk of fraudulent as someone can manipulate the data and use it for their own interest.

**Independent Verification**

1) Independent Verification by Accounts Payable

Account Payable function is important because its relation with cash disbursement. Company must pay for the materials that they purchase and that is used for the company production, this is why the document’s flow to this function may seem risky. Staff in this function should review and also compare the document used before
that related to purchasing activities, to prevent company paying for unauthorized purchasing or purchasing that has made up by uncommitted staff.

2) Independent Verification by The General Ledger Department

General ledger functions may verify that the total obligations recorded equal the total inventories received and the total reductions in account payable equal to the total cash disbursement.
CHAPTER III

METHOD OF DATA PROCESSING
AND COMPANY’S EXISTING CONDITION

III.1 Data Collecting and Processing

1. Observation

The writer did observation at the plant site of PT Jopuri Lestari Mandiri on Wednesday, February 5th 2014. There are several aspects that the writer observed; how the ware house set their inventories and also how purchasing activities occurs at PT Jopuri Lestari Mandiri. From the observation, the writer found that

a) PT Jopuri has no written Standard Operational Procedures
b) PT Jopuri has no written Job description
c) The company once received materials with wrong size
d) The company has weak security over ware house
e) The company has a proper authorization system

2. Documentation

There are several documents used in this research:

a) Material Request

Material request contains the data from estimation. Estimation is a document that contains the initial estimation for purchasing transaction. As a company that uses job order system, PT Jopuri has different projects to offer. The project can be quite similar but the materials that are used
will be decided based on customer’s request. After receiving request from customer, sales department prepares estimation. Usually this is prepared based on similar previous projects. Later, sales department will negotiate the materials, its unit, and also its cost. If the agreement has been met, the estimation will be used as reference for material request.

Estimation contains the project name, the company’s name, the date, the list of materials and also its cost. Material request is resulted from agreement between the company and also customer. The contents of material request more or less are similar with estimation, this document also contains number of estimation and quotation, this make the document easier to be traced.

b) Cash disbursement

Cash disbursement is a document that is used to control cash expenditure related to purchasing. This document is used in direct purchasing

c) Purchase order

Company used purchase order to request material from supplier. Usually it contains the details of the material, the date, and also the address of the supplier.

d) Purchase bill

Mostly the supplier of PT Jopuri does not send delivery order as the evidence of purchasing but they usually sends Purchase bill. Purchase bill consists of the details of the inventory, its cost and also the signature of the sender.

e) Inventory Documentation
Company assigns administration division to monitor inventory and make the documentation. Inventory documentation is used to record the flow of inventory that owns by company. This document contains data like the name of inventory, the date of both receiving and releasing inventory, the unit number, etc.

From inspecting above documents, the writer found several points:

i. Company purchases materials based on material request

ii. Sales makes the material request-no separation between purchasing and sales department

iii. The company has set a proper indirect access control

III.2 Company’s Existing Condition

3.2.1 Company Background

PT JOPURI LESTARI MANDIRI or before was called as PT PERSADA KARYA LESTARI MANDIRI was established on March 16th 1998. Its business territory is industrial equipment suppliers and also engineering fabrication and constructions.

PT JOPURI LESTARI MANDIRI is located at Jl. Bambu Kuning VII No. 173, Sepanjang Jaya, Bekasi Selatan, Jawa Barat. The business territories of PT JOPURI LESTARI MANDIRI are:

1. Stock & Distributor of electric – electronics component for factory automation and industrial equipment supplies

2. Service repair for electrical equipment
3. Design and Engineering for system
4. M/E Engineering fabrications and construction

The main customer of PT Jopuri Lestari Mandiri are:

1. Toyota Motor Manufacturing Indonesia
2. Pabrik Kertas Tjiwi Kimia Tbk
3. Akebono Brake Astra Indonesia
4. Pindodeli Paper Product
5. Sugity Creative
6. Pakoakuina
7. Hino Motors Manufacturing Indonesia
8. Bavera Makmur Cemerlang

3.2.2 Company’s Projects

These are the pictures of the projects done by PT Jopuri Lestari Mandiri:

1. Install Fan Mitsubishi

![Install Fan Mitsubishi](image1.png)

2. Install Rail Pallet Glass

![Install Rail Pallet Glass](image2.png)
3. Install Exhaust Fan for Weld Log

4. Install Rail Motor Door Out
3.2.3 Company Organization Structure

3.2.4 Job Description

1. Director

The responsibilities of Directors are:

a. Setting the procedures of the company
b. Developing business strategies
c. Interviewing and hiring staffs

d. Giving the authorization to every activities that related to the business

2. Commissioner

a. Monitoring and controlling and staff’s performance

b. Negotiating the price and specifications with supplier

c. Helping the director in setting procedures for the company

d. As a contact between the owner (the director) and the lower staff

e. Deciding the rewards for staff (replacing HR’s duties)

3. Marketing

a. Promoting the products of the company

b. Maintaining the relationship with customer

c. Developing marketing plans & strategies

4. Finance

a. Providing accurate Financial Information

b. Monitoring Cash Flow

c. Managing company’s financial accounting & financial system

5. Sales

a. Accepting Customer Request

b. Fulfilling customer’s requirement

c. Negotiating the project with customer

d. Releasing Material Request
6. Administration
   a. Mostly handling jobs related to filling or letter-writing
   b. Providing facilities such as stationary and equipment
   c. Organizing company’s document
   d. Handling and maintaining relationship with supplier
   e. Receiving the materials purchased and also monitoring the flow of materials

7. Engineering
   a. Producing the products based on customer’s request
   b. Designing the production process

8. Accounting
   a. Handling accounting records & the company’s accounts
   b. Understanding the financial system of the company
   c. Giving financial advice for other division

9. Warehouse
   a. Keeping the office building and the plant site
   b. Helping another staffs when being asked
III. 3 Purchasing Practices at PT Jopuri

1) Releasing Material Request

The first step of purchasing practices at PT Jopuri is when the sales department requests to purchase materials by releasing material request. Sales department is in charge to release material request because they are the one who makes the business deal with customer. Initially, they offer the company’s service and product to several company and also negotiate the customer’s request, after all is done they release material request. Material request is the result of the customer’s request that has been negotiated with sales department. It contains the details of the materials and also its cost.

2) Purchasing the materials

After material request is being authorized by owner, company then purchases the materials. At PT Jopuri Lestari Mandiri there are two ways to purchase the materials. Mostly for small-size materials the staff will purchase those materials directly from the stores. For the big-size materials the company will purchase indirectly using purchase order.

a. Direct Purchasing

The direct purchasing will be done by sales staffs. Before the staff goes to the stores, the administration staff will contact the stores to ask the price and the existence of the materials,
the staff will ask the stores to prepare the materials and the documents related to the transactions. The administration staff will make ‘cash disbursement’ contains the materials that should be bought on the store and also its price. The ‘cash disbursement’ should be authorized by the owner or the commissioner.

b. Ordering materials

For the big-sized materials, the staff should order it using purchase order. The administration staff calls the supplier and the commissioner will negotiate the price with the supplier. After the negotiation success, the staff will release purchase order with the authorization from the owner and the commissioner. The payment will be done through the owner’s bank account by the commissioner.

3) Receiving Goods

As what the writer has stated above PT Jopuri Karya Mandiri has two kind of purchasing process. When the company does direct purchasing, after buying the materials from the stores, the staff that is in charge to buy has to put the materials on ware house before being used to finish the project. When the company does indirect purchasing, the materials delivered also will be put into Ware house. For the documentation of the goods received, PT Jopuri receives either delivery order or purchase bill (bon). The staff that is in charge
in receiving the goods is administration staff. The staff will receive the goods and also the document related to the transaction. After the goods received, the administration staff will check the specifications and also the number of units. If there are any irregularities like the difference in units and qualities, the materials will be processed further for returning.
CHAPTER IV

ANALYSIS AND EVALUATION

In this chapter, the writer elaborates both of positive and negative findings found at PT Jopuri Lestari Mandiri.

IV.1 Best Practices

1) Company maintains independence relationship with supplier

When finding supplier, instead purchasing to familiar or relatives’ stores, PT Jopuri always finds the supplier who has the best price. Sometimes the price may not be the reason of PT Jopuri chooses a store but also because of another aspect like timeliness.

2) The company has set a proper indirect access control

The management, both the owner and the commissioner, put a limit for staffs to access for the documentation of the materials (purchase order, material request). Administration staff is only allowed to have the incomplete documentation or the documentation that does not consists the authorization of the owner or the commissioner, because the administration staff’s responsibility is only to input the documentation to the computer. The complete documentation which consists of authorization is located in the commissioner office and confidential. Only the
commissioner and the owner are allowed to access those documents.

3) Every purchasing are based on material request

    Every purchasing activities occur at PT Jopuri is based on material request that is made. There is no extra purchasing aside from material request.

4) The company has a proper authorization system

    At PT Jopuri every cash disbursement can be released after being authorized by the commissioner. The commissioner is responsible in handling the cash company owns and no cash will be released without the commissioners permission and authorization.

IV.2 Findings

1) No proper security for ware house

    There is no proper security for warehouse at PT Jopuri. Everybody in company is easy to access into the ware house even without administration permission. Because of this, the engineering staff can take the inventory without permission from administration staff.

    Ware house contains the inventory that will be used to be processed further that later can bring benefit for the company. Because the security of inventories are really important, company
should make a strict regulation related to staff that is able to access ware house.

The cause of this problem is because of the inexistence of written SOP for purchasing activities and also because of the employee’s lack of knowledge. Because the ware house is located beneath the office building, the staff thinks that the ware house will be safe from theft. There is also a role of ware house in organizational structure but it seems the company has not used its function properly.

The possible effects of this problem are theft and inventory lost. The engineering staff can access the ware house and take the inventory without permission which may result in lost of inventory.

Company should prepare to set a regulation for ware house. The regulation should pertain the staff that is in charge to monitor and protect the inventory. For the engineering staff who takes the inventory without permission, the company should prevent this by making a form that able to control the flow of the inventory like ‘Goods Released Form’. Company also should use the function of ware house role properly to help the administration staff to monitor and protect the inventories that are located in ware house.
2) There is no written Job Description

PT Jopuri does not have written job description. All responsibilities and roles are delivered verbally and communicated without being properly written.

Every company is supposed to make job description. Job description may give employees a clear understanding regarding their roles and responsibilities. By understanding their roles and responsibilities, employee will be able to work based on their roles and the duties separation between each employee may be clear.

Total employees at PT Jopuri are only fifteen people, this leads the management to the thoughts that a written job description is unnecessary because of the little number of employees.

When a person works without a clear understanding regarding his/her own role, the person may end up doing another thing that is not his/her responsibilities. He/she may do another job and having the idea ‘for the sake of company’ and does more than they are supposed to do. When another person who also not knowing their roles and responsibilities does less than what they are supposed to do.

The company needs to compose a written job description. A proper job description may contain the description of the roles basic function, the primary duties and responsibilities and to be
more specific it may contain the working relationship (the relationship which related to the roles).

3) The company receives material with wrong size

   The administration staff that is in charge in inspecting the goods received did not properly inspect the materials and accepts the material with wrong size.

   Every personnel who are in charge to inspect the goods received should do the inspecting procedure properly. Not only the quantity of the goods that should be inspected but all aspects like the quality, the size, etc.

   This problem occurs because the administration staff is lack of knowledge regarding the specifications of materials that are needed. The administration staff only inspects the material’s quality and the quantity without noticing its size.

   When this problem occurs company reports this problem to the customer and the customer to still receives it instead of the mistake, but, how if in the future the customer does not approve it? This seemingly simple problem will result in money lost for company.

   The writer recommends the administration staff to be more careful in inspecting the goods received. The personnel should not to only inspect the materials’ quantity and quality but also should measure the size or another important aspect.
4) There is no written SOP in Purchasing

PT Jopuri has not made a written SOP for purchasing and all purchasing activities are communicated verbally. When there are new regulations or policies, the information regarding the new regulation and policies will be delivered verbally.

SOP is needed to be made because it is like a policy of a company. By having a properly written system, every staff may understand their responsibilities.

The cause of the inexistence of written SOP is because both of the owner and commissioner is too busy and still lack of understanding about the responsibilities of each division. The owner and commissioner also still want to try the implementations and temporary regulations they made. By attempting trials and errors they will understand which systems are the best and which systems are not working for their company. Attempts of trials and errors are good but without monitoring from both of the regulation makers, the company will still be clueless with which systems are the best for them.

The problems stated above are the effects of the inexistence of the SOP. The company tries the new regulation in numbering but fail because it is not followed by proper monitoring.

There are two recommendations for this problem; first, company needs to make a written company’s system and the second recommendations is company may not making permanent
written SOP but they should make a temporary SOP that is attached in the spots where every division can see. The management must also monitor the implementation and also the result of either the existing or the new regulations. It is better to discuss the regulations with staff. Because they are the one who implements the system and understand the effects of the system.

5) There is no separation between sales and purchasing function

At PT Jopuri, sales department also takes part in purchasing activities. Sales department’s responsibilities are from offering company’s products and services to expected customer, preparing negotiation about the materials with customer, making material request, and also purchasing the materials (for direct purchasing).

The company is supposed to have a clear separation of duties. Even though the sales division understands really well regarding the materials that is requested by customer, but a separation of duties is needed to prevent any fraud or cheatings.

The causes of this problem are because PT Jopuri still does not have purchasing division and also does not have SOP yet. Because there is no purchasing division, the purchasing function is separated into the other division like sales and administration.

Without proper separation of duties, the personnel involved may likely to use this chance to commit fraud. The personnel may accidentally add more materials to purchase than it is supposed to be.
Company needs to set a proper separation between each division especially in purchasing department to prevent fraud. Another recommendation is to add other personnel to fill the role as purchasing division at the company.
CHAPTER V

CONCLUSION & RECOMMENDATION

V.1 Conclusion

Here are some conclusions that the writer can depict from PT Jopuri. There are recommendations that may help to overcome the problems stated above.

5.1.1 Best Practices

1) Company maintains independence relationship with supplier

   PT Jopuri does not choose supplier based on good relations but instead the company always chooses objectively the supplier who offers a good quality material with affordable price. They will not hesitate to choose a new supplier over a long-term supplier as long as the new supplier can provide criteria that requested by the company.

2) The company has set a proper indirect access control

   The company has strict rule for person who can access the document of materials such as purchase order or invoice. The administration staff only has the unauthorized document only for filling when the commissioner has the complete authorize one. This is purposed to protect the data from theft or lost if these important data are handled by administration staff.
3) Every purchasing are based on material request

Every transaction that related to purchasing are always based on material request.

4) The company has a proper authorization system

For every cash expenditure there should be authorized by the commissioner because the commissioner is the one who holds the cash.

5.1.2 Findings

1) No proper security for warehouse

This problem should be noted by company because this relates to the inventory the company owns. Without proper security of warehouse, the inventory can be stolen and also taken. The cause of this problem is inexistence of company’s SOP.

2) There is no Job Description

PT Jopuri still does not have a written job description. Without clear understanding about the roles and responsibilities, the employee may do something that is not his/her responsibility and at the same there will be employee who does not do his/her responsibility because he/she does not clearly their responsibility. The cause of this problem is because the management think that a written job description is unnecessary because the company has only a few staffs and communicating their roles and responsibilities will be sufficient.

3) The company receives material with wrong size

This problem occurs because personnel’s lack of knowledge regarding the right specifications of the materials needed. This problem
may seem simple but this actually may result in money lost for the company.

4) There is no written SOP in Purchasing

In consistencies in document numbering, the lack of security for ware house and also lack of staff for goods received are the effects of the inexistence of written SOP. This is cause because both of commissioner and also the owner is still in the process of finding the best system that is suitable for their company so they decided to not make written SOP yet.

5) There is no separation between sales and purchasing function

This problem is cause because company still does not have SOP yet. The effect of this problem is that personnel who is involved may commit fraud and make company to release cash for their own interest.

From these findings, the writer concludes several things:

1) The company has done a proper inspection for the process of receiving goods, but the writer found a mistake in one process when the person who is in charge to receive the materials failed to notice the difference in the specification and resulted in receiving the wrong materials

2) The company does not have a strict safe guard that able to limit the access for ware house.

3) In purchasing process, the company still does not properly separate the roles; the sales division still includes in the purchasing process as the one who releases material request
V.2 Recommendations

There are several recommendations that the writer suggests:

1) The Company needs to have written SOP

   The company’s reason for not having written SOP is because both the owner and also the commissioner want to try the system first and see how it influences company before it is fully written and authorized. The writer recommends the company to make a temporary written SOP first before make the permanent one. By writing it, staff may receive the information and the new regulation more clearly rather than only by using verbal communication. After preparing the system or regulation written and attached in watchable spots, the next step is monitoring. Every system has a risk of failure without proper monitoring. By monitoring the owner and the commissioner may able to understand the result of the implementation of the system and may be able compare one system with another one.

2) The company needs to prepare a written job description

   Job description is important to give the employee a clear understanding regarding how each role in a company works. When company hires new staff, job description will explain a lot about the new person responsibilities. The company may make a simple job description. The job description’s form should consist of the role’s basic function, primary duties and responsibilities, and also its working relationship.
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Tanda kerja

PERHATIAN!
Barang, bawang yang sudah dibah kris dan belum dikembalikan selamanya.
# Purchase Order

**PT. JORURI LESTARI MANDIRI**

**Industrial Supplier**

**Address:**

**Phone:**

**Email:**

---

**AGUNG JAYA**

**Address:**

**Phone:**

**Fax:**

**Attention:**

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**Sub Total:** 2,651,000

**Total:** 2,651,000

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**Note:**

If you accept the order, please return us this copy duly stamped and signed as confirmation.

**Vendor's Confirmation By:**

**Approved By:**

**Order By:**

---

Ke' Yanto

Swandari TNI

Handono
# Material Request

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Perusahaan: [Signature]

Bendahara: [Signature]
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COMPANY'S CONFIRMATION LETTER

Here with, I am:

Name: Fitri Febrianti  
Function: Administration  
Company: PT Jopuri Lestari Mandiri  
Address: Jl. Bambu kuning VII, No. 173, Sepanjang Raya, Bekasi Selatan, 17114

confirms that:

Name: Maria Adelheid  
Student ID: 008201000045  
Faculty/Major: Economics / Accountancy  
Universitas: President University

has done his/her research in our company in order to write the skripsi, title:

EVALUATION OF INTERNAL CONTROL OVER PURCHASING ACTIVITIES

since February 5th 2014 until March 1st and has discussed with us the content of his/her skripsi, including the findings and recommendations.

Bekasi, March 1, 2014

PT Jopuri Lestari Mandiri

[Signature]  
Administration