13-19. West End Boutiques The West End Boutiques company was founded by Libbie Williams in 1990 with a single store in College Station, Texas, and the company now has 21 shops located in the triangle of Dallas, San Antonio, and Austin, Texas. Libbie was an accounting major in college, passed the entire CPA exam in her first attempt with high scores, and worked for one of the large CPA firms for 11 years prior to opening her first store. Based on her work experience, she fully understands the value of strong internal controls. Further, she recently selected a state-of-the art accounting system that connects all of her stores' financial transactions and reports.

Libbie employs two internal auditors who monitor internal controls and also search for ways to improve operational effectiveness. As part of the monitoring process, the internal auditors take turns conducting periodic reviews of the accounting records. For instance, the company takes a physical inventory at all stores once each year and an internal auditor oversees the process. Chris Domain, the most senior internal auditor, just completed a review of the accounting records and discovered several items of concern. These were:

Physical inventory counts varied from inventory book amounts by more than 6% at two of the stores. In both cases, physical inventory was lower.

Two of the stores seem to have an unusually high amount of sales returns for cash.

In 9 of the stores, gross profit has dropped significantly from the same time last year.

At 4 of the stores, bank deposit slips did not match cash receipts.

One of the stores had an unusual number of bounced checks. It appeared that the same employee was responsible for approving each of the bounced checks.

In 7 of the stores, the amount of petty cash on hand did not correspond to the amount in the petty cash account.

Requirements

For each of these concerns, identify a risk that may have created the problem. Recommend an internal control procedure to prevent the problem in the future.