TRUE/FALSE

LO #1
1. “Accidental” fraudsters are usually poor members of minority groups.  
   F  
2. “Predator” fraudsters usually go from town to town, without settling down or establishing roots.  
   F  

LO #2
3. Collusion requires more than one person to override the system of internal controls.  
   T  
4. Collusion is almost impossible to detect because the persons charged with providing internal control are part of the fraud.  
   T  

LO #3
5. RICO was enacted to prosecute organizations suspected of sponsoring fraudulent acts.  
   T  
6. “Organizations” refers to unions, the mafia, as well as corporations.  
   T  

LO #4
Note: The book treats following the money and tracing the money as a synonym on page 89; this is in contrast to objective #4: explaining the difference between the two concepts.

7. “Following the money” is easier than “tracing the money”.  
   F  
8. Bank secrecy laws make it difficult to “follow the money”.  
   T  

LO #5
9. Financial statement fraud is complex because it often involves collusion.  
   T  
10. Financial statement fraud frequently involves manipulating multiple accounts.  
    T  

LO #6
11. Complex fraud often mixes legitimate business transactions with illegal transactions.  
    T  
12. Complex fraud rarely involves collusion.  
    F  

LO #7
13. Organized crime rarely sponsors terrorist activities within the US.  
   T
14. Organized crime activities differ from terrorist activities in that terrorists exist to 
   bring direct harm to the US.  
   T

**LO #8**

15. High net worth individuals are likely to use private banks.  
   T
16. Investment banks provide most of the banking services to high net worth 
   individuals in the US.  
   F

**LO #9**

17. Tax avoidance involves hiding receipts from the IRS.  
   F
18. Tax evasion involves careful study of the tax law so as to minimize payment 
   of taxes legally.  
   F

**LO #10**

19. “Churning” involves the sale and purchase of securities for the sole purpose 
   of earning a commission.  
   T
20. “Parking” involves hiding ownership interest so as to avoid reporting 
   requirements.  
   T
21. “Pyramiding” involves the frequent sale and purchase of securities for the 
   sole purpose of generating a commission.  
   F

**MULTIPLE CHOICE**

**LO #1:**

22. Signs than an individual is a predator fraudster include:
   a. **Repeat offenses**  
   b. Takes advantage of sudden opportunity  
   c. Frequent job turnover caused by boredom  
   d. All of the above

23. The difference between a predator fraudster and an accidental one is:
   a. The accidental fraudster does not seek opportunity, the predator does  
   b. The predator fraudster is a repeat offender; the accidental fraudster is not  
   c. The accidental fraudster is in need of funds; the predator fraudster is not  
   d. **Both “a” and “b”**

24. The characteristics of a predator fraudster are:
   a. Poorly educated  
   b. Divorced  
   c. Member of a minority group
25. The primary reason predator fraudsters continue to commit fraud is:
   a. They are never caught
   b. They resign before being caught
   c. They are not prosecuted to avoid unfavorable publicity for their employer
   d. All of the above

**LO #2:**

26. Collusion involves:
   a. Two or more individuals working together to override internal control
   b. Negating the effect of separation of duties
   c. At least one high level employee
   d. Both “a” and “b”

27. Preventing collusion is:
   a. Sometimes possible, although very difficult
   b. Impossible
   c. Only possible with effective internal controls
   d. Both “a” and “c”

28. Collusion can occur:
   a. Only at high levels in the organization
   b. At low levels in the organization if a high level employee is involved
   c. At all levels of the organization
   d. Only at middle levels of the organization

29. Which of the following is an example of collusion:
   a. A supervisor puts his meal expense on a subordinate’s expense account so the supervisor can approve it
   b. A manager approves a price override after pleas from the salesperson
   c. A vice-president overrides a subordinate’s denial of expense reimbursement
   d. All of the above

**LO #3**

30. RICO:
   a. Addresses the illegal activities in organizations that mix both legitimate and illegal activities
   b. Addresses only organizations formed to sponsor terror groups
   c. Addresses civil as well as criminal issues
   d. All of the above

31. RICO:
   a. Specifically targets money laundering
   b. Targets organizations that reinitiate illicit funds into the financial system
   c. Targets organizations that focus on the placement of illicit funds in the money laundering process
   d. All of the above

32. Under RICO, which of the following is an illegal activity:
a. **Purchasing a bank to deposit gambling receipts generated from illegal betting parlors**
b. Investing in a bank that provides services to foreign nationals
c. Purchasing a bank formerly used to reinitiate money into the financial system from a bankruptcy trustee
d. All of the above

33. Which of the following would be in violation of RICO:
   a. Investing in a bank with ties to foreign nationals
   b. **Investing in a dry cleaning business used to place funds derived from prostitution**
c. Investing in a bank that caters to cash-only businesses
d. All of the above

LO#4

34. Money laundering is:
   a. The disguising of assets derived from criminal activities
   b. The process of making money obtained from criminal activities appear clean
   c. Only involves cash
   d. **Both “a” and “b”**

35. Which of the following is an example of money laundering:
   a. Purchasing gold from gambling winnings in Las Vegas
   b. Depositing cash receipts from the sale of drugs in a cash safe deposit box
   c. **Depositing cash receipts from prostitution activities in a Swiss bank account**
   d. All of the above

36. “Following the money”:
   a. Requires knowledge of every place the money has been
   b. Is often difficult to do given the use of foreign banks for layering
   c. Often requires access to foreign bank accounts
   d. **All of the above**

37. The conversion of illegal funds to assets is which step in the money laundering process:
   a. Layering
   b. Placement
   c. **Reinitiation**
   d. None of the above

38. Transferring funds obtained illegally from a safe deposit box in the US to a safe deposit box in Canada is an example of:
   a. Reiniating
   b. Layering
   c. Placement
   d. **None of the above (reason: Placement must introduce funds to the financial system; placing funds in a safe deposit box does not do this.)**

39. The transfer of funds obtained illegally from a US bank to another US bank is an example of:
   a. Reiniating
   b. **Layering**
   c. Placement
40. The biggest advantage investigators have when tracing the flow of illegal funds is:
   a. Most illegal funds consist of electronic transfers, making detection easier
   b. Most illegal funds at some time flow through a bank in the US making detection easier
   c. **Most illegal funds return to the persons performing the laundering making detection easier**
   d. Most illegal funds are converted to hard assets making detection easier

41. Which of the following methods is used to make detection of persons responsible for money laundering more difficult:
   a. The use of electronic bank transfers
   b. **The use of cashier’s checks**
   c. The use of commercial checks
   d. All of the above

42. What is the difference between mail and wire fraud:
   a. Mail fraud consists of written material; wire fraud is electronic and written
   b. Mail fraud consists of using the US Postal system; wire fraud consists of the use of non US Postal system services
   c. **Mail fraud applies whenever the US Postal system is involved, including intrastate mail service; wire fraud consists of transmissions to foreign or interstate locales**
   d. All of the above

**LO#5 & LO#6**

43. Financial statement fraud consists of:
   a. Recognizing revenues not yet earned
   b. Inappropriate entries to reserve accounts
   c. Capitalizing expenses when inappropriate
   d. **All of the above**

44. Financial statement fraud often involves:
   a. A high level financial executive
   b. Large dollar amounts
   c. The collusion of two or more employees
   d. **All of the above**

45. Which of the following is an example of financial statement fraud:
   a. The sales manager records as a sale shipments of goods on January 1, 20X1, the day after year-end
   b. The financial controller capitalizes a large amount of expenses that should have been included on the income statement
   c. The CEO insists that current year bonuses be deferred to the next fiscal year for payment
   d. **Both “a” and “b”**

46. Which of the following is NOT an example of financial statement fraud:
   a. The sales manager records as a sale a large shipment of finished goods on January 1, 20X1, the day after year-end in order to earn a large bonus
b. The financial controller increases monies in the reserve account in order to meet analysts’ expectations regarding earnings
c. **The CEO insists that the payment for current year accrued bonuses be deferred to the next fiscal year**
d. The treasurer transfer money from one bank account to another in order to mask a shortage

47. Financial statement fraudsters often:
   a. Start as accidental fraudsters and progress to predator fraudsters
   b. Rely on collusion to mask the fraud
   c. Frequently go from company to company committing the same type of fraud
   d. **All of the above**

48. Which of the following is NOT an example of financial statement fraud:
   a. Managing the reserves in order to “smooth” earnings
   b. Accruing an expense in the current period when it should be recognized in the following period
   c. Filling an order, billing the customer for the order, and then shipping it to a company owned warehouse
   d. **Both “a” and “b”**

49. Financial statement fraud is complex because:
   a. More than one account is usually affected
   b. More than one person is usually involved
   c. Most people do not have access to the source documents and therefore cannot detect the fraud
   d. **All of the above**

**LO#7**

50. Terrorist organizations differ from organized crime groups in that:
   a. Terrorists seek anonymity; organized crime seeks publicity
   b. Terrorists seek to corrupt public officials; organized crime seeks to bypass public officials
   c. **Terrorists seek publicity; organized crime seeks anonymity**
   d. Terrorists seek to coerce and influence officials; organized crime seeks to gain elected office

51. Similarities between organized crime and terrorist organizations are:
   a. Both use coercion as their main tool
   b. Both use violence
   c. Both seek ways to hide their illegal activities
   d. **All of the above**

52. The main avenues for terrorist financing are:
   a. Electorate sponsorship and legal activities
   b. Illegal activities and bank ownership
   c. **State sponsorship and illegal activities**
   d. Legal activities and bank ownership

53. The Patriot Act:
   a. Amends the money laundering statutes
   b. Adds cybercrime activities to the list of activities covered under money laundering
   c. Prohibits individuals from bringing more than $10,000 into the US
   d. **Both “a” and “b”**

**LO#8**
54. If you wanted to issue new stock, which type of bank would you use:
   a. Private
   b. Commercial
   c. Savings
   d. none of the above

55. Off shore banks:
   a. Are illegal to do business with if you are a US citizen
   b. Are used by US high net worth individuals for favorable tax treatment
   c. Often are subsidiaries of US banks
   d. All of the above

LO#9

56. The difference between tax avoidance and tax evasion is that:
   a. Avoidance is illegal; evasion is not
   b. Avoidance is intentional; evasion is accidental
   c. Avoidance is legal; evasion is not
   d. None of the above

57. Which of the following is an example of “badges of fraud”:
   a. A taxpayer ignores the advice of her tax preparer and takes a deduction from income because she believes she understands the tax code better than her advisor
   b. A taxpayer routinely omits cash receipts collected on Sunday from his tax return
   c. A taxpayer provides false statements to his tax preparer
   d. All of the above

58. If a taxpayer suddenly stops filing his income tax returns, this is evidence of:
   a. Fraud
   b. An affirmative indicator
   c. Predication of fraud
   d. None of the above

LO#10

59. Which of the following is an example of churning:
   a. An investor who frequently trades for his account
   b. An advisor who reinvests dividend and interest payments regularly for a client
   c. An advisor who executes frequent trades to take advantage of market movements
   d. An advisor who executes frequent trades to generate income for himself

60. Which is an example of a “front runner”:
   a. A bucket shop
   b. A clerk who overhears good news about a company and trades on the information
   c. A clerk who becomes aware of a large pending trade and trades on the information
d. All of the above

ESSAY QUESTIONS:

61. **Describe the stages of money laundering and for each stage, provide an example.**
A: It is important to realize that money laundering is a process. The three phases of money laundering are: placement, layering, and Reinitiation. Placement means the deposit of the illegally obtained asset (including currency) into the financial system. For example, illegal gambling proceeds are deposited into an off-shore bank account. Layering is the process by which the asset is transferred through the financial system with the intention of making tracing difficult and providing the asset with the patina of legitimacy (e.g. transfer of illegal gambling proceeds to an off-shore bank). Finally, Reinitiation is the final phase where the illicit asset is reintroduced into the financial system, such as a donation by the off-shore bank to a charitable organization, making the transaction appear legitimate.

62. **Explain the difference between mail and wire fraud. Which do you think might be easier to detect? Why?**
A: Mail fraud involves using the United States Postal System to perpetrate, further, or conceal a fraud. It is important to note that the post office need not be used exclusively; if the fraud in any way interacts with the US postal authorities then the illegal act can be prosecuted under mail fraud. The mail fraud standard applies to ANY type of mail and includes mail sent intrastate as well as interstate and abroad.

Wire fraud, by contrast, deals with fraud perpetrated electronically- through the use of computers, cell phones, portable phones, email, etc. Unlike mail fraud, the perpetrator does not have to engage the US Postal system; also, unlike mail fraud, the fraud must be associated with interstate or foreign commerce for wire fraud to occur.

63. **Explain how the Patriot Act enhances RICO.**
A: The Patriot Act expands the definition of money laundering to include cyber crime; funds generated from foreign crime, including terrorism; the bulk transfer of cash smuggling; and the use of funds generated from supporting terrorist organizations. The main difference between RICO and the Patriot Act is that the latter increases penalties and allows for the forfeiture of assets more easily. Finally, the Patriot Act prohibits US banks from doing business with any shell banks; if caught doing so, not only are the funds seized, but the offending bank is subject to severe penalties, including fines and incarceration, and seizure of its assets.