

## The Usefulness of Fraud Warning Signs in Forensic Accounting

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This employee/employer dispute over a percent of profits is an example of a forensic accountant applying a list of fraud warning signs to determine the likelihood that a corporate employer was consistently understating profits in order to fraudulently understate bonuses payable to employees. The forensic accountant was also engaged to compute the correct corporate profit if the employer was consistently understating profits. In addition to showing quantitatively the fraudulent calculations of the employer, the forensic accountant thought it beneficial to show the likelihood of the occurrence of fraud by the employer. The forensic accountant provided evidence that the employer was acting fraudulently by comparing the conduct of the owner to fraud warning signs.

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### INTRODUCTION

A sales/delivery employee became disgruntled with his compensation from his employer, a corporation that engaged in processed product distribution to grocery stores and restaurants. His compensation consisted of a bi-weekly salary and a "cash bonus." The employee believed the cash bonus was consistently less than what he expected based on his perception of the success and growth of the business and his past experience in the business.

The cash bonus amount was determined by an informal agreement between the sole shareholder and general manager (owner) of the corporation and all the sales/delivery employees. It was computed as a percentage of the annual net profit of the corporation. The owner explained the cash bonus was an incentive for each of the sales/delivery employees to have an "ownership interest" in the entire business.

The sales/delivery employees were an integral part of the business. They each had a specific territory, were all Hispanic, and sold almost entirely to restaurants and grocery stores owned or managed by Hispanics. The owner was neither Hispanic nor Spanish speaking and had very little contact with most of the customers.