

Fraud Examination 7th edition Albrecht Test Bank

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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

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- 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.

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- 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

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- 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

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- 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

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- 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.

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- 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

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- 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

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- 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

Name: _____ Class: _____ Date: _____

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cases worldwide?

- a. \$1,17
- b. \$11,700
- c. \$117,000
- d. \$1,170,000

ANSWER: c