Test Bank for Fraud Examination 7th Albrecht

Name:____ Class:_________________________ Date:_____________

Chapter 01 - The Nature of Fraud

1. One way that criminal law differs from civil law is that it:
   a. provides remedies for violations of private rights.
   b. must yield a unanimous verdict.
   c. can have a jury of fewer than 12 persons.
   d. allows for various claims in one action.

ANSWER: b

2. Which of the following is NOT a common element of a Ponzi scheme?
   a. Gaining other's confidence
   b. Promising abnormally high returns
   c. Investing collected money
   d. Using part of the investment principal to pay previous investors

ANSWER: c

3. The following are all elements of Title 26, U.S. Code Section 7201 EXCEPT:
   a. not reporting bribe income may be grounds for being charged with tax evasion.
   b. a tax filing that excludes income from fraud may be considered a false return.
   c. bribes may be lawfully deducted as business expenses.
   d. failure to report income from fraud may be grounds for being charged with tax evasion.

ANSWER: c

4. Which one of the following is NOT a characteristic of a criminal proceeding?
   a. Criminal proceedings deal with offenses against society.
   b. Consequences of criminal proceedings include restitution and damage payments.
   c. Criminal proceedings involve a jury of 12 individuals.
   d. In criminal proceedings, only one claim may be heard at a time.

ANSWER: b

5. Management fraud is often referred to as:
   a. stockholder fraud.
   b. financial statement fraud.
   c. employee fraud.
   d. investment fraud.

ANSWER: b

6. What is required to prove fraud as opposed to error?
   a. Negligence
   b. Intent
   c. Preponderance of the evidence
   d. Confession from the perpetrator

ANSWER: b

7. Which of the following is the most common type of occupational fraud?
   a. Management fraud

b. Mail fraud
c. Investment fraud
d. Employee embezzlement

ANSWER: d

8. Which of the following is NOT a characteristic of management fraud?
a. Top management deception
b. Manipulation of financial statements
c. Kickbacks or bribes
d. Hidden losses and fictitious revenues

ANSWER: c

9. Customer fraud includes all of the following EXCEPT:
a. paying too little for goods received.
b. not paying for goods purchased.
c. receiving improper payments through collusion between buyers and vendors.
d. deceiving the organization into giving the customer something that it should not.

ANSWER: c

10. Which of the following is frequently involved in vendor fraud?
a. Participation of buyers from the company being defrauded
b. False financial statement reporting by upper management
c. Physical removal of inventory from the business premises
d. Diversion of funds by an employee

ANSWER: a

11. Government agencies such as the FBI, FDIC, FTC, and the IRS publish fraud statistics from time to time. Which of the following observations concerning such statistics is true?
a. Generally, their statistics are complete.
b. Such information is rarely used.
c. They provide only those statistics related to their jurisdiction.
d. They usually provide a total picture in the areas for which they have responsibility.

ANSWER: c

12. Which legal code makes the bribing of public officials and witnesses illegal?
a. Title 18, U.S. Code §201
b. Title 41, U.S. Code §51 to 58
c. Title 18, U.S. Code Section §1341
d. Title 18, U.S. Code Section §1344

ANSWER: a

13. Fraud has a direct dollar-for-dollar impact on a company's:
a. revenues.
b. net income.

c. profit margin.
d. stock price.

ANSWER: b

14. Which of the following is NOT a primary reason for the increased size and number of frauds?
a. The advent of computers
b. Complex accounting systems
c. Prevalence of electronic assets
d. The Internet

ANSWER: c

15. Which of the following statements regarding civil law is correct?
a. When fraud is committed, criminal prosecution usually precedes civil prosecution.
b. Civil law is the body of law that provides remedies for crimes against society.
c. Civil cases must be heard by 12 jurors.
d. In a civil case, the verdict of the jury must be unanimous.

ANSWER: a

16. Fraud is deception that includes all of the following EXCEPT:
a. a material point is misrepresented.
b. the misrepresentation is intentional.
c. the misrepresentation is known to the victim.
d. the victim must sustain damages.

ANSWER: c

17. The burden of proof needed for conviction in a criminal case:
a. is beyond a reasonable doubt.
b. is determined by the majority of the jury members.
c. is the preponderance of evidence.
d. lies with the defendant.

ANSWER: a

18. Which of the following statements about criminal and civil cases is correct?
a. The purpose of a criminal case is "to right a wrong," and the purpose of a civil case is to obtain a remedy.
b. A jury must have 12 people in civil cases but in criminal cases may consist of fewer than 12 people.
c. Both criminal cases and civil cases require a fraud perpetrator to make payments for damages.
d. Only one claim may be tried at a time in civil cases, but in criminal cases, various claims may be joined in one action.

ANSWER: a

19. How is the confidence element established in a Ponzi scheme?
a. By investing in prime bonds
b. By issuing notarized certificates
c. By paying returns to investors initially

d. By returning money to all investors

ANSWER: c

20. A common fraud committed on behalf of an organization is:
    a. vendor fraud.
    b. employee embezzlement.
    c. fraudulent financial reporting.
    d. customer fraud.

ANSWER: c

21. How does a company's profit margin affect the amount of additional revenue needed to offset fraud losses in order to avoid a reduction in net income?
    a. Profit margin does not affect the amount of additional revenue needed to offset fraud losses.
    b. A lower profit margin increases the revenue needed to offset fraud losses.
    c. A higher profit margin increases the revenue needed to offset fraud losses.
    d. Net income is not affected by fraud losses.

ANSWER: b

22. The victim is a company or organization in all of the following EXCEPT:
    a. vendor fraud.
    b. investment scams.
    c. employee embezzlement.
    d. customer fraud.

ANSWER: b

23. The Anti-Kickback Act of 1986 intends to prevent:
    a. bribery, by punishing perpetrators with up to 15 years in prison.
    b. any scheme by a contractor to gain the business of a global entity.
    c. the giving or receiving of anything of value by a subcontractor to a prime contractor in U.S. government contracts.
    d. lobbyists from giving gifts to influence laws regarding business transactions.

ANSWER: c

24. Which of the following entails an insider who has material inside information to purchase or sell the company's securities, either through insider deals directly or through an exchange?
    a. Bank fraud
    b. Ponzi schemes
    c. Management (financial statement) frauds
    d. Securities fraud

ANSWER: d

25. Who are the primary victims of financial statement fraud?
    a. Middle management
    b. Organizations that buy goods or services

c. Analysts
d. Stockholders

ANSWER: d

26. Generally, applicants for CFE certification should have a minimum of a bachelor's degree or equivalent from an institution of higher learning. Alternatively, if applicants do not have a bachelor's degree, how many months of fraud-related professional experience may they substitute for each year of academic study?

a. 24
b. 18
c. 12
d. 9

ANSWER: a

27. The ACFE does NOT include which of the following major categories of occupational fraud?

a. Asset misappropriations
b. Corruption
c. Fraudulent financial statements
d. Pension fraud

ANSWER: d

28. What is the most cost-effective way to minimize the cost of fraud?

a. Prevention
b. Detection
c. Investigation
d. Prosecution

ANSWER: a

29. Well-known incidents of fraud in companies such as WorldCom, Enron, Waste Management, Sunbeam, Rite-Aid, Phar-Mor, and Parmalat are examples of:

a. customer fraud.
b. investment scams.
c. vendor fraud.
d. management fraud.

ANSWER: d

30. Which of the following statements is true?

a. Fraud usually results from unintentional errors.
b. Fraud is more violent and traumatic than robbery.
c. Fraud always involves deception, confidence, and trickery.
d. Losses from fraud are less than losses from robbery.

ANSWER: c

31. To be successful, plaintiffs in civil cases must prove their case by which of the following?

a. By the preponderance of the evidence

b. Beyond a reasonable doubt
c. To a degree of reasonable mitigation
d. To the standard of prima facie

ANSWER: a

32. Which of the following is NOT an example of a fraud-fighting career?
a. Working for the criminal investigation division of the IRS
b. Serving as an expert witness
c. Maintaining the physical security of public records
d. Defending an organization being sued in a civil case

ANSWER: c

33. Which of the following observations concerning occupational fraud is NOT true?
a. It is clandestine.
b. It is committed for the purpose of direct or indirect financial benefit to the employee.
c. It usually involves two or more employees.
d. It costs the employing organization assets, revenues, or reserves.

ANSWER: c

34. Which of the following is NOT one of the major types of fraud classification schemes?
a. Employee embezzlement
b. Government fraud
c. Investment scams
d. Customer fraud

ANSWER: b

35. Which of the following frauds is usually the most expensive?
a. Vendor fraud
b. Customer fraud
c. Occupational fraud
d. Management (financial statement) fraud

ANSWER: d

36. Civil claims begin when one party files a complaint against another, usually for the purpose of:
a. having a penalty imposed.
b. sending the perpetrator to prison.
c. proving the perpetrator guilty.
d. being awarded financial restitution.

ANSWER: d

37. Employee embezzlement can be direct or indirect. Indirect fraud occurs when:
a. an employee uses company assets to run their private business.
b. employees establish dummy companies and have their employers pay for goods that are not actually delivered.
c. an employee receives a kickback from a vendor.

d. an employee steals company cash, inventory, tools, or other assets.

ANSWER: c

38. Telemarketing fraud usually falls into which of the following categories?

a. Investment scams

b. Management fraud

c. Vendor fraud

d. Embezzlement

ANSWER: a

39. Which of the following is NOT an essential element of fraud?

a. A representation about a material point which is false

b. A representation which is believed and acted upon by the victim

c. A representation about a material point which is true

d. A representation about a material point which will be to the victim's damage if acted upon

ANSWER: c

40. In fraud prosecution cases, the underlying data and all corroborating information available are collectively known as ______ _____.

a. evidential matter

b. remedial justification

c. supplemental arguments

d. elementary evidence

ANSWER: a

41. A study conducted by the Association of Certified Fraud Examiners in 2022 estimated that organizations lose roughly what percent of their annual revenues to fraud?

a. 5

b. 8

c. 17

d. 23

ANSWER: a

42. Which of the following statements is correct:

a. Firms and individuals are the only victims of fraud.

b. National economies are largely unaffected by large-scale fraud and corruption.

c. Countries with lower fraud losses are more likely to attract foreign investment.

d. Large-scale fraud has minimal impact on a country's GDP.

ANSWER: c

43. Given below are the profit margins and fraud-related losses of four economies. Which economy will have to generate the maximum dollar amount of additional revenues to recover the fraud-related loss? Economy A: 10%, $225 million; Economy B: 10%, $150 million; Economy C: 5%, $100 million; Economy D: 2%, $50 million

a. Economy A

b. Economy D

c. Economy C

d. Economy B

ANSWER: b

44. The GDP of the economy of a particular country was initially $5 billion with a growth rate of 4%. Frauds during the subsequent year reduce aggregate income by $200 million. During the subsequent year, the economy has:

a. shrunk by 1 percent.

b. grown by only 1 percent.

c. remained flat.

d. grown by 4 percent.

ANSWER: c

45. What is the single most critical element for a fraud to be successful?

a. Criminal intent

b. Confidence

c. Greed

d. Compulsion

ANSWER: b

46. Fraud statistics come from all of the following sources EXCEPT:

a. government agencies.

b. insurance companies.

c. victims.

d. fraud perpetrators.

ANSWER: d

47. Which of the following skills would be LEAST beneficial in a career as a fraud-fighting professional?

a. Analytical skills

b. Mechanical skills

c. Communication skills

d. Technological skills

ANSWER: b

48. Which of the following resume items would NOT be acceptable as fraud-related experience to satisfy the education requirements to apply for CFE certification?

a. Auditor (internal or external)

b. Investigator for a law enforcement agency or in the private sector

c. Experience in the Human Resources department of an organization

d. Paralegal for a prosecuting attorney

ANSWER: c

49. Which of the following statements regarding fraud on behalf of an organization is true?

a. Middle management is usually the perpetrator.

b. Fraud on behalf of an organization typically benefits top executives by increasing the stock price

c. Fraud on behalf of an organization includes deflating expenses in order to save on corporate income taxes

d. Fraud on behalf of an organization is likely to occur among publicly traded companies that are experiencing windfall profits

ANSWER: b

50. Which of the following individuals is most likely to commit financial statement fraud in order to benefit an organization?

a. An executive

b. An employee

c. A vendor

d. A consumer

ANSWER: a

51. Which of the following are NOT job roles that a fraud-fighting professional would perform at a CPA firm?

a. Provide internal audits

b. Perform internal consulting work

c. Perform bankruptcy-related accounting work

d. Inspect U.S. mail

ANSWER: d

52. Although most universities do not have a major called “fraud prevention, detection, and investigation,” which of the following degree programs, which are available at many universities, would best prepare a student to become a fraud-fighting professional?

a. Advertising

b. Public relations

c. Chemical engineering

d. Forensic accounting

ANSWER: d

53. Which of the following is true of online frauds compared to in-person frauds?

a. Online frauds are more difficult to perpetrate than in-person frauds.

b. Online frauds are usually much smaller than in-person frauds.

c. Unlike in-person frauds, online frauds do not require that the victim have confidence in the perpetrator.

d. Unlike in-person fraud, online fraud can be easily scaled by adding a few more zeros.

ANSWER: d

54. For an individual to become a CFE, at least how many years of professional experience must they have in a field either directly or indirectly related to the detection or deterrence of fraud?

a. One

b. Two

c. Three

d. Five

ANSWER: b

55. According to a 2022 study by the Association of Certified Fraud Examiners, what is the median loss caused by fraud

cases worldwide?

a. $1,17

b. $11,700

c. $117,000

d. $1,170,000

ANSWER: c