

ACFE Certified Fraud Examiner (CFE) Financial Transactions and Fraud Schemes Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2025 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain from reliable sources accurate, complete, and timely information about this product.

SAMPLE

Questions

- 1. What is the role of logical access controls?**
 - A. Prevent unauthorized access to physical locations**
 - B. Control access to information systems**
 - C. Monitor user activity through surveillance**
 - D. Enforce physical security standards**
- 2. Are assets, liabilities, and owners' equity all items that appear on a company's balance sheet?**
 - A. True**
 - B. False**
- 3. Why should employees be informed about confidentiality requirements?**
 - A. To help them improve their performance reviews.**
 - B. To ensure compliance with corporate policy.**
 - C. To prevent accidental sharing of confidential information.**
 - D. To make them aware of potential legal consequences.**
- 4. Which type of fraud involves an employee submitting false employee costs for reimbursement?**
 - A. A mischaracterized expense scheme**
 - B. A fictitious expense scheme**
 - C. A payroll scheme**
 - D. A cash larceny scheme**
- 5. What common justification do fraudsters use for deceitful fundraising?**
 - A. Claiming they are established organizations**
 - B. Stating they are charitable causes helping the community**
 - C. Promising tax deductions for donations**
 - D. Offering rewards for early donations**

- 6. What would be an illegal action for an insurance company regarding health care programs?**
- A. Implementing cost-cutting measures**
 - B. Refusing a legitimate claim based on requirements**
 - C. Failing to apply discounts after negotiation**
 - D. Conducting routine checks on claims**
- 7. What term is used for phishing conducted via text messages?**
- A. Vishing**
 - B. Smishing**
 - C. Baiting**
 - D. Catfishing**
- 8. What is a common area for construction loan fraud schemes?**
- A. Permits and zoning**
 - B. Estimates of costs to complete**
 - C. Market demand analysis**
 - D. Seller representations**
- 9. High percentages of returns, missing compliance certificates, and evidence of falsified test inspection results are indicators of which procurement fraud scenario?**
- A. A contractor delivering goods or services that do not conform to the contract specifications**
 - B. A procuring employee manipulating the bidding process to benefit a favored contractor**
 - C. A contractor charging the procuring entity for labor costs that are not permissible**
 - D. Two or more competing contractors agreeing to refrain from bidding**
- 10. What distinguishes a flopping scheme from a flipping scheme in mortgage fraud?**
- A. The value of the first transaction is inflated**
 - B. The value of the first transaction is deflated**
 - C. The original seller always retains ownership**
 - D. The lender is not involved in a flopping scheme**

Answers

SAMPLE

1. B
2. A
3. C
4. A
5. B
6. C
7. B
8. B
9. A
10. B

SAMPLE

Explanations

SAMPLE

1. What is the role of logical access controls?

- A. Prevent unauthorized access to physical locations
- B. Control access to information systems**
- C. Monitor user activity through surveillance
- D. Enforce physical security standards

Logical access controls play a crucial role in information security by regulating access to information systems. Their primary function is to ensure that only authorized users can access sensitive data and resources within a system. This is typically achieved through various means, such as user authentication (e.g., passwords, biometrics), role-based access controls, and permissions settings, which dictate what information a user can view or modify. By effectively managing access permissions, logical access controls help mitigate the risks associated with unauthorized access, data breaches, and information theft. They are essential in maintaining data integrity, confidentiality, and availability within an organization. The other options, while important aspects of security, focus on different areas. Preventing unauthorized access to physical locations pertains more to physical security measures, whereas monitoring user activity through surveillance is related to activity tracking and auditing rather than direct access control. Enforcing physical security standards also addresses physical security rather than logical access. Thus, the focus of logical access controls is specifically on safeguarding information systems and managing user access.

2. Are assets, liabilities, and owners' equity all items that appear on a company's balance sheet?

- A. True**
- B. False

Assets, liabilities, and owners' equity are indeed all components that appear on a company's balance sheet. The balance sheet provides a snapshot of a company's financial position at a specific point in time and is structured in a way that reflects the accounting equation: ****Assets = Liabilities + Owners' Equity.**** Assets represent what the company owns, such as cash, inventory, and property. Liabilities reflect what the company owes, including loans and other obligations. Owners' equity indicates the residual interest in the assets of the company after deducting liabilities, which essentially represents the net worth of the company from the shareholders' perspective. This holistic view in the balance sheet helps stakeholders, including investors and creditors, to assess the financial health and stability of the business, making it critical for effective financial analysis and decision-making.

3. Why should employees be informed about confidentiality requirements?

- A. To help them improve their performance reviews.**
- B. To ensure compliance with corporate policy.**
- C. To prevent accidental sharing of confidential information.**
- D. To make them aware of potential legal consequences.**

Employees should be informed about confidentiality requirements primarily to prevent accidental sharing of confidential information. Understanding these requirements is crucial because employees interact with sensitive data regularly, and a lack of awareness can lead to unintentional breaches. By ensuring that all employees comprehend what constitutes confidential information and the procedures for handling it, organizations can significantly reduce the risk of data leaks or unauthorized disclosures. This knowledge empowers employees to act responsibly and judiciously with information that could harm the company, its clients, or its stakeholders if disclosed. While the other options touch on related themes, they do not fully encapsulate the primary and immediate goal of educating employees on confidentiality. Improving performance reviews, ensuring compliance with corporate policy, and making employees aware of potential legal consequences are also important aspects of confidentiality training, but they serve secondary purposes compared to the direct and operational need to prevent accidental sharing of sensitive information.

4. Which type of fraud involves an employee submitting false employee costs for reimbursement?

- A. A mischaracterized expense scheme**
- B. A fictitious expense scheme**
- C. A payroll scheme**
- D. A cash larceny scheme**

The type of fraud that involves an employee submitting false employee costs for reimbursement is accurately identified as a mischaracterized expense scheme. In this scenario, employees may submit claims for expenses that are personal in nature or inflated amounts for costs that either weren't incurred or were exaggerated. This scheme allows the employee to misrepresent legitimate expenses to receive funds from their employer for non-existent business costs. In a mischaracterized expense scheme, the crux is that the submitted expenses may appear to be legitimate on the surface but are distorted or altered in a way that misrepresents their true nature. This could include submission of receipts for personal items or services that are claimed to be for business purposes. Understanding this distinction is fundamental in recognizing how employee reimbursements can be manipulated by an individual for personal gain, leading to financial losses for the organization. Other schemes like fictitious expense schemes involve creating entirely false expenses rather than merely mischaracterizing real ones, while payroll schemes would typically involve manipulating salary amounts or employee status. Cash larceny involves stealing cash directly from the organization, not through the reimbursement process.

5. What common justification do fraudsters use for deceitful fundraising?

- A. Claiming they are established organizations**
- B. Stating they are charitable causes helping the community**
- C. Promising tax deductions for donations**
- D. Offering rewards for early donations**

Fraudsters often justify their deceitful fundraising by presenting themselves as charitable organizations dedicated to helping the community. This approach leverages the goodwill and trust individuals have toward charitable causes, which can make the solicitation for funds compelling. By framing their fundraising efforts in a way that appeals to the donor's desire to support positive initiatives, fraudsters create an illusion of legitimacy. This manipulation of emotions is powerful, as it often involves empathy toward a cause or community that can resonate with potential donors. Claiming to be established organizations, promising tax deductions, or offering rewards may all have their roles in certain fundraising schemes, but the core justification for many fraudsters hinges on the appeal to altruism and the desire to contribute to a charitable cause. This is what primarily enables the fraudulent activity, as it disguises their true intentions and misleads donors into believing they are supporting worthy endeavors.

6. What would be an illegal action for an insurance company regarding health care programs?

- A. Implementing cost-cutting measures**
- B. Refusing a legitimate claim based on requirements**
- C. Failing to apply discounts after negotiation**
- D. Conducting routine checks on claims**

An insurance company failing to apply discounts after negotiation would be engaging in potentially illegal actions. This refusal could result in overcharging customers for their services, thus violating contractual agreements and possibly state regulations designed to ensure fair treatment of policyholders. If an insurance company negotiates discounts as part of a healthcare program but then does not apply those discounts when processing claims, it could be seen as deceptive conduct. This undermines consumer trust and may lead to financial harm for policyholders who are entitled to the reduced rates that were negotiated. On the other hand, options involving implementing cost-cutting measures, refusing claims based on requirements, or conducting routine checks on claims are typically part of standard operational practices. While such actions must be done transparently and in compliance with law and policy, they are not inherently illegal unlike the failure to apply negotiated discounts.

7. What term is used for phishing conducted via text messages?

A. Vishing

B. Smishing

C. Baiting

D. Catfishing

The term used for phishing conducted via text messages is smishing. This term is a combination of "SMS" (Short Message Service) and "phishing," which refers to the fraudulent practice of sending deceptive messages with the intent to extract sensitive information from the recipient. Smishing typically involves persuading individuals to click on malicious links or providing personal information in response to unsolicited texts that appear to be from reputable sources. In contrast, vishing refers to voice phishing conducted over phone calls rather than texts. Baiting involves enticing individuals to compromise their security by offering something appealing, such as free software or downloads, which is not specifically related to text messages. Catfishing is the deceptive use of online identities to lure individuals into relationships, typically in social media contexts, and does not directly pertain to phishing through text messages.

8. What is a common area for construction loan fraud schemes?

A. Permits and zoning

B. Estimates of costs to complete

C. Market demand analysis

D. Seller representations

Cost estimates are a crucial aspect of construction loan agreements, as they directly impact the funding provided by lenders. In construction loan fraud schemes, individuals may inflate the estimates of costs to complete a project. This inflation can mislead lenders into providing higher funding amounts than necessary, based on false projections of expenses. By manipulating these estimates, fraudsters can obtain loans that exceed the actual costs, allowing them to misappropriate the excess funds for personal use or to carry out other fraudulent activities. While other areas such as permits and zoning, market demand analysis, and seller representations can also be relevant in the context of real estate transactions and may potentially be manipulated, inflated cost estimates are particularly vulnerable to fraud. This is because they serve as a key justification for funding disbursement in construction loans, meaning any discrepancies here can lead to significant financial misconduct and loss for lenders.

9. High percentages of returns, missing compliance certificates, and evidence of falsified test inspection results are indicators of which procurement fraud scenario?

A. A contractor delivering goods or services that do not conform to the contract specifications

B. A procuring employee manipulating the bidding process to benefit a favored contractor

C. A contractor charging the procuring entity for labor costs that are not permissible

D. Two or more competing contractors agreeing to refrain from bidding

High percentages of returns, missing compliance certificates, and evidence of falsified test inspection results are indicative of a scenario where a contractor is delivering goods or services that do not conform to the contract specifications. These indicators suggest that the products or services provided are not meeting the required standards, leading to high return rates as the procuring entity rejects subpar deliveries. Additionally, the absence of compliance certificates points towards a lack of adherence to required regulations and standards, which are essential in procurement. The falsified inspection results further imply deceit on the contractor's part, attempting to present their goods or services as compliant when they are not. In the context of procurement fraud, this scenario aligns perfectly with the issue of nonconformity, highlighting that the contractor is deliberately providing inferior or non-compliant products while misrepresenting their adherence to quality standards and contractual obligations.

10. What distinguishes a flopping scheme from a flipping scheme in mortgage fraud?

A. The value of the first transaction is inflated

B. The value of the first transaction is deflated

C. The original seller always retains ownership

D. The lender is not involved in a flopping scheme

In mortgage fraud, understanding the distinction between flopping and flipping schemes is crucial. A flopping scheme specifically involves the initial property value being deflated in the first transaction. This typically happens when a property is sold at a significantly lower price than its actual market value. The purpose of deflating the price is to create an artifice where the property can subsequently be sold again at an inflated price, often to an unwitting buyer or investor. In this context, the flopping scheme allows the fraudster to profit from the difference as they manipulate the perceived value of the property. Conversely, flipping schemes usually involve taking a property and improving it or marketing it in a way that allows it to be resold at a higher price shortly after purchase. While flopping focuses on taking advantage of a deflated price in initial transactions, flipping relies on actual market improvements to boost property values. This fundamental difference is a critical element in recognizing and understanding the mechanics of fraudulent schemes within real estate financing. The specific detail of deflating the property's initial transaction value is what clearly sets flopping apart from other real estate transaction schemes, including flipping.