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Certified Fraud Examiner -Fraud Schemes and Financial Crimes

ACFE CFE-Fraud-Schemes-and-Financial-Crimes

Version Demo

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Topic Break Down

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Topic 1, Financial Statement Fraud	68
Topic 2, Asset Misappropriation	98
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QUESTION NO: 1

Which of the following reasons is an acceptable justification for departing from generally accepted accounting principles (GAAP)?

A. Reporting a transaction in a way that is compliant with GAAP would be significantly more expensive.

B. A departure from GAAP would make the company appear more profitable.

C. The expected costs of following GAAP exceed the expected benefits of compliance.

D. Applying a different accounting framework would increase the organization's ability to grow internationally.

E. Compliance with GAAP would make the financial statements misleading because of unusual circumstances.

ANSWER: E

Explanation:

"Compliance with GAAP would make the financial statements misleading because of unusual circumstances" is the acceptable justification. A GAAP departure is an exceptionally narrow matter, not a management choice based on convenience, business objectives, or a general assessment of reporting costs and benefits. Auditing standards recognize that, in rare unusual circumstances, compliance with an otherwise applicable accounting principle could result in misleading financial statements. In that situation, departure from the principle can be justified if the alternative accounting treatment is necessary to fairly present the entity's financial position, results of operations, or cash flows. The entity must also provide adequate disclosure describing the departure, its approximate effects when practicable, and the reasons compliance would have been misleading. The relevant issue is therefore whether following the specific GAAP requirement would prevent fair presentation in the particular circumstances. This principle is reflected in PCAOB guidance on reporting when financial statements depart from GAAP, which describes departures justified by unusual circumstances and requires clear disclosure of the nature and effects of the departure. See PCAOB AS 2820, Evaluating Consistency of Financial Statements and the FASB Accounting Standards Codification.

QUESTION NO: 2

________, one of the synonyms for fraud, implies deceiving so thoroughly as to obscure the truth.

A. Deceive

B. Delude

C. Mislead

D. Beguile

ANSWER: B

Explanation:

Delude is correct because it means to deceive someone in a way that causes them to hold a false belief or prevents them from recognizing the truth. The term conveys more than a simple inaccurate statement or a momentary misunderstanding: it captures the thorough mental deception implied by obscuring reality. That meaning fits the nature of fraud, which depends on intentional deception or misrepresentation used to induce another person to act, or refrain from acting, to their detriment. A fraudster's objective is commonly to create a false impression that the target accepts as true, whether through affirmative misrepresentations, concealment of material facts, or other deceptive conduct. In this context, "delude" precisely describes the effect of a successful fraudulent scheme on the victim's judgment: the truth is hidden or distorted sufficiently for the victim to rely on the false impression. The Association of Certified Fraud Examiners describes fraud as involving deception for personal gain or to cause loss to another, an understanding consistent with this use of the term. See the ACFE's overview of fraud at Fraud 101: What Is Fraud? and its professional resources at ACFE Fraud Resources.

QUESTION NO: 3

Which of the following measures would likely be MOST EFFECTIVE in helping to prevent fraudulent billing schemes?

A. Using an external vendor to negotiate procurement contracts

B. Separating the purchasing and payment functions

C. Prohibiting competitive bidding from potential contractors

D. Requiring all fraud tips to be reported to employees' direct supervisors

ANSWER: B

Explanation:

Separating the purchasing and payment functions is the most effective measure because it creates meaningful segregation of duties across the procurement-to-payment cycle. Billing schemes commonly depend on one person having enough authority to influence vendor selection or purchasing and also cause invoices to be approved or paid. Assigning purchasing responsibilities to personnel who do not process or authorize payments requires coordination among independent employees and makes it substantially more difficult for an individual to establish a fictitious vendor, direct business to a conflicted vendor, submit unsupported invoices, or arrange payment without detection. Effective segregation should be supported by documented approvals, verification that goods or services were received, independent review of vendor-master-file changes, and reconciliations of invoices, purchase orders, receiving records, and payment data. These controls do not merely identify suspicious activity after a loss; they reduce the opportunity to execute the scheme in the first place. The ACFE identifies inadequate internal controls, including failures in segregation of duties, as a major condition associated with occupational fraud, and its fraud-prevention guidance emphasizes control activities that divide authorization, custody, recording, and review responsibilities. See the ACFE's Fraud 101 resources and the ACFE 2024 Report to the Nations.

QUESTION NO: 4

Several people who work in real estate collude to obtain a loan for the construction of a residential building on a property that does not exist. The co-conspirators divide the proceeds among themselves and leave the lender with no collateral to seize when loan payments are not made. Which of the following BEST describes this scheme?

A. Property flopping

B. Air loan

C. Phantom lien

D. Daisy chain

ANSWER: B

Explanation:

An air loan is the best description because it is a mortgage-loan fraud involving a loan secured by nonexistent or fictitious property. In this scheme, real-estate professionals collaborate to create the appearance of a legitimate construction transaction and obtain financing, despite there being no actual property on which the lender can hold a valid security interest. The participants then divert and divide the loan proceeds. Once the payments stop, the lender discovers that its supposed collateral does not exist and therefore has no real asset to foreclose on or sell to mitigate the loss.

This reflects the defining feature of an air loan: the underlying borrower, property, or both are fabricated or materially fictional. The fraud may be facilitated by industry insiders or professionals who can provide false documentation, valuations, title-related materials, or other records that make the loan file appear genuine. The lender's loss results directly from extending credit in reliance on collateral that was never real. The U.S. Department of Justice identifies mortgage fraud as involving material misrepresentations used to obtain mortgage financing, including schemes based on false property information. See the U.S. Department of Justice mortgage fraud overview and the FBI's mortgage fraud guidance.

QUESTION NO: 5

Baker, an employee of ABC Corporation, was the only employee who had control of the purchasing function for his department. Baker authorized the purchase of supplies that ABC did not need and used these supplies to make improvements to his house. This is an example of what kind of fraud?

A. Pay and return scheme

B. Personal purchases with company funds

C. Pass-through scheme

D. Theft of inventory

ANSWER: B

Explanation:

Personal purchases with company funds is correct because Baker used his authority over the purchasing process to cause ABC Corporation to acquire goods for his own personal benefit. The key fact is that the supplies were not needed for a legitimate business purpose and were instead used to improve Baker's house. This is an asset-misappropriation scheme in which an employee improperly converts employer resources to personal use through the organization's purchasing system. The loss occurs when the company pays for goods that serve the employee rather than the company, regardless of whether the employee receives cash or takes possession of physical supplies. Baker's exclusive control of purchasing also illustrates a significant internal-control weakness: inadequate segregation of duties allows one person to initiate, authorize, and potentially conceal improper purchases. Effective controls include independent review and approval of purchase requisitions, verification of a documented business need, matching purchase orders to receiving records and invoices, and periodic review of purchasing activity for unusual vendors or items. ACFE identifies asset misappropriation as a principal category of occupational fraud and emphasizes controls designed to prevent employees from misusing organizational assets. See the ACFE's overview of occupational fraud and the ACFE Report to the Nations.

QUESTION NO: 6

Tammy made one cash deposit each day over the span of a few weeks at automated teller machines owned by her bank. The cash deposits ranged from $9,000 to $9,900. Tammy lives in a jurisdiction that requires all deposits of $10,000 or more to be reported to the government. Based on these facts, Tammy is MOST LIKELY committing a(n):

A. Reverse deposit scheme

B. Remote deposit capture scheme

C. Integration scheme

D. Structuring scheme

ANSWER: D

Explanation:

Structuring scheme is correct because the facts show a repeated pattern of cash deposits deliberately kept just below a stated government-reporting threshold. Structuring, also called "smurfing," involves conducting or attempting to conduct transactions in amounts designed to evade currency-reporting requirements. The key indicator is not merely that an individual deposit is below the threshold; it is the series of similarly sized deposits made over a short period, each falling in the narrow range of $9,000 to $9,900. This pattern supports the inference that the depositor knows of the reporting requirement and is attempting to prevent a reportable transaction from being created or detected.

For fraud examination purposes, recurring cash activity immediately below a reporting limit is a classic anti-money-laundering red flag. Financial institutions are expected to monitor for potentially structured activity and, where appropriate, evaluate whether a suspicious activity report is required. The use of the depositor's own bank ATMs does not change the core conduct: the apparent intentional division of cash deposits to avoid the reporting trigger. FinCEN explains currency transaction reporting requirements at FinCEN's Currency Transaction Reporting page, and the regulatory definition of structuring appears at 31 C.F.R. § 1010.100.

QUESTION NO: 7

Which of the following is the MOST APPROPRIATE technique for detecting a cost mischarging scheme?

A. Reviewing the inspection and testing reports of questioned goods or materials

B. Comparing the direct and indirect labor account totals from the prior year to the current year

C. Inspecting questioned goods or materials by examining packaging, appearance, and description

D. Examining any change orders submitted by a contractor that add new items

ANSWER: B

Explanation:

Comparing the direct and indirect labor account totals from the prior year to the current year is the most appropriate technique because cost mischarging commonly involves charging labor or other costs to an improper contract, project, task, or indirect-cost pool. A comparative analytical review can reveal unexpected movements in the relationship between direct and indirect labor, such as an unusual increase in direct charges coupled with a decrease in indirect charges, or shifts that are inconsistent with changes in staffing, workload, contract mix, or operational activity. Such anomalies provide focused leads for a fraud examination, including review of time records, labor-distribution reports, employee assignments, charge codes, approvals, and supporting project documentation. This approach is particularly useful because labor costs are often substantial, recurring, and allocated through systems that can conceal improper charging when individual transactions are viewed in isolation. Federal cost principles also require costs charged to government contracts to be allowable, allocable, and consistently treated; trend analysis helps identify departures from those requirements. The U.S. Department of Defense's Contract Audit Manual describes the importance of evaluating internal controls and testing labor charging, while FAR 31.201-4 explains the allocability standard for contract costs.

QUESTION NO: 8

Which of the following statements is TRUE regarding income statements?

A. Most companies present net sales as the first line item.

B. Gross profit is equal to revenues minus operating expenses.

C. Net profit is the difference between total sales and the cost of goods sold.

D. Gross revenue is the total amount of sales after all deductions are applied.

ANSWER: A

Explanation:

Most companies present net sales as the first line item because the income statement is designed to show financial performance over a reporting period, beginning with the revenue generated by the entity's principal operations. For a company that sells goods, this amount is ordinarily labeled net sales or net revenue rather than gross sales. Net sales represent the sales amount earned after reductions such as customer returns, allowances, refunds, and sales discounts. Presenting this net amount provides a more meaningful measure of the revenue the company expects to retain from its sales activity. From net sales, a typical merchandising or manufacturing income statement then derives intermediate and final profitability measures by subtracting applicable costs and expenses. The precise caption can vary by industry: service businesses may use terms such as service revenues, while other entities may use revenues. Nevertheless, net sales is the customary first line item for many companies with product sales. This presentation is consistent with the general income-statement objective of reporting revenues, expenses, gains, and losses for a defined accounting period. See the SEC's discussion of financial statement presentation in Financial Statements for Small Businesses and the FASB's overview of financial reporting concepts at FASB Accounting Standards Codification.

QUESTION NO: 9

A fictitious revenue scheme often results in which of the following situations?

A. An increase in accounts receivable that are long overdue

B. A lack of accounts receivable written off as bad debt expense

C. A low amount of outstanding accounts receivable

D. Accounts receivable that are consistently paid several days late

ANSWER: A

Explanation:

An increase in accounts receivable that are long overdue is correct because fictitious revenue is recorded for sales that did not genuinely occur. When a company books a fabricated credit sale, it typically records both revenue and an account receivable even though there is no legitimate customer obligation to collect. Consequently, the receivable cannot be collected through normal business processes and may remain on the books well past its due date. A growing balance of aged receivables, particularly where the growth is inconsistent with sales trends, collection history, or customer payment patterns, is therefore a significant indicator that reported revenue may not be supported by genuine transactions. Fraudsters can attempt to conceal the problem by rolling balances forward, making temporary payments, or delaying write-offs, but aging analyses can reveal receivables that persist without credible collection evidence. This relationship follows the basic accounting mechanics of a fictitious credit sale: revenue is overstated at the same time as receivables are overstated. The ACFE identifies recording fictitious revenues as a financial statement fraud method and emphasizes analytical review of financial records and supporting documentation when investigating suspected fraud. See the ACFE's Fraud 101 overview and the SEC guidance on revenue-recognition risks and controls.

QUESTION NO: 10

Hannah is a manager at a financial institution. To safeguard the bank and its customers from electronic funds transfer (EFT) fraud, Hannah is implementing several preventive measures. Which of the following is NOT a measure Hannah should take to prevent EFT fraud?

A. If a customer reports the loss or theft of an access device, then cancel the existing card, PIN, or other form of access and issue a new one.

B. Send a welcome letter to new customers to determine if the address submitted on the account application is valid.

C. Separate the duties of bank employees so that the responsibilities for the issuance of access devices are separate from the issuance of PINs.

D. Mail PINs and other associated account information together to reduce the chance of those items being lost during transit.

ANSWER: D

Explanation:

"Mail PINs and other associated account information together to reduce the chance of those items being lost during transit." is the action Hannah should *not* take. A PIN is an authentication secret used with an access device to authorize electronic fund transfers. If the PIN and the related account information, card, or other access-device details travel together, interception of a single mailing can give a criminal the information needed to attempt unauthorized transactions. Separating delivery of a PIN from delivery of the associated access device or account details preserves an important security boundary: compromise of one item does not automatically compromise the customer's ability to access the account.

This approach reflects the fundamental control principle of separating credentials and limiting the exposure of sensitive authentication data. Financial institutions should use secure PIN-generation and delivery procedures, protect PIN confidentiality throughout the credential lifecycle, and respond promptly when credentials might be compromised. These controls reduce opportunities for both external interception and misuse of customer access credentials. The Federal Financial Institutions Examination Council's authentication guidance discusses layered security and controls for access to financial services, while the Consumer Financial Protection Bureau's Regulation E materials address protections concerning electronic fund transfers and access devices. See the FFIEC Authentication and Access Guidance and the CFPB Regulation E.

QUESTION NO: 11

Rina is responsible for evaluating bids for a company's warehouse-cleaning contract. Unknown to her employer, Rina's spouse owns 40% of one bidder. Rina does not receive any payment from the bidder, but she recommends it despite its higher price and weaker service proposal. Which of the following BEST describes Rina's conduct?

A. A conflict-of-interest scheme

B. A kickback scheme

C. An illegal gratuity scheme

D. An economic extortion scheme

ANSWER: A

Explanation:

A conflict-of-interest scheme is correct because Rina has an undisclosed personal economic interest in an outside company seeking business from her employer. Her duty to evaluate bids objectively is compromised by her spouse's ownership interest, and she uses her influence to benefit that outside interest.

A kickback requires a payment or other benefit provided in exchange for favorable treatment. An illegal gratuity involves something of value given because of an official act. Economic extortion requires the employee to demand payment through threatened adverse action. None of those additional facts is present here.

QUESTION NO: 12

The process of disguising illegal proceeds as legitimate proceeds that criminals have a right to possess and spend can BEST be described as:

A. Money laundering

B. Cross-border financing

C. Asset trafficking

D. Concealment of assets

ANSWER: A

Explanation:

Money laundering is the process by which criminals disguise the illicit origin, ownership, control, or destination of property derived from crime so that it appears to come from a legitimate source. Its central purpose is to allow offenders to retain, use, transfer, invest, or spend criminal proceeds while reducing the risk that the underlying offense and the persons involved will be detected. The description in the question precisely captures this transformation of apparently illegitimate wealth into assets that seem lawful and available for normal use.

In practice, laundering can involve introducing criminal proceeds into financial or commercial channels, conducting transactions that obscure the audit trail and beneficial ownership, and ultimately placing funds or assets into forms that appear legitimate. The methods can involve cash-intensive businesses, financial institutions, trade transactions, shell entities, real estate, virtual assets, or other mechanisms, but the defining feature remains concealment or disguise of an unlawful source. The Financial Action Task Force describes money laundering as the processing of criminal proceeds to disguise their illegal origin; its guidance is available at [FATF Frequently Asked Questions]. The United Nations also addresses laundering as concealing or disguising the illicit origin of property in [UNODC's money-laundering overview].

QUESTION NO: 13

A restaurant offers to provide David, a senior executive at ALT Consulting, with free dinners once a month for his family and friends if he agrees to use the restaurant for all of ALT Consulting's catering needs. This scheme can BEST be described as a(n):

A. Illegal gratuity scheme

B. Economic extortion scheme

C. Diversion scheme

D. Kickback scheme

ANSWER: D

Explanation:

Kickback scheme is correct because the restaurant is offering David a personal benefit—recurring free dinners for him, his family, and friends—in return for using his authority at ALT Consulting to direct company catering business to the restaurant. The essential feature is the quid pro quo: a vendor provides something of value to an employee or decision-maker so that the employee will improperly influence a business decision in the vendor's favor. The benefit need not be cash, and it need not be paid directly to the employee; meals, entertainment, travel, gifts, or benefits extended to relatives can all constitute things of value when offered in exchange for favorable treatment.

Here, David's agreement would cause ALT Consulting to purchase catering from the restaurant based on David's private advantage rather than an impartial assessment of price, quality, service, or the organization's best interests. That creates a conflict between David's duty to his employer and his personal financial interest. ACFE classifies kickbacks as a corruption scheme involving improper payments or benefits used to influence business transactions. The U.S. Department of Justice likewise recognizes that bribes and kickbacks may include benefits other than money. See the ACFE Fraud 101 overview and the U.S. Department of Justice corruption resources.

QUESTION NO: 14

The taxing authority in a country allows companies to subtract the cost of production from their gross sales to determine taxable income. A business owner operating in that country purchases materials from a local supplier and pays the supplier to alter the receipt to show a higher price than was paid. When the business owner submits the company's tax information to the taxing authority, they submit the altered receipt to reduce their tax burden. The business owner is MOST LIKELY committing which of the following schemes?

A. An excise tax evasion scheme

B. A failure to declare income scheme

C. A falsified tax deduction scheme

D. A tax credit deferral scheme

ANSWER: C

Explanation:

A falsified tax deduction scheme is correct because the business owner deliberately creates and submits false support for an overstated business expense. The country's tax rules permit production costs to be deducted from gross sales in arriving at taxable income, but only to the extent of costs actually incurred. By arranging for the supplier's receipt to report a purchase price higher than the amount paid, the owner falsely increases the company's claimed production costs. This fabricated deduction lowers reported taxable income and, consequently, improperly reduces the tax owed to the taxing authority. The altered receipt is especially significant because it is documentary evidence intended to make the false deduction appear legitimate during tax reporting or a later audit. In fraud-examination terms, the conduct is tax fraud through the falsification of deductible expenses rather than an innocent accounting error: it involves intentional deception, false records, and an improper financial benefit. ACFE's materials recognize tax fraud as a form of financial crime, and its Fraud Tree places such conduct within the broader framework used to classify occupational and financial fraud schemes. See the ACFE overview of fraud and the ACFE Fraud Tree.

QUESTION NO: 15

Which of the following signs is MOST LIKELY to indicate that a third-party vendor or contractor is engaging in a corruption scheme?

A. The third party provides contact information that contains a single address and a telephone number.

B. The third party requests that payment be sent to a different country from where it conducts business.

C. The third party is consistently awarded contracts based on a reputation for providing higher quality services than its competitors.

D. The third party charges lower-than-average prices for the goods and services it offers to customers.

ANSWER: B

Explanation:

The third party requests that payment be sent to a different country from where it conducts business. This is a significant corruption red flag because an unexplained mismatch between the location of the services, the vendor's business operations, and the payment destination can obscure the ultimate recipient and the purpose of the funds. Payments routed to another jurisdiction may be used to conceal beneficial ownership, move funds through accounts controlled by intermediaries, or facilitate improper commissions or bribes. The risk is particularly elevated when the third party cannot provide a credible commercial rationale, supporting contractual documentation, or transparent bank-account ownership information. In response, an organization should conduct enhanced due diligence proportionate to the risk, including verification of the vendor's legal identity and beneficial owners, confirmation that the receiving account is associated with the legitimate contracting party, review of the payment rationale, and documentation of approval decisions. ACFE materials identify unusual payment arrangements and third-party relationships as key areas of corruption risk, while the U.S. Department of Justice and Securities and Exchange Commission emphasize risk-based third-party due diligence and monitoring in their Foreign Corrupt Practices Act guidance. See the ACFE corruption resources and the DOJ/SEC FCPA Resource Guide.

QUESTION NO: 16

According to best practices regarding large cash transactions with customers as provided by the Financial Action Task Force (FATF) Recommendations, which of the following transactions would require a report to be filed with the appropriate designated government agency?

A. A domestic cash purchase of gold jewelry for a sum above the jurisdiction's designated threshold

B. An international cash purchase of casino credits for a sum below the jurisdiction's designated threshold

C. A cash payment to a domestic legal professional of a sum below the jurisdiction's designated threshold

D. A cash payment for an international food purchase of a sum above the jurisdiction's designated threshold

ANSWER: A

Explanation:

A domestic cash purchase of gold jewelry for a sum above the jurisdiction's designated threshold is correct because dealers in precious metals and stones are designated nonfinancial businesses and professions under the FATF framework. FATF Recommendation 22 requires these dealers to apply customer due diligence when they engage in cash transactions with a customer at or above the applicable threshold (USD/EUR 15,000 in the Recommendation). Effective national anti-money-laundering regimes can also require the reporting of large cash transactions to a designated government authority, subject to the country's legal threshold and reporting rules. A high-value cash purchase of gold jewelry is therefore the kind of transaction that falls within the enhanced scrutiny and reporting framework contemplated for this sector. The fact that the transaction is domestic does not remove the relevant cash-transaction obligation; the determining features are the covered business, the use of cash, and the amount exceeding the jurisdiction's threshold. This approach supports traceability of significant cash movements and helps authorities identify potential money-laundering activity involving valuable, easily transferable goods. FATF's standards for dealers in precious metals and stones are set out in The FATF Recommendations, with further application guidance in the risk-based approach guidance for dealers in precious metals and stones.

QUESTION NO: 17

Which of the following scenarios BEST describes an electronic funds transfer (EFT) fraud scheme?

A. A vendor submits an electronic bill through the online payment system of a corporate client for services that the vendor did not provide.

B. A bank employee misrepresents the number of hours that they worked on their electronic time card to increase the amount of their paycheck.

C. A mail delivery employee intercepts and steals envelopes that contain prepaid debit and gift cards and uses them to gamble online.

D. A cashier at a store scans a customer's credit card information into a small device so that the information can be used fraudulently at a later time.

ANSWER: A

Explanation:

"A vendor submits an electronic bill through the online payment system of a corporate client for services that the vendor did not provide." best describes an EFT fraud scheme because it uses an organization's electronic payment process to cause an unauthorized disbursement. The fraudulent vendor bill is the mechanism used to induce the corporate client to approve and transmit funds electronically, whether through an online banking platform, an accounts-payable system, or another electronic payment channel. The core fraud is the intentional false representation that legitimate services were provided and are payable; that misrepresentation causes company money to be transferred to the vendor without a valid business purpose. In fraud-examination terms, this is a fraudulent-disbursement method with an electronic payment component: a false claim for payment results in funds leaving the victim organization through an EFT rather than through a paper check or cash payment. Electronic payment environments can make these schemes especially consequential because payments may be processed quickly and remotely, underscoring the importance of vendor validation, invoice matching, approval controls, and payment review. ACFE materials describe fraud as intentional deception for personal or financial gain and identify asset misappropriation, including fraudulent disbursements, as a major occupational-fraud category. See the ACFE overview of fraud and the ACFE Fraud 101 resources.

QUESTION NO: 18

A contractor visits Lindsay's home and informs her that she has a damaged roof. The contractor offers roofing services and quotes Lindsay a price. Which of the following is the BEST action Lindsay can take to prevent being victimized by a potential consumer fraud scheme?

A. Agree to the contractor's services orally to avoid being bound by contract terms if the work is unsatisfactory.

B. Verify that the contractor has a valid license by contacting the licensing agency for confirmation.

C. Require the contractor to provide the phone number of a reference who can attest to the quality of their services.

D. Ask the contractor how many roofs they have repaired in the past to ascertain how much experience they have.

ANSWER: B

Explanation:

Verify that the contractor has a valid license by contacting the licensing agency for confirmation. is the best preventive action because it relies on an independent, authoritative source rather than information supplied by an unsolicited contractor. Door-to-door home-repair solicitations can create pressure to make an immediate decision, particularly when the seller claims that a problem is urgent. Before authorizing work or paying money, Lindsay should use the relevant state or local licensing authority's official records to confirm that the contractor is properly licensed or registered and that the credential is current. Where available, she should also review disciplinary history, complaints, insurance or bonding requirements, and the precise business name associated with the license. This verification helps establish that the contractor is subject to regulatory oversight and gives Lindsay reliable identifying information if a dispute later arises. Consumer-protection agencies also recommend obtaining written estimates and taking time to compare providers, but independent license verification is the strongest action among the choices because it directly tests a key representation made by the contractor. The Federal Trade

Commission advises consumers to research contractors and check licensing requirements before hiring for home-improvement work. See the [FTC's home-improvement guidance]() and the [USA.gov home-repair resources]().

QUESTION NO: 19

The Financial Action Task Force (FATF) Recommendations suggest that countries should take which of the following measures?

A. Impose a sentence of three years of imprisonment for all money laundering and terrorist financing convictions.

B. Refrain from conducting business with other countries unless they comply with the anti-money laundering recommendations.

C. Require financial institutions to monitor their customers' public profiles and social media activity for indicators of money laundering.

D. Create financial intelligence units (FIUs) and require financial institutions and other high-risk industries to report suspicious activity to them.

ANSWER: D

Explanation:

Create financial intelligence units (FIUs) and require financial institutions and other high-risk industries to report suspicious activity to them. This reflects core elements of the FATF's international anti-money-laundering and counter-terrorist-financing framework. FATF Recommendation 29 calls on countries to establish an FIU that serves as a national center for receiving and analyzing suspicious transaction reports and other relevant information relating to money laundering, associated predicate offences, and terrorist financing. The FIU must also be able to disseminate the results of its analysis to competent authorities when appropriate.

Suspicious transaction reporting is likewise a central preventive measure. Under FATF Recommendation 20, financial institutions that suspect, or have reasonable grounds to suspect, that funds are the proceeds of criminal activity or are related to terrorist financing must promptly report their suspicions to the FIU. FATF also extends specified preventive obligations, including reporting in relevant circumstances, to designated non-financial businesses and professions, such as casinos, real-estate agents, dealers in precious metals or stones, lawyers, notaries, and trust and company service providers. Establishing this reporting-and-analysis structure helps authorities identify, assess, and act on potentially illicit financial activity. See [FATF Recommendations]() and [FATF guidance on financial intelligence units]().

QUESTION NO: 20

A fraud examiner is attempting to determine whether an online retailer's customers have committed card-not-present (CNP) payment card fraud schemes. Which of the following measures would be MOST EFFECTIVE in detecting this type of fraud?

A. Check for small orders placed from newly created customer accounts that do not have a purchase history.

B. Compare IP addresses for internet orders with those from previous orders placed by the same customer.

C. Examine orders in which customers declined rush or overnight shipping for their purchases.

D. Review orders in which a customer purchased several unique items during a single transaction.

ANSWER: B

Explanation:

Compare IP addresses for internet orders with those from previous orders placed by the same customer. This is the most effective measure because it evaluates a transaction against the customer's established behavioral profile. In a card-not-present transaction, the merchant cannot inspect the physical card or verify the purchaser face-to-face, so transaction-origin data is an important fraud signal. A new or materially different IP address can indicate that someone other than the legitimate account holder is placing an order, particularly when it is combined with other anomalies such as an unusual device, location, billing or shipping address, purchase amount, or order frequency. Comparing IP data over time also helps distinguish a customer's normal purchasing pattern from a potentially compromised account or the unauthorized use of stored payment credentials. IP-address analysis should not be treated as conclusive proof, since legitimate customers can change networks or use mobile connections and VPNs. Instead, it is a valuable detection control that supports risk scoring and prompts proportionate verification or review. This approach aligns with industry fraud-prevention practices that use device, network, and behavioral signals to identify suspicious online payments. See Stripe's guidance on identifying fraud and PCI DSS v4.0.

QUESTION NO: 21

Which of the following is a recommended method for safeguarding an organization's proprietary information?

A. Changing locks and reprogramming door access codes every three to five years

B. Classifying data into security access levels based on the number of years that employees have worked for the company

C. Educating employees about nondisclosure agreements when they are hired and during exit interviews

D. Requiring employees to make notes and keep drafts related to confidential projects

ANSWER: C

Explanation:

Educating employees about nondisclosure agreements when they are hired and during exit interviews is a recommended safeguard because employees are often entrusted with proprietary information during the course of their work and may retain access to sensitive knowledge even after access to systems has ended. Training at onboarding makes the organization's confidentiality expectations, information-handling duties, and nondisclosure commitments clear before an employee receives protected information. Readdressing those obligations in an exit interview provides a timely reminder that confidentiality duties generally continue after employment ends, identifies organizational property or information that must be returned, and documents the departing employee's acknowledgment of those responsibilities. This is a practical administrative control that supports a broader trade-secret and proprietary-information protection program, including clearly identifying confidential information, limiting access on a need-to-know basis, and consistently communicating safeguards. The U.S. Department of Justice notes that reasonable measures to protect trade secrets can include confidentiality agreements and employee education. The U.S. Patent and Trademark Office likewise identifies confidentiality agreements and procedures for departing employees as important measures for protecting trade secrets. See the U.S. Department of Justice trade-secret overview and the USPTO trade secret policy resources.

QUESTION NO: 22 - (SIMULATION)

__________ means that traditional bribery statutes proscribe only payments made to influence the decisions of government agents or employees.

ANSWER: See the explanation for the answer

Explanation:

Answer: Commercial bribery.

Traditional bribery statutes historically focused on payments intended to influence government agents or employees. Bribery involving private-sector business decisions is called **commercial bribery** and is addressed under modern statutes and company policies.

QUESTION NO: 23

Which of the following is a recommended activity that organizations should engage in to protect their proprietary information from threats?

A. Enlisting a task force to identify the information security practices of competitors

B. Prohibiting all nonemployees from entering the organization's premises

C. Maximizing data collection to limit the information available during a data breach

D. Conducting confidential meetings in specially constructed quiet rooms

ANSWER: D

Explanation:

Conducting confidential meetings in specially constructed quiet rooms is a recommended protective measure because proprietary information can be compromised through overheard conversations, whether intentionally through eavesdropping or unintentionally by people nearby. Quiet rooms—particularly rooms designed with sound attenuation or sound masking—reduce the likelihood that sensitive discussions about trade secrets, financial results, product plans, investigations, customer data, or other confidential business matters can be heard outside the authorized meeting space. This is an example of a practical physical and administrative safeguard: it limits disclosure at the point where sensitive information is being communicated, rather than relying solely on technical controls after information has already been exposed. Organizations should also establish procedures identifying which discussions require such protected locations and ensure that access to those meetings is limited to personnel with a legitimate business need. Maintaining reasonable measures to preserve secrecy is important to protecting proprietary information, including information that may qualify for trade-secret protection. The U.S. Patent and Trademark Office discusses the importance of reasonable efforts to keep trade secrets secret in its trade secret policy resources. NIST also identifies physical protections as part of an organization's security control framework in Special Publication 800-53.

QUESTION NO: 24

Malcolm is a manager at a financial institution. To safeguard the bank and its customers from electronic funds transfer (EFT) fraud, Malcolm is implementing preventive measures. What is one measure Malcolm can take to prevent EFT fraud?

A. Send online banking portal PINs, usernames, and passwords in a single communication to ensure the information is not lost or intercepted.

B. Send electronic communications containing usernames in an unencrypted format to ensure that the intended recipient can access them.

C. Employ multifactor authentication to verify transfers via electronic bill presentment and payment (EBPP) or person-to-person (P2P) systems.

D. Ensure that the same employee handles both PIN issuance and access device information to limit the number of people accessing this information.

ANSWER: C

Explanation:

Employ multifactor authentication to verify transfers via electronic bill presentment and payment (EBPP) or person-to-person (P2P) systems is an effective preventive control because it requires an individual initiating or approving an electronic transfer to establish identity using multiple independent factors. These factors generally combine something the user knows, such as a password; something the user possesses, such as a registered device or cryptographic token; or something inherent to the user, such as a biometric characteristic. Accordingly, compromise of a username and password alone is less likely to permit a criminal to initiate or authorize a fraudulent payment. For higher-risk activity such as adding payees, changing account details, or transmitting payments, financial institutions should apply authentication controls commensurate with the risk and use layered security measures to detect and stop suspicious activity. Multifactor authentication supports these objectives by strengthening access control at the point where an unauthorized user might otherwise gain access to payment functionality. The Federal Financial Institutions Examination Council's authentication guidance describes the need for effective authentication and layered security in internet banking environments, including systems that enable funds transfers. See the FFIEC Authentication and Access guidance and the CISA guidance on strong passwords and multifactor authentication.

QUESTION NO: 25

Depreciation is especially applicable when companies try to overvalue their assets and net worth; the lower their depreciation expense, the higher the company's profits.

A. True

B. False

ANSWER: A

Explanation:

True is correct. Depreciation systematically allocates the cost of a long-lived asset over its useful life. Because depreciation expense reduces reported income and the asset's carrying amount, understating that expense has a direct effect on both the income statement and balance sheet: reported profit is higher, and property, plant, equipment, or other depreciable assets remain recorded at a higher net amount. A company seeking to overstate earnings or net worth can manipulate estimates that determine depreciation, such as assigning an unrealistically long useful life, using an overly high residual value, delaying the start of depreciation, or failing to record impairment when indicators exist. These practices can materially misstate financial statements and are important fraud-risk areas for examiners because management estimates may involve substantial judgment. Under U.S. GAAP, depreciation is intended to allocate an asset's cost in a systematic and rational manner over the periods benefited; it is not optional simply because management wishes to improve earnings. See the FASB's Accounting Standards Codification and the SEC's guidance on accounting basics for financial reporting.

QUESTION NO: 26

What type of fraud scheme would MOST LIKELY be revealed by comparing a company's personnel records with its payroll records to identify duplicate addresses and government identification numbers?

A. A fraudulent commissions scheme

B. A falsified hours and salary scheme

C. An expense reimbursement scheme

D. A ghost employee scheme

ANSWER: D

Explanation:

A ghost employee scheme is most likely to be revealed through this comparison because the scheme involves payments being made to an individual who does not legitimately work for the organization, such as a fictitious person or a terminated employee who remains on the payroll. The perpetrator commonly creates or maintains the false payroll record and then directs pay to an account, address, or identity information under the perpetrator's control. Comparing human-resources personnel files with payroll master-file data helps identify records that lack a legitimate personnel basis and highlights suspicious common data elements. In particular, duplicate home addresses or government identification numbers can indicate that multiple purported employees are linked to the same individual, supporting investigation of a potentially fictitious payroll recipient. This is a recognized payroll-fraud detection approach because independent reconciliation of employee authorization records to payment records helps establish that each payee is real, currently employed, and properly supported. The ACFE identifies ghost employees as a payroll fraud method and discusses data analysis and review of payroll records as useful detection measures. See the ACFE Fraud 101 resource and the ACFE Occupational Fraud 2024: A Report to the Nations.

QUESTION NO: 27

The prime targets for skimming schemes, which are hard to monitor and predict such as late fees and parking fees, are:

A. Revenue sources

B. Recorded sales

C. Internal audits

D. Register manipulations

ANSWER: A

Explanation:

Revenue sources is correct because skimming is the theft of cash before it is recorded in an organization's accounting system. Receipts that are difficult to monitor, forecast, or independently reconcile are especially susceptible. Late fees and parking fees commonly arise in variable amounts and may not have a reliable, preexisting record against which actual collections can be compared. This lack of an expected or easily verifiable total gives an employee more opportunity to take incoming funds and conceal that the receipt ever occurred.

ACFE materials describe skimming as an off-book fraud and emphasize that organizations face greater exposure where cash receipts are not supported by effective documentation, independent reconciliation, or controls that establish accountability from receipt through deposit. Revenue streams with unpredictable volume or amounts can therefore be prime targets, because discrepancies may be harder to identify promptly. Effective prevention includes issuing sequentially numbered receipts, reconciling collections to operational activity, separating cash-handling and recording duties, and making timely deposits. See the ACFE's Fraud 101: What Is Fraud? and its 2024 Report to the Nations for fraud-risk and control context.

QUESTION NO: 28

After purchasing an automobile insurance policy with comprehensive coverage, Daniel reports that his vehicle was stolen from a shopping-centre car park. Investigators determine that Daniel arranged for an acquaintance to take the vehicle to another city, where it was dismantled and sold for parts. Which of the following BEST describes Daniel's scheme?

A. Claim inflation

B. Application fraud

C. Arson-for-profit

D. A staged theft scheme

ANSWER: D

Explanation:

A staged theft scheme is correct because Daniel falsely represents that a covered theft occurred while arranging for the vehicle to be removed and disposed of. The loss is fabricated to obtain insurance proceeds for property that was deliberately diverted.

Arson-for-profit involves intentionally setting fire to insured property. Claim inflation occurs when a claimant exaggerates the value or extent of a genuine loss. Application fraud concerns material misrepresentations made to obtain coverage. Daniel's conduct instead centers on creating the appearance of a theft that did not occur as reported.

QUESTION NO: 29

Brenda was a cashier at a retail store. When Brenda's friend shopped at the store, she would take her merchandise to Brenda's cash register. Instead of charging her friend, Brenda would record a No-Sale transaction on the register, and her friend would pretend to pay for the merchandise. Brenda's friend would leave the store without paying for the merchandise, and the two would later divide the merchandise between themselves. This scheme can BEST be described as:

A. A register disbursement scheme

B. A false sale scheme

C. A purchasing and receiving scheme

D. A skimming scheme

ANSWER: B

Explanation:

A false sale scheme is the best description because the cashier and an accomplice create the appearance of a legitimate retail purchase while deliberately preventing any sale from being recorded or paid. The friend brings merchandise to the register and acts as though payment is being made, but Brenda enters a no-sale transaction rather than a genuine sale. This opens the register without recording a sale, allowing the merchandise to leave the store without a corresponding payment or inventory-reducing transaction. The apparent checkout activity helps make the removal of goods look routine to observers, while the cashier's control over the register provides the mechanism to conceal the theft at the point of sale. The subsequent division of the merchandise confirms that the cashier is participating in, and benefiting from, the misappropriation rather than making an innocent register error. ACFE materials categorize occupational fraud involving the theft of inventory or other assets through point-of-sale manipulation within asset misappropriation and cash-register-related fraud risks. See the ACFE's overview of occupational fraud and its Report to the Nations for discussion of asset misappropriation and anti-fraud controls.

QUESTION NO: 30 - (SIMULATION)

______________ is required not only for theft, but for procedures to detect errors, avoid waste, and ensure a proper amount of inventory is maintained.

ANSWER: See the explanation for the answer

Explanation:

Answer: Internal controls

Internal controls are required not only to prevent or detect inventory theft, but also to detect errors, minimize waste, and help ensure the organization maintains appropriate inventory quantities. Examples include segregation of duties, inventory records reconciled to physical counts, authorization procedures, and periodic stock reviews.

QUESTION NO: 31

Which of the following options BEST describes horizontal analysis?

A. A means of measuring the performance of a parent company to one of its subsidiaries

B. A means of examining the percentage change in individual line items on a financial statement from one accounting period to the next

C. A means of measuring the relationship between two different financial statement amounts

D. A means of examining the relationship of items on a financial statement by expressing components as percentages of a specified base value

ANSWER: B

Explanation:

Horizontal analysis is the comparison of the same financial-statement line item across successive accounting periods. It identifies both the amount and percentage by which an account balance changed—for example, comparing this year's sales revenue, accounts receivable, or advertising expense with the corresponding amount from the prior year. This trend-focused approach helps fraud examiners recognize unexpected fluctuations that may warrant follow-up, such as revenue growth that is inconsistent with cash collections or an unusual rise in a particular expense category. The option stating that horizontal analysis is "a means of examining the percentage change in individual line items on a financial statement from one accounting period to the next" accurately captures this core method. In practice, the percentage change is commonly calculated by subtracting the prior-period amount from the current-period amount and dividing the difference by the prior-period amount. Financial analysis guidance describes horizontal analysis as evaluating changes in financial-statement items over time, enabling users to assess trends and investigate material or anomalous movements. See the [SEC financial-ratio and horizontal-analysis guidance] and the [AccountingCoach discussion of horizontal analysis].

QUESTION NO: 32

The amount of cash on hand in a register may be compared to the amount showing in the register tape in order to detect _______.

A. Employee theft

B. Recorded sales

C. Internal audits

D. Occupational frauds

ANSWER: A

Explanation:

Employee theft is correct because reconciling the physical cash in a register to the sales recorded on the register tape is a fundamental cash-receipts control designed to identify cash shortages. When the tape shows a greater amount of recorded sales than the cash actually present, the discrepancy can indicate that an employee removed cash after a sale was recorded or otherwise failed to deposit all receipts. This comparison creates accountability by tying the employee's custody of currency to an independently retained record of transactions. It is especially useful when performed promptly, documented, and reviewed by someone other than the cashier, since timely review makes shortages easier to investigate and limits opportunities to conceal a recurring theft. ACFE materials describe cash larceny as the theft of cash after it has been recorded in an organization's books; a register-tape-to-cash comparison is directly relevant to detecting this type of scheme. The control also supports management's broader responsibility to safeguard assets through reconciliation and segregation of duties. See the ACFE's discussion of [occupational fraud and asset misappropriation] and the U.S. Government Accountability Office's [Standards for Internal Control in the Federal Government] for reconciliation and safeguarding-control principles.

QUESTION NO: 33

The excess credits (or debits) on the income statement are used to decrease (or increase) the equity account.

A. True

B. False

ANSWER: B

Explanation:

False is correct because the relationship stated is reversed. Under the normal accounting model, revenues carry credit balances and expenses carry debit balances. When income-statement credits exceed debits, the entity has net income. Closing net income transfers the excess to retained earnings (or the applicable equity account), thereby *increasing* equity. Conversely, when debits exceed credits, the entity has a net loss, and closing that loss reduces retained earnings and therefore *decreases* equity. This reflects the fundamental accounting equation: equity represents the residual interest in assets after liabilities, and profit or loss for a period changes that residual interest. The IFRS Conceptual Framework explains that income increases equity other than through contributions from holders of equity claims, while expenses decrease equity other than through distributions to holders of equity claims. Thus, excess income-statement credits increase equity, and excess debits decrease it; the wording in the statement incorrectly says the opposite. See the [IFRS Conceptual Framework for Financial Reporting] and the [OpenStax explanation of the accounting equation and financial-statement effects].

QUESTION NO: 34

Which of the following measures would be MOST EFFECTIVE in helping a company detect electronic payment tampering fraud?

A. Ask all vendors if they have received any duplicate payments.

B. Investigate customer complaints about any payments that were applied to their account later than they expected.

C. Review any non-payroll payments made to employees.

D. Complete bank reconciliations once a quarter to catch any anomalies in payment amounts and payees.

ANSWER: C

Explanation:

Review any non-payroll payments made to employees is the most effective measure because electronic payment tampering commonly involves an employee manipulating payment data to direct company funds to themselves. This can include adding an employee's personal bank account to a vendor record, establishing a fictitious payee, altering payment instructions, or causing an improper ACH payment or wire transfer. Employees ordinarily receive compensation through the payroll system and may receive properly documented expense reimbursements through defined procedures. Therefore, a non-payroll electronic disbursement to an employee is an exception that warrants prompt review to confirm its business purpose, authorization, recipient bank-account details, and supporting documentation. Exception reporting that identifies employee names, addresses, bank accounts, or other identifying details that match vendor or payee records can uncover concealed self-dealing and diverted payments. Timely monitoring is especially important for electronic payments because funds can move rapidly and may be difficult to recover after settlement. This review is consistent with ACFE guidance on detecting fraudulent disbursements through targeted analysis of suspicious payments and payee information. See the ACFE's Fraud 101 resources and the ACFE 2024 Report to the Nations.