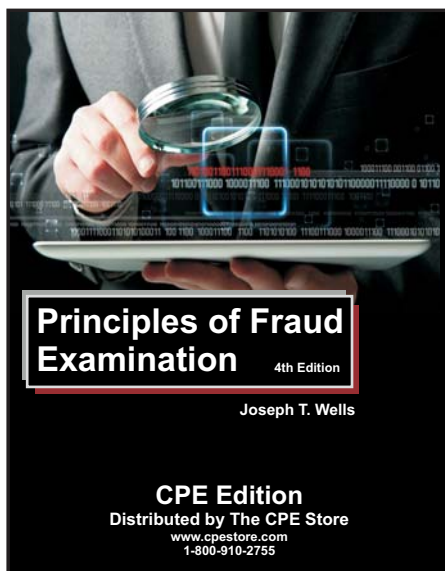


Principles of Fraud Examination

Course Instructions and Final Examination



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Principles of Fraud Examination

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Course Objectives

After completing this course, you will be able to:

- Identify a tool used in fraud examinations
- Determine who coined the term white-collar crime
- Recognize components of Albrecht's Fraud Scale
- Discern which age group committed the most occupational frauds based on a recent survey
- Spot the most difficult part of a cash register scheme
- Ascertain which scheme is used by an employee who covers the theft by creating a contra account
- Recognize the effect of the existence of controls designed to prevent fraud
- Select the trend analysis of customer accounts which may be helpful in highlighting a skimming scheme
- Discern which cash misappropriation scheme occurs most frequently
- Identify the central weakness of cash larceny schemes
- Pinpoint the number of sources which should match in order to authenticate a bank deposit
- Recognize the most costly fraudulent disbursement scheme
- Spot a sign of a possible billing scheme
- Determine what an invoicing scheme has in common with credit card and purchasing card schemes
- Identify an obvious drawback to using an accomplice in a check tampering scheme
- Recognize what produces perfect forgeries for check fraudsters
- Spot the most common breakdown of controls in forged endorsement schemes
- Discern who is almost always the perpetrator of a concealed check scheme
- Ascertain the purpose of issuing a false invoice in a billing scheme
- Identify the party most likely to participate in a ghost employee scheme
- Determine which method of obtaining approval of a fraudulent timecard relies on the inattentiveness of others
- Recognize the scheme a commissioned salesperson would most likely employ
- Spot a characteristic of expense reimbursement schemes
- Discern which reimbursement scheme requires the creation of bogus support documents
- Identify an example of a multiple reimbursement scheme
- Recognize a basic fraudulent disbursement scheme that takes place at the cash register
- Determine what is generally required for a false void scheme to be successful
- Ascertain what can be offered to customers to enlist their help in preventing register disbursement schemes
- Identify two ways a company asset can be misappropriated
- Spot the most basic type of theft
- Discern what should be in place to find out if goods are being stolen from outgoing shipments of merchandise
- Recognize the most basic asset requisition scheme
- Identify types of corruption schemes
- Pinpoint a scheme in which the perpetrator engages in self-dealing
- Recognize the key component of most kickback schemes
- Discern why some schemes are classified as bribes and others are classified as conflicts of interest
- Determine which items management must discuss in its financial disclosures
- Pinpoint the group of financial statement fraudsters which might engage in a "pump-and-dump" scheme
- Identify a potential problem associated with recording assets at net realizable value
- Recognize the most common reason for financial statement fraud
- Discern what the Sarbanes-Oxley Act requires of each audit committee member
- Identify the most damaging and costly effect of financial statement fraud
- Spot an event which requires disclosure of an accounting change
- Recognize the most used ratio in financial statement analysis
- Determine which financial ratio is often referred to as the efficiency ratio
- Ascertain why external fraud is a threat to any company
- Discern what should be used to convert computer information so that it is unreadable
- Identify the method of corporate espionage which utilizes a sleeper
- Recognize who must share ownership of the fraud assessment process
- Determine what is critical to the fraud risk assessment to avoid obtaining unreliable or meaningless results
- Pinpoint one of the major categories of occupational fraud
- Ascertain what must be done once risks are identified
- Determine who should typically direct a fraud investigation
- Recognize the simplest means of obtaining documentation in a fraud examination
- Discern what will be accomplished by a good investigative report

- Identify the most important aspect of the successful resolution of a fraud case
- Determine which type of interview questions can be particularly effective in obtaining confessions
- Pinpoint the proper reaction if an interview subject is belligerent or antagonizing
- Recognize the common element in all cases of fraudulent behavior
- Ascertain the primary focus of a fraud examiner
- Identify the quickest way to ruin an investigation or fraud examination

Course Instructions

To fully benefit from this course, please follow all of the steps below.

1. Read each chapter in the text to get a good understanding of the material.
2. Answer the study guide problems which appear at the end of each chapter. After answering the problems, compare your answers with the correct answers to ensure that you understand the material.
3. When you feel that you have a good understanding of the material contained in the chapter, answer the questions on the final examination.
4. When you have completed the final examination, record your answers on the answer sheet provided and submit it for grading. A score of 70% or better is required to pass. Please also complete the course evaluation and submit it to us along with your answer sheet. Upon passing you will receive a Certificate of Completion stating that you have successfully completed the course and earned the continuing education credit.

Prerequisites and Advance Preparation

No prerequisites or advance preparation are required for this course.

CPE Credit

This course is recommended for 30 CPE credits.

Final Exam Grading

- Online: Our fastest option, with instant results. Simply go to **www.cpestore.com** and click the link for online grading. Just follow the instructions from there. When you finish entering your answers, you'll receive instant test results and a Certificate of Completion to print.
- By Mail: Mail your test and course evaluation to us. We grade the tests the day we receive them and mail the results and Certificate of Completion to you the following business day.
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About Our Courses

The CPE Store's courses are developed to satisfy the continuing education requirements of the American Institute of Certified Public Accountants, each state's Board of Accountancy and the National Association of State Boards of Accountancy (NASBA). If your state requires registration of sponsors, our sponsor number will appear on your Certificate of Completion.

Our courses are designed to meet the continuing education requirements of accounting professionals. A great deal of care has been taken to ensure that the course material is both interesting and relevant to the practice of accounting. The information presented is, to the best of our knowledge, current and accurate. However, The CPE Store is not in the business of rendering legal, accounting or other professional advice and as such, the material presented in our courses is intended as an overview. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

Principles of Fraud Examination

30-Credit Course

Final Examination

A score of 70% or higher is required to pass the exam. If you score less than 70% on your first attempt, we will allow you to take the test a second time.

Chapter 1 – Introduction

1. Fraud examinations have the most similarities to which other field?
 - A. Law enforcement
 - B. Corporate security
 - C. Private investigator
 - D. Forensic accounting
2. Which is a tool used in fraud examinations?
 - A. Observation
 - B. Audit
 - C. Hypothesis
 - D. Skepticism
3. Which theft involves the acquiring of possession lawfully?
 - A. Larceny
 - B. Embezzlement
 - C. Conversion
 - D. Breach
4. Who coined the term “white-collar crime”?
 - A. Cressey
 - B. Sutherland
 - C. Hollinger and Clark
 - D. Albrecht
5. Both independent businessmen and long-term violators use which rationalization to justify their crimes?
 - A. Owed
 - B. Isolated
 - C. Borrowing
 - D. Trusted
6. Which of the following is not a component of Albrecht's Fraud Scale?
 - A. Personal integrity
 - B. Perceived opportunity
 - C. Situational pressure
 - D. Organizational controls
7. According to the 2011 *Global Fraud Survey*, what percentage of an organization's gross receipts are lost to fraud and abuse?
 - A. 1%
 - B. 5%
 - C. 3%
 - D. 8%
8. Based on the 2011 *Global Fraud Survey*, which age group committed the most occupational frauds?
 - A. 41-45
 - B. 26-30
 - C. 51-55
 - D. 36-40

Final Exam

9. According to the *2011 Global Fraud Survey*, which type of organization reported the most fraud cases?
 - A. Not-for-profit
 - B. Public company
 - C. Government
 - D. Private company
10. Which antifraud control was most effective at reducing median loss according to the *2011 Global Fraud Survey*?
 - A. Management review
 - B. Hotline
 - C. Fraud training for employees
 - D. Fraud risk assessments
11. According to the *2011 Global Fraud Survey*, which category of occupational fraud occurred most frequently?
 - A. Corruption
 - B. Financial statement fraud
 - C. Asset misappropriation
 - D. Conflict of interest

Chapter 2 – Skimming

12. What is the principal advantage of a skimming scheme to the fraudster?
 - A. Off-book
 - B. Noncash
 - C. On-book
 - D. Audit proof
13. What is the most difficult part of a cash register scheme?
 - A. Fooling the customer
 - B. Taking the money
 - C. Destroying the tape
 - D. Entering a false transaction
14. Which scheme can easily be committed by someone who has responsibility for both collecting and posting incoming payments?
 - A. Debiting the wrong account
 - B. Fraudulent write-off
 - C. Force balancing
 - D. Lapping
15. An employee who covers his or her theft by creating a contra account is involved in which scheme?
 - A. Fraudulent write-off
 - B. Lapping
 - C. Fraudulent discount
 - D. Debiting the wrong account
16. The existence of controls designed to prevent fraud have what effect?
 - A. Fraud will continue to occur
 - B. Fraud will disappear over time
 - C. Controls are not valuable preventative tools
 - D. Fraud detection methods are very complex
17. Which trend analysis of customer accounts may be helpful in highlighting a skimming scheme?
 - A. Write-offs
 - B. Returns
 - C. Aging
 - D. Discounts

Chapter 3 – Cash Larceny

18. Which cash misappropriation scheme occurs most frequently?
 - A. Cash larceny
 - B. Skimming
 - C. Cash receipts
 - D. Fraudulent disbursements
19. Which cash larceny concealment technique involves the recording of false voids or refunds?
 - A. Altering register tapes
 - B. Reversing transactions
 - C. Fraudulent discounts
 - D. Thefts from other registers
20. What is the central weakness of cash larceny schemes?
 - A. Imbalances in accounts
 - B. Internal controls
 - C. Need for accomplice
 - D. Inexperience
21. What is occurring when an employee steals the day one deposits, replaces it with day two's deposit, and so on?
 - A. Deposits in transit
 - B. Rolling over
 - C. Force balancing
 - D. Deposit lapping
22. To authenticate a bank deposit, the deposit amount from how many sources should match?
 - A. Two
 - B. Four
 - C. Three
 - D. Five

Chapter 4 – Billing Schemes

23. According to the *2011 Global Fraud Survey*, which fraudulent disbursement scheme is the most costly?
 - A. Billing
 - B. Payroll
 - C. Check tampering
 - D. Expense reimbursement
24. Which shell company scheme involves the sale of actual goods to the victim company?
 - A. Pass-through
 - B. Collusion
 - C. False invoicing
 - D. False documents
25. Which of the following is a sign of a possible billing scheme?
 - A. Decrease in service-related expenses
 - B. Decrease in expenses from previous years
 - C. Expense budget overruns
 - D. Decrease in cost of goods sold relative to sales
26. What will typically result from a company's purchases of nonexistent goods?
 - A. Reduction in perpetual inventory
 - B. Inventory shortages
 - C. Mark-up in unit prices
 - D. Increased sales

Final Exam

27. An employee who intentionally overpays a vendor is likely involved in which activity?
 - A. Overbilling with a nonaccomplice vendor's invoices
 - B. Shell company scheme
 - C. Altering existing purchase orders
 - D. Pay-and-return scheme
28. A purchasing scheme is categorized as which type of fraud?
 - A. Asset theft
 - B. Billing fraud
 - C. Inventory theft
 - D. Nonaccomplice vendor scheme
29. In which purchases fraud would an employee misrepresent the nature of the purchase?
 - A. Return merchandise for cash
 - B. Alter existing purchase orders
 - C. Falsify documents to obtain authorization
 - D. False purchase requisition
30. What does an invoicing scheme have in common with credit card and purchasing card schemes?
 - A. The fraudster can approve his own purchases
 - B. They involve inflated purchases
 - C. Only personal items are acquired
 - D. All avoid the payables system

Chapter 5 – Check Tampering

31. What occurs if a perpetrator steals a customer's incoming check that is payable to the victim organization and has been recorded?
 - A. Skimming
 - B. Check tampering
 - C. Cash larceny
 - D. Fraudulent disbursement
32. What involves affixing the fraudulent signature of the authorized maker to a check?
 - A. Forged maker scheme
 - B. Altered payee scheme
 - C. Authorized maker scheme
 - D. Forged endorsement scheme
33. What is an obvious drawback to using an accomplice in a check tampering scheme?
 - A. The accomplice may take off with the proceeds
 - B. The fraudster must share the proceeds
 - C. The accomplice may turn informer
 - D. The check is not easily converted
34. What produces perfect forgeries for check fraudsters?
 - A. Automated check signer
 - B. Free-hand forgery
 - C. Signature transparencies
 - D. Photocopied forgeries
35. What is the most common breakdown of controls in forged endorsement schemes?
 - A. Use of dual endorsements
 - B. Signed checks are returned to the person who prepared the check
 - C. Theft of returned checks
 - D. Signed checks are not secured
36. Which of the following is the most egregious example of poor controls in the handling of signed checks?
 - A. Use of erasable ink
 - B. Tacking on
 - C. Insertion of a new payee
 - D. Blank checks

37. Who is almost always the perpetrator of a concealed check scheme?
- A. Check preparer
 - B. Check signer
 - C. Mailroom clerk
 - D. Bookkeeper
38. What is the most basic way an employee accomplishes an authorized maker scheme?
- A. Avoid separation of duties
 - B. Take advantage of poor controls
 - C. Override controls
 - D. Tamper with vendor lists
39. Why is concealment of a check tampering scheme extremely important?
- A. The fraudster fears retribution
 - B. The fraudster needs his or her job
 - C. The fraudster intends to repay the stolen funds
 - D. The fraudster remains an employee
40. In a billing scheme, what is the purpose of issuing a false invoice?
- A. To create false support to justify the payment
 - B. To hide the unwarranted payment
 - C. To cause a payment to be generated
 - D. So the fraudster can write the check himself
41. Why is concealment of fraudulent electronic payments less challenging than other check tampering schemes?
- A. Account reconciliations are not automated
 - B. Lack of physical evidence
 - C. Users typically don't log out since electronic payment systems time out
 - D. The same accounts are used for electronic and paper transactions
42. What can be used to enhance a company's protection against unauthorized access to its electronic payment system?
- A. ACH blocks
 - B. ACH filters
 - C. Positive pay
 - D. Tokens
43. Which proactive computer audit test is exclusively aimed at forged maker schemes?
- A. Extract all purchases with no purchase orders and summarize by vendor and issuer
 - B. Extract all employee payments equal to zero in any given pay period
 - C. Identify duplicate payments based on various means
 - D. Extract users who can write checks or initiate electronic payments and also post entries to the general ledger

Chapter 6 – Payroll Schemes

44. Which of the following is a category of payroll fraud?
- A. Concealed check scheme
 - B. Falsified hours scheme
 - C. Altered payee scheme
 - D. Electronic payment
45. Of the following, who is the most likely suspect in a ghost employee scheme?
- A. Bookkeeper
 - B. Payroll accountant
 - C. Payroll manager
 - D. Financial accountant

Final Exam

46. What is the real key to the timekeeping document in a ghost employee scheme?
 - A. Getting the ghost on the payroll
 - B. Determining wage rate information
 - C. Entering hours on the timecard
 - D. Getting the timecard approved
47. What detail is often overlooked when creating a ghost employee's records?
 - A. No paycheck deduction for withholding taxes
 - B. No post office box is provided
 - C. Changing the delivery address of a terminated employee ghost
 - D. Selection of wrong wage rate
48. Which method of obtaining approval of a fraudulent timecard relies on the inattentiveness of others?
 - A. Collusion with a supervisor
 - B. Employee approves own timekeeping information
 - C. Forging a supervisor's signature
 - D. Rubber stamp supervisor
49. What is the one instance in which salaried employees can commit payroll fraud by falsifying their hours?
 - A. Changing the pay rate
 - B. Reporting of overtime
 - C. Misreporting leave time
 - D. Phantom bonuses
50. Which scheme would a commissioned salesperson likely employ?
 - A. Altered sales
 - B. Altered commission rate
 - C. Understated budgeted sales goal
 - D. Altered timecard after approval
51. In the case study of Katie Jordan, which scheme did she utilize?
 - A. Commission scheme
 - B. Falsified salary scheme
 - C. Ghost employee scheme
 - D. Expense reimbursement scheme

Chapter 7 – Expense Reimbursement Schemes

52. Which of the following is a characteristic of expense reimbursement schemes?
 - A. Padded personal expenses are reimbursed
 - B. They are extremely difficult to detect
 - C. It is an uncommon form of occupational fraud
 - D. They are typically detected through direct means
53. Including the expense of a personal trip on your expense report is what method of fraudulent reimbursement?
 - A. Fictitious
 - B. Overstated
 - C. Multiple
 - D. Mischaracterized
54. Under no circumstances should expenses be reimbursed without which of the following?
 - A. Photocopies of all receipts
 - B. Independent review
 - C. Purpose for meals but not travel
 - D. Details of business and personal expenses
55. A dishonest employee who purchases an expensive airline ticket, and also a cheaper one, is likely perpetrating which type of reimbursement fraud?
 - A. Overpurchasing
 - B. Altered receipts
 - C. Mischaracterized expense
 - D. Overstating someone else's expenses

56. Which reimbursement scheme requires the creation of bogus support documents?
 - A. Overstated expense reimbursement
 - B. Personal expense reimbursement
 - C. Altered receipt reimbursement
 - D. Fictitious expense reimbursement
57. What is one of the most common red flags indicating fictitious expenses?
 - A. Expenses that consistently fall just below the reimbursement limit
 - B. Expenses are consistently for the same amount
 - C. High-dollar items are paid for with cash
 - D. Receipts do not look professional
58. Which of the following is an example of multiple reimbursement?
 - A. An employee files an expense report weekly for small amounts
 - B. A receipt for the same expense is submitted in two different expense reports
 - C. An employee approves his or her own expenses
 - D. An employee is reimbursed for several trips at once
59. Which proactive computer audit test is exclusively tailored to detect multiple reimbursement schemes?
 - A. Sequence possible duplicate expenses based on the absolute value of the amount and receipt date
 - B. Extract all round-dollar payments
 - C. Stratify by expense payment amount
 - D. Summarize credit card use by employee and sort from high to low

Chapter 8 – Register Disbursement Schemes

60. According to the *2011 Global Fraud Survey*, which was the least frequently reported type of disbursement scheme?
 - A. Register disbursement
 - B. Expense reimbursement
 - C. Payroll
 - D. Check tampering
61. What is a basic fraudulent disbursement scheme that takes place at the cash register?
 - A. Credit card theft
 - B. Merchandise misappropriation
 - C. False voids
 - D. Empty drawer
62. In a fictitious refund scheme, the fraudster takes cash from the cash register and then what happens?
 - A. The fraudster splits the cash with his or her accomplice
 - B. A debit is made to the inventory system
 - C. A debit is made to bad debt expense
 - D. Merchandise is returned to inventory
63. In the case study of Joe Anderson, in addition to a credit card refund scheme, what other crime was involved?
 - A. Bribery
 - B. Witness tampering
 - C. Securities fraud
 - D. Check tampering
64. What is generally required for a false void scheme to be successful?
 - A. Accomplice
 - B. Inattentive supervisor
 - C. Forged signatures
 - D. Conspiring manager
65. What is typically ignored by disbursement fraudsters?
 - A. Physical inventory will be greater than perpetual inventory
 - B. Customer satisfaction
 - C. Cover up of register withdrawals
 - D. Shrinkage

Final Exam

66. What can be offered to customers to enlist their help in preventing register disbursement schemes?
- A. Copy of the voided original receipt
 - B. Free gift
 - C. Management follow-up appreciation call
 - D. A discount if their receipt isn't returned to them

Chapter 9 – Noncash Assets

67. Of all noncash misappropriations, those that involve physical assets approximate which percentage?
- A. 20%
 - B. 82%
 - C. 75%
 - D. 19%
68. In what two ways can a company asset be misappropriated?
- A. Borrowed or stolen
 - B. Stolen or hidden
 - C. Misused or sold
 - D. Stolen or damaged
69. Which of the following is a negligible misuse of a company asset?
- A. Company assets are used in an employee's side business
 - B. The company loses sales due to the employee's home business
 - C. Borrowed tools suffer wear and tear at the employee's home
 - D. Tools are borrowed for a home repair and returned like new
70. What may be viewed as the most basic type of theft?
- A. Committing larceny
 - B. Misusing company property
 - C. Tampering with inventory records to conceal missing assets
 - D. Creating false documentation of shipments of goods
71. Ironically, what do many employees that steal company property rely upon?
- A. Assistance
 - B. Trust
 - C. Influence
 - D. Jealousy
72. If an accomplice appears to buy merchandise at a register from an employee, and the employee rings up a sale but doesn't receive any money, what is occurring?
- A. Asset transfer
 - B. Inventory shrinkage
 - C. Asset write-off
 - D. Fake sale
73. What should be in place to find out if goods are being stolen from outgoing shipments of merchandise?
- A. Supervision of the shipping function
 - B. Customer complaint line
 - C. Property transfer form
 - D. Physical inventory count
74. What is the most basic asset requisition scheme?
- A. The employee fabricates a project to obtain materials
 - B. The employee falsifies property transfer forms to remove inventory from the premises
 - C. The employee requisitions materials to work on a project at home and steals the materials
 - D. The employee uses his employee discount to buy materials for others
75. Which of the following is a noncash scheme?
- A. The fraudster causes the company to purchase assets it doesn't need
 - B. The employee creates false purchase orders to acquire goods for the company
 - C. The company intentionally purchases assets that are stolen by the fraudster
 - D. The employee engages in a false billing purchasing scheme

76. If a fraudster prepares a false packing slip to have the goods shipped to a desired location, what else must he or she create to hide the theft?
- A. False sale
 - B. Asset transfer form
 - C. Fake receivable
 - D. Forced inventory totals
77. What is the key concealment issue when inventory is stolen?
- A. Physical removal of the assets
 - B. Reclassification as scrap
 - C. Shrinkage
 - D. Fictitious sale documentation
78. What is the simplest method of forced reconciliation?
- A. Changing the physical inventory to match the perpetual inventory
 - B. Making the bank account balance match the register balance
 - C. Balancing accounts receivable with sales totals
 - D. Changing the perpetual inventory to match the physical inventory
79. A theft of intangibles could include which asset?
- A. Cash
 - B. Customer list
 - C. Accounts receivable
 - D. Computer software

Chapter 10 – Corruption

80. Which of the following is not classified as a corruption scheme?
- A. Bribery
 - B. Conflict of interest
 - C. Financial statement fraud
 - D. Economic extortion
81. Which of the following is an example of commercial bribery?
- A. An employee delivers something of value for a payment without his employer's consent
 - B. One delivers merchandise in return for money
 - C. Something of value is given to an employee to reward a decision
 - D. One party demands payment from another
82. In which scheme does the perpetrator engage in self-dealing?
- A. Illegal gratuity
 - B. Conflict of interest
 - C. Economic extortion
 - D. Bribery
83. Which function of the victim company is usually attacked by kickback schemes?
- A. Sales
 - B. Finance
 - C. Purchasing
 - D. Accounts payable
84. Most bribes end up as which type of scheme?
- A. Noncash
 - B. Non-collusive
 - C. Extortion
 - D. Overbilling
85. In order to have access to funds to make illicit payments, company money is usually diverted into what?
- A. Petty cash fund
 - B. Slush fund
 - C. Bonus pool
 - D. Contra account

Final Exam

86. What is the key component of most kickback schemes?
- A. Legitimate transactions
 - B. Inventory shortages
 - C. Price inflation
 - D. Excess quantities of goods
87. What is the basis for categorization of bid-rigging schemes?
- A. Stage of bidding where the fraudster exerts influence
 - B. Specifications set forth by the purchasing company
 - C. Level of authority of the corrupt employee
 - D. Prequalification procedures
88. Which bidding process involves a conspiracy by several bidders to split up contracts to ensure each gets a certain amount of work?
- A. Bid-splitting
 - B. Sole-source providers
 - C. Vendor protection
 - D. Bid-pooling
89. What is typically the principal bid-rigging offense committed during the bid submission phase?
- A. Lack of confidentiality
 - B. Sealed bid abuse
 - C. Gifts to employees for preferential treatment
 - D. Awards to fictitious suppliers
90. What is the most basic payment given to employees in bribery schemes?
- A. Promise of future employment
 - B. Free travel and entertainment
 - C. Interest-free loan
 - D. Cash
91. What is the reason that some schemes are classified as briberies but others are classified as conflicts of interest?
- A. Approval
 - B. Motive
 - C. Economic interest
 - D. Disclosure
92. If a bill originates from a real company in which the fraudster has an economic interest, and that interest is undisclosed to the fraudster's victim company, which type of scheme is perpetrated?
- A. Asset misappropriation
 - B. Shell company
 - C. Conflict of interest
 - D. Illegal gratuity
93. If an employee purchases an asset that his or her employer is interested in, and subsequently sells that asset to the employer, what has the employee engaged in?
- A. Flip
 - B. Sales scheme
 - C. Overbilling
 - D. Business diversion
94. Management does not have to discuss which of the following in its financial disclosures?
- A. Conflicts of interest
 - B. Uncharged criminal conduct
 - C. Significant fraud
 - D. Criminal indictments
95. Which of the following is an element of an FCPA bribery violation?
- A. To a foreign officer
 - B. A U.S. business entity
 - C. Makes a promise or offer
 - D. With a business purpose

96. What was the primary reason for enactment of the FCPA accounting provisions?
- A. Prevent disguising bribes as legitimate transactions
 - B. Improve internal controls of public companies
 - C. Assignment of authority and responsibility for the accounting records
 - D. To impose heavy fines and penalties for accounting fraud

Chapter 11 – Accounting Principles and Fraud

97. The accounting profession has long recognized that accounting is which kind of process?
- A. Non-judgmental
 - B. Objective
 - C. Strict
 - D. Arbitrary
98. Which group of financial statement fraudsters might engage in a “pump-and-dump” scheme?
- A. Mid-level employees
 - B. Senior management
 - C. Organized criminals
 - D. Lower-level employees
99. Why would senior management be interested in taking all possible write-offs in the current year?
- A. To make up for bad decisions in prior years
 - B. To increase future earnings
 - C. To increase the amount of financing available from asset-based loans
 - D. To trigger earn-out payments
100. What is one of the recognition and measurement concept assumptions in the U.S. GAAP conceptual framework?
- A. Revenue recognition
 - B. Monetary unit
 - C. Full disclosure
 - D. Matching
101. What is the potential problem if assets are recorded at net realizable value?
- A. The value is subject to opinion
 - B. Outside auditor costs would increase dramatically
 - C. Appraisal costs would be too high for most entities
 - D. The matching principle would be inconsequential
102. What is the most common reason for financial statement fraud?
- A. Enhance the perception of management performance
 - B. Dispel negative perceptions in the open market
 - C. Meet budgeted goals
 - D. Satisfy current and potential investors
103. Under Section 206 of the governance and accounting provisions of the Sarbanes-Oxley Act of 2002, an accounting firm is prohibited from auditing an entity whose CFO was employed by the accounting firm during how many years preceding the audit?
- A. One year
 - B. Three years
 - C. Five years
 - D. Two years
104. According to Section 1001 of the governance and accounting provisions of the Sarbanes-Oxley Act of 2002, who should sign the federal income tax return of a public corporation?
- A. CFO
 - B. Treasurer
 - C. Chief Accounting Officer
 - D. CEO

Final Exam

105. Corporate officers who willfully violate the criminal certifications requirements of the Sarbanes-Oxley Act are subject to fines of up to what amount?
- A. \$1,000,000
 - B. \$500,000
 - C. \$5,000,000
 - D. \$750,000
106. What does the Sarbanes-Oxley Act require of each audit committee member?
- A. Familiar with tax accounting rules
 - B. Independent
 - C. Financial expert
 - D. Receives compensation for audit committee service only
107. The Sarbanes-Oxley Act allows public accounting firms to provide which of the following services?
- A. Actuarial services
 - B. Bookkeeping services
 - C. Appraisal services
 - D. Tax services
108. According to the *2011 Global Fraud Survey*, which type of occupational fraud has the highest median loss?
- A. Financial statement fraud
 - B. Asset misappropriation
 - C. Fraudulent disbursements
 - D. Corruption

Chapter 12 – Financial Statement Fraud Schemes

109. As defined by AU 240, the two types of misstatements relevant to an audit are those arising (1) from fraudulent financial reporting, and (2) from what else?
- A. Unreported transactions
 - B. Misappropriation of assets
 - C. Lack of management oversight
 - D. Inadequate internal controls
110. What is the most damaging and costly effect of financial statement fraud?
- A. Loss of productivity
 - B. Negative stock market reactions
 - C. Loss of public confidence in financial statements
 - D. Legal and insurance costs
111. The FASB and IASB have partnered on a project to tackle what issue?
- A. Contingent liabilities
 - B. Inventories
 - C. Revenue recognition
 - D. Timing differences
112. If revenue has been recorded in the correct period, but associated costs are not recorded until the subsequent period, which principle has been violated?
- A. Premature revenue recognition
 - B. Fictitious revenues
 - C. Periodicity
 - D. Matching
113. Which of the following will have the effect of decreasing current income?
- A. Understating liabilities
 - B. Expensing capital expenditures
 - C. Expense omissions
 - D. Capitalized expenses

114. Which improper disclosure related to financial statement fraud would involve unrecorded liabilities?
 - A. Subsequent events
 - B. Management fraud
 - C. Liability omissions
 - D. Related-party transactions
115. Which event requires disclosure of an accounting change?
 - A. Change in top management
 - B. Reduction in earnings from the previous period
 - C. Change in number of employees in the deferred compensation program
 - D. Change in the reporting entity
116. What manipulation is typically used in connection with a business combination?
 - A. Minimize allocation to in-process R&D
 - B. Allocation of purchase price to inflate future earnings (e.g., reserves)
 - C. Maximize allocation to goodwill
 - D. Creation of phantom inventory
117. Under AU 300, which procedure should be performed by the auditor to obtain information to use in identifying the risks of material misstatement due to fraud?
 - A. Discuss among the audit team the potential for material misstatements due to fraud
 - B. Conduct the engagement with professional skepticism
 - C. Make inquiries of management and others to obtain their views about the risks of fraud
 - D. Brainstorm as to how assets could be misappropriated
118. Using AU 240, which auditor response to identified risks of fraud would include physical inspection?
 - A. Revising the extent of the procedures
 - B. Determining the reliance on management estimates
 - C. Changing the timing of substantive tests
 - D. Changing the nature of the auditing procedures
119. Which of the following is a technique for analyzing the percentage change in individual financial statement items from one year to the next?
 - A. Common sizing
 - B. Vertical analysis
 - C. Horizontal analysis
 - D. Ratio analysis
120. What is likely the most used ratio in financial statement analysis?
 - A. Current ratio
 - B. Inventory turnover
 - C. Quick ratio
 - D. Debt-to-equity ratio
121. Which financial ratio is often referred to as the efficiency ratio?
 - A. Asset turnover ratio
 - B. Quick ratio
 - C. Collection ratio
 - D. Profit margin ratio
122. Which approach to reducing financial statement fraud reduces the rationalization for fraud?
 - A. Communicate the consequences of violating the rules
 - B. Establish clear and uniform accounting procedures
 - C. Discourage excessive external expectations of performance
 - D. Separate total control of an area of the business

Chapter 13 – External Fraud Schemes

123. Why is external fraud a threat to any company?
 - A. Organized crime groups carry out systematic attacks
 - B. A company must conduct business with outsiders
 - C. Every person is looking for a vulnerable source
 - D. Employees can be easily coerced by non-employees

Final Exam

124. What type of fraud utilizes “white plastic”?
- A. Counterfeit checks
 - B. Stolen card numbers
 - C. E-commerce check scams
 - D. Counterfeit credit cards
125. What type of vendor bidding is also known as protective or shadow bidding?
- A. Bid rotation
 - B. Phantom bids
 - C. Complementary bids
 - D. Shell company bids
126. What was a key finding from the 2010/2011 survey conducted by CSI?
- A. Computer fraud lacks a paper trail
 - B. Fraudsters have an understanding of the technology of the victim computer
 - C. Unauthorized access is usually prompted by curiosity
 - D. Almost half of the respondents experienced at least one security incident
127. Which of the following includes Trojan horses?
- A. Malware
 - B. Phishing
 - C. Wire tapping
 - D. Cyber security
128. What should be used to convert computer information so that it is unreadable?
- A. Encryption
 - B. Spyware
 - C. Firewall
 - D. Intrusion detection
129. Which type of competitor information can give an organization a competitive edge?
- A. Intelligence
 - B. Proprietary
 - C. Actionable
 - D. Analytical
130. Which method of corporate espionage utilizes a sleeper?
- A. Posing as a contract laborer
 - B. Performing surveillance
 - C. Sorting through discarded information
 - D. Posing as an employee

Chapter 14 – Fraud Risk Assessment

131. An organization that is clear about its ethics, values, and expectations will have what impact on a potential fraudster?
- A. Reduce the need to commit the fraud
 - B. Reduce the impact of the fraud
 - C. Reduce rationalization of his actions
 - D. Reduce the opportunity to commit the fraud
132. Fraud risk assessment is what type of process?
- A. Proactive
 - B. One-time
 - C. One-size-fits-all
 - D. Scientific
133. Who must share ownership of the fraud assessment process?
- A. Management and employees
 - B. Management and shareholders
 - C. Auditors and management
 - D. Employees and auditors

134. What is critical to the fraud risk assessment to avoid obtaining unreliable or meaningless results?
- A. Promoting the process
 - B. Tailoring the approach to the organization
 - C. Obtaining the sponsor's buy in
 - D. Evaluation of existing controls
135. What is one of the major categories of occupational fraud?
- A. Corruption risks
 - B. Reputation risk
 - C. Regulatory misconduct
 - D. Information technology threats
136. In assessing the significance of each fraud risk, the assessment team should consider which factor?
- A. Number of individual transactions involved
 - B. Complaints by customers and vendors
 - C. Internal control environment
 - D. Financial condition of the organization
137. Once risks are identified, what must be done next?
- A. Mitigate the risks
 - B. Prioritize the risks
 - C. Eliminate the risks
 - D. Locate the source of the risks
138. Who must be held accountable for driving the results of the fraud assessment report?
- A. Management
 - B. Auditors
 - C. Employees
 - D. Outside consultants

Chapter 15 – Conducting Investigations and Writing Reports

139. What might a director or officer be subject to if they fail to investigate reliable allegations of misconduct?
- A. Dismissal
 - B. Civil liability
 - C. Ridicule
 - D. Reduction in compensation
140. Who should typically be directing a fraud investigation?
- A. Legal counsel
 - B. Management representative
 - C. Internal auditors
 - D. Certified fraud examiner
141. What is often the simplest means of obtaining documentation in a fraud examination?
- A. Subpoena
 - B. Informant
 - C. Voluntary consent
 - D. Search warrant
142. A good investigative report will accomplish which of the following?
- A. Add credibility
 - B. Display a proper format
 - C. Contain only minor errors
 - D. Be useful for internal purposes only

Final Exam

Chapter 16 – Interviewing Witnesses

143. Which of the following is most important to the successful resolution of a fraud case?
- A. Final investigative report
 - B. Preservation of evidence
 - C. Recovering the stolen property
 - D. Interviewing subjects and witnesses
144. Which type of interview questions can be particularly effective in obtaining confessions?
- A. Sequential
 - B. Closed
 - C. Leading
 - D. Open
145. What is a proper reaction if an interview subject is belligerent or antagonizing?
- A. Give in
 - B. Do not react
 - C. Terminate the interview
 - D. Strike back
146. What is the first purpose of an admission-seeking question?
- A. Determine the excuse for the conduct
 - B. Distinguish an innocent person from a guilty one
 - C. Establish the dollar amount of the misconduct
 - D. Obtain a confession
147. What should be included in a signed confession statement?
- A. Intent to commit the act
 - B. Whether the confession is voluntary or involuntary
 - C. Only the exact date of the offense(s)
 - D. Exact number of offenses

Chapter 17 – Occupational Fraud and Abuse: The Big Picture

148. Which of the following is the common element in all cases of fraudulent behavior?
- A. Fraudulent behavior is more widespread than expected
 - B. Individuals are naturally honest
 - C. Corporate controls are lacking
 - D. Human failings by trusted people
149. What is the primary focus of a fraud examiner?
- A. Deterrence of fraud
 - B. Eliminate the motivation to commit fraud
 - C. Prevention of fraud
 - D. Detection of fraud
150. What is the quickest way to ruin an investigation or fraud examination?
- A. Abandon it too early
 - B. Resolve all doubt in favor of the suspect
 - C. Overreaching
 - D. Underestimate resources needed

**Thank you for taking our course.
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Was the final exam well-written, accurate and easy to understand?

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