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Test Prep CGFM

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Topic Break Down

Topic	No. of Questions
Topic 1, Governmental Environment (GE)	24
Topic 2, Governmental Accounting, Financial Reporting and Budgeting (GAFRB)	79
Topic 3, Governmental Financial Management and Control (GFMC)	247
Topic 4, Mix Questions	5
Total	355

QUESTION NO: 1 - (SIMULATION)

The value, in current dollars, of a sum of money to be received in the future describes

A payback value.

B. present value.

C. annuity value.

D. future value.

ANSWER: See the explanation for the answer

Explanation:

Answer: B. Present value.

Present value is the value in today's (current) dollars of a cash amount that will be received or paid in the future. It reflects discounting the future amount for the time value of money.

QUESTION NO: 2

A discretionary grant is characterized by a:

A. transfer of funds based upon a formula.

B. transfer of funds for broadly-defined purposes.

C. transfer of funds for specific purposes.

D. voluntary contribution that confers no rights nor benefits to the giver.

ANSWER: C

Explanation:

A discretionary grant is characterized by a **transfer of funds for specific purposes.** In federal assistance, discretionary awards are made when the awarding agency exercises judgment in selecting recipients and funding particular projects or activities that advance an authorized program objective. The agency generally announces a funding opportunity, establishes eligibility and evaluation criteria, reviews applications, and selects proposals for award. Thus, the funding is tied to a defined purpose, scope of work, and set of approved activities rather than being available for unrestricted general use.

This purpose-specific structure supports federal accountability: recipients must use the award in accordance with the approved application, award terms and conditions, and applicable program requirements. The federal government may monitor performance, financial reporting, and compliance throughout the project period to ensure that public funds achieve the intended results. The U.S. Government Accountability Office describes grants as a principal mechanism through which federal agencies provide financial assistance to carry out public purposes authorized by law. Grants.gov also distinguishes discretionary funding opportunities by the agency's competitive selection and award process. See Grants.gov, Grant Programs and GAO, Grants Management: A Guide to Federal Assistance.

QUESTION NO: 3

Which of the following are appropriate segregation-of-duties practices for a disbursement process?

A. separating invoice approval from payment authorization.

B. separating vendor-master-file maintenance from payment processing.

C. assigning one employee to establish vendors, approve invoices, and release payments.

D. allowing payment approvers to bypass supporting-documentation requirements.

ANSWER: A B

Explanation:

Separating invoice approval from payment authorization and **separating vendor-master-file maintenance from payment processing** are correct. Segregation of duties helps reduce the opportunity for error, fraud, or unauthorized transactions by assigning incompatible responsibilities to different individuals or providing compensating oversight when staffing is limited.

Allowing one employee to create vendors, approve invoices, and release payments concentrates incompatible duties and significantly increases risk. See the GAO Standards for Internal Control in the Federal Government.

QUESTION NO: 4

_____ and _____ debt issuance, governments must disclose information regarding their debt and financial condition to the municipal securities market, including the preliminary Official Statement, the audited financial reports, the feasibility study, and other documents relating to the bond sale.

A. Before, after

B. During, after

C. None of these

D. It depends

ANSWER: B

Explanation:

During, after debt issuance is correct because municipal-market disclosure has both an offering-stage component and an ongoing, post-issuance component. During an offering, an issuer provides material information used by prospective investors to evaluate the securities being sold. This information is generally presented through the preliminary official statement and related offering documents, which describe such matters as the issuer's financial condition, the purpose and structure of the financing, security for repayment, and material risks. Supporting materials, including feasibility studies where relevant, may also be made available in connection with the sale.

After issuance, the disclosure responsibility continues through ongoing disclosure. Under Securities and Exchange Commission Rule 15c2-12, municipal issuers or obligated persons generally agree to provide annual financial information and operating data, including audited financial statements when available, as well as timely notices of specified material events. These continuing disclosures help the municipal securities market assess the issuer's financial condition and material developments throughout the life of the debt. The Municipal Securities Rulemaking Board's EMMA system is the central public repository through which these primary-market and continuing disclosures are made available. See the SEC's municipal securities disclosure guidance and the MSRB EMMA portal.

QUESTION NO: 5

Internal controls are the primary responsibility of:

A. the financial systems.

B. internal auditors.

C. management.

D. external auditors.

ANSWER: C

Explanation:

management. is correct because management is accountable for establishing, maintaining, and monitoring an effective system of internal control. In a government entity, this responsibility includes designing controls that provide reasonable assurance that operations are effective and efficient, financial and performance information is reliable, applicable laws and regulations are followed, and public resources are safeguarded from waste, loss, misuse, or unauthorized use. Management's responsibility is continuous: it must identify risks, implement appropriate control activities, communicate expectations, and monitor whether controls continue to operate as intended.

This principle is reflected in the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, commonly called the Green Book. The Green Book states that management is responsible for designing, implementing, and operating an internal control system, while oversight bodies and auditors have distinct assurance and evaluation roles. The framework also emphasizes that internal control is not merely a finance or audit function; it is an integral part of management's stewardship of public funds and achievement of program objectives. See the GAO's Green Book resources and the Standards for Internal Control in the Federal Government.

QUESTION NO: 6

_____ extends the limits of general liability, automotive liability. And employers' liability, usually in $1 million blocks.

A. Professional Liability

B. Excess Liability

C. Police Professional Liability

D. Public Officials and Employment Practices Liability

ANSWER: B

Explanation:

Excess Liability is the coverage designed to provide additional limits above the limits available under underlying liability policies, such as general liability, automobile liability, and employers' liability. A government entity or other organization may carry specified limits on its primary policies and then purchase excess coverage in layers—commonly described in $1 million increments—to protect against the financial impact of unusually large covered claims. The excess policy is triggered after the applicable underlying policy limit has been exhausted, subject to the excess policy's terms, conditions, and coverage schedule. This structure allows an organization to obtain higher liability protection without purchasing all coverage at the primary-policy level. The term "excess liability" is the standard insurance term for this arrangement; the option's original wording has therefore been corrected from "Excessive Liability." The Insurance Information Institute explains how liability insurance addresses legal responsibility for injury or property damage at https://www.iii.org/article/what-is-liability-insurance. Additional insurance terminology and risk-management resources are available from the International Risk Management Institute at https://www.irmi.com/.

QUESTION NO: 7

Under the Uniform Guidance, which of the following are required elements of a nonfederal entity's procurement system?

A. Written standards of conduct covering conflicts of interest.

B. Documented procurement procedures.

C. Oversight of contractors to ensure contract performance.

D. Allowing an employee with a financial interest in a vendor to participate in the selection decision.

ANSWER: A B C

Explanation:

Written standards of conduct covering conflicts of interest, documented procurement procedures, and oversight of contractors are required elements of a sound procurement system. Nonfederal entities must maintain documented procedures that conform to applicable procurement standards, maintain written conflict-of-interest standards, and provide oversight to ensure contractors perform in accordance with contract terms, conditions, and specifications.

These requirements promote full and open competition, proper stewardship of federal funds, and accountability for contract performance. A procurement process that permits employees to participate despite undisclosed conflicts would be inconsistent with the Uniform Guidance. See 2 CFR 200.318.

QUESTION NO: 8

Government Auditing Standards require auditors performing a performance audit to obtain evidence that is:

A. sufficient to support findings and conclusions.

B. appropriate in relation to validity and reliability.

C. relevant to the audit objectives.

D. limited to management representations.

ANSWER: A B C

Explanation:

Sufficient, appropriate, and relevant to the audit objectives are characteristics of evidence that support audit findings and conclusions. Sufficiency concerns the quantity of evidence, while appropriateness concerns its quality, including relevance, validity, and reliability. Auditors use professional judgment to determine whether enough appropriate evidence has been obtained to provide a reasonable basis for findings and conclusions.

Unsupported assumptions and information that cannot be related to the audit objectives do not provide an adequate basis for performance-audit conclusions. The evidence obtained should be documented in audit documentation and evaluated in relation to the audit objectives and applicable criteria. See the GAO's Government Auditing Standards.

QUESTION NO: 9

Funds accounts for all unrestricted contributions, gifts and other income that can be used for any purpose are known as?

A. Current restricted funds

B. General funds

C. Current funds

D. All of there

ANSWER: B

Explanation:

General funds is correct because this term describes resources that are not restricted by a donor, grantor, law, or other external party as to their purpose. Unrestricted contributions, gifts, and operating income may therefore be used to support the organization's general operations and programs according to the governing body's decisions and applicable policies. In traditional not-for-profit fund-accounting terminology, unrestricted current resources are commonly accumulated in the general fund, distinguishing them from resources that must be used for a specified purpose or retained permanently. This classification is important because it communicates the degree of discretion management and those charged with governance have in deploying available financial resources.

Modern nonprofit external financial reporting under FASB presents net assets by whether donor restrictions exist, but the underlying principle remains the same: resources without donor-imposed restrictions are available for general use. The National Council of Nonprofits explains that unrestricted funds can be used where they are most needed, while donor-restricted funds are limited to the stated restriction. See National Council of Nonprofits: Understanding Restricted Funds and FASB ASC Topic 958, Not-for-Profit Entities.

QUESTION NO: 10

According to the AGA Code of Ethics, a government agency contract manager using a vendor as a personal reference would constitute:

A. fraud.

B. professional incompetence.

C. a conflict of interest.

D. nepotism.

ANSWER: C

Explanation:

a conflict of interest. A government contract manager has official responsibilities that can affect vendors, including decisions related to procurement, contract administration, performance assessment, payment, renewal, or future business opportunities. Using a vendor as a personal reference creates a personal-interest relationship with an entity whose interests may be affected by the manager's government duties. Even if the manager does not intend to give the vendor preferential treatment, the relationship can impair—or reasonably appear to impair—the manager's objectivity and independence in carrying out public responsibilities.

The Association of Government Accountants' ethical principles emphasize serving the public interest, acting with integrity, maintaining objectivity, and avoiding actual or apparent conflicts between personal interests and official responsibilities. In this situation, the personal benefit of obtaining a vendor's reference is intertwined with a professional relationship that requires impartial judgment. The appropriate ethical response is to avoid creating the relationship or promptly disclose it and follow the agency's conflict-of-interest procedures, which may include reassignment or recusal from matters involving that vendor. These safeguards protect public confidence in fair and impartial government contracting. See the AGA ethics guidance and the federal government's Standards of Ethical Conduct.

QUESTION NO: 11

Which of the following are purposes of a government's cash management program?

A. maintaining sufficient liquidity to meet obligations.

B. maximizing earnings on temporarily idle cash within legal and policy constraints.

C. eliminating the need for budgetary controls.

D. investing all available balances in the highest-yielding securities.

ANSWER: A B

Explanation:

Maintaining sufficient liquidity to meet obligations and **maximizing earnings on temporarily idle cash within legal and policy constraints** are correct. Cash management seeks to ensure that a government has funds available when payroll, vendor payments, debt service, and other obligations are due. It also seeks to invest temporary excess cash prudently while considering safety, liquidity, yield, and applicable legal restrictions.

Cash management does not eliminate the need for adopted appropriations or authorize investment decisions without regard to risk. See the Treasury Financial Manual cash management guidance and GFOA investment management resources.

QUESTION NO: 12

Which of the following are characteristics of an effective performance measure?

A. It is linked to a program objective.

B. It provides information that management can use to make decisions.

C. It measures only the amount of money appropriated.

D. It is selected solely because the data are easy to collect.

ANSWER: A B

Explanation:

It is linked to a program objective and **it provides information that management can use to make decisions** are correct. Useful performance measures should relate to intended program results and provide timely, reliable information that can support oversight, resource allocation, and operational improvement.

A measure should not be selected solely because it is easy to collect, and a single measure rarely provides a complete assessment of program results. Governments commonly use a balanced set of output, efficiency, quality, and outcome measures. See GAO's Performance Measurement and Evaluation guide and Performance.gov.

QUESTION NO: 13

Once the budget has been adopted, the _____ executes it to ensure that legislative intent is met and the budget stays in balance.

A. CEO

B. CFO

C. Senior Accountant

D. None of these

ANSWER: A

Explanation:

CEO is correct because, in a governmental context, the chief executive is responsible for budget execution after the legislative body adopts the budget. This responsibility includes directing agencies to operate within the authorized appropriations, administering programs and services for which funds were approved, monitoring revenues and expenditures, and taking timely management action when financial conditions change. The chief executive's role is therefore central to carrying out the policy choices embodied in the adopted budget while maintaining fiscal balance.

Budget execution is an ongoing management function rather than simply a bookkeeping activity. It requires leadership across the organization: setting implementation priorities, ensuring that departments comply with spending authority, overseeing adjustments permitted by law, and reporting on the government's financial position. In the federal context, the Office of Management and Budget describes budget execution as the process of implementing appropriations and monitoring the use of budgetary resources. State and local governments similarly assign executive management responsibility for administering the adopted budget subject to the governing body's authorization. See the OMB Circular A-11 guidance on budget execution and the Government Finance Officers Association best-practices resources.

QUESTION NO: 14

Performance measures that report the results of providing goods or services are known as

A. activity measures.

B. outcome measures.

C. output measures.

D. workload measures.

ANSWER: C

Explanation:

The correct term is **output measures.** In government performance management, outputs are the direct products, goods, or services delivered through a program or activity. They quantify what the government produced or provided—for example, the number of inspections completed, permits issued, clients served, training sessions delivered, or road miles resurfaced. Thus, a measure reporting results of providing goods or services describes the immediate deliverables of operations rather than a longer-term change experienced by the public. Clear output measures help financial managers, program managers, oversight bodies, and citizens assess service-delivery volume, monitor operational performance over time, and compare actual production with planned targets. They are most useful when defined with a specific unit of measure, reporting period, and reliable underlying data source. The U.S. Government Accountability Office explains that performance information can include outputs, meaning the level of activity or effort a program provides, and the Office of Management and Budget identifies outputs as the level of products or services delivered by a program. See the GAO Performance Measurement and Evaluation guide and OMB Circular A-11.

QUESTION NO: 15

Which action represents an internal control deficiency in an agency responsible for building and maintaining dams?

A. The agency inspects the completed work to assure compliance with the contract specifications.

B. The agency releases the contractor's bond only after assuring that all work is performed satisfactorily.

C. The agency responds to maintenance needs only when someone complains or employees report problems.

D. The agency checks the references of bidders.

ANSWER: C

Explanation:

The agency responds to maintenance needs only when someone complains or employees report problems represents an internal control deficiency because it relies on reactive information rather than a structured process for identifying and addressing risks. Dams are critical infrastructure whose safety and operational condition can deteriorate without producing an immediate complaint or visible indication to employees. Effective internal control requires management to identify risks, design control activities that mitigate those risks, and monitor whether controls continue to operate effectively. For a dam-maintenance agency, those activities ordinarily include risk-based inspection schedules, documented preventive-maintenance plans, condition assessments, escalation criteria, and follow-up of identified deficiencies. A complaints-only approach leaves significant gaps in the agency's ability to detect developing structural, mechanical, or safety issues promptly. It therefore does not provide reasonable assurance that maintenance risks will be identified before they become more serious, costly, or hazardous. The GAO's Standards for Internal Control in the Federal Government explains that agencies should use control activities and monitoring to achieve objectives and respond to identified risks. FEMA's dam-safety resources likewise emphasize inspection, maintenance, and risk-informed safety practices for dam owners and responsible organizations. See GAO, Standards for Internal Control in the Federal Government and FEMA Dam Safety.

QUESTION NO: 16

The objective of financial and non-financial performance measures is to:

A. demonstrate probity and legality in the handling of public funds.

B. demonstrate taxpayer preference in allocation of funds.

C. assess policy and reasonableness of budget allocation.

D. assess government performance and program accountability.

ANSWER: D

Explanation:

Financial and non-financial performance measures are used to assess government performance and program accountability. Together, these measures show whether a government is achieving intended results, using resources efficiently, and delivering services at the expected level of quality, quantity, and timeliness. Financial measures provide information about the resources obtained, spent, and managed, while non-financial measures show service outputs and outcomes, such as the number of citizens served, processing times, program results, or changes in community conditions. Combining both kinds of information gives decision-makers, oversight bodies, and the public a more complete basis for evaluating whether programs are operating effectively and whether managers are accountable for results. This use of performance information supports informed budget decisions, management improvements, transparency, and reporting on accomplishments relative to goals. The U.S. Government Accountability Office describes performance measurement as a means of assessing progress toward intended results and improving accountability. Similarly, federal performance-management guidance emphasizes measuring outcomes and using evidence to improve agency performance. See the GAO Performance Measurement and Evaluation guide and Performance.gov.

QUESTION NO: 17

Because of the current financial measurement focus of the Governmental Funds, they do not report:

A. Capital Assets

B. Long-term debt

C. Cash equivalents

D. Either A or B

ANSWER: D

Explanation:

Either Capital Assets or Long-term debt is correct because governmental funds use the current financial resources measurement focus and modified-accrual basis of accounting. This focus reports resources that are available or will become available for near-term spending, along with current obligations that require current financial resources for settlement. Accordingly, governmental-fund balance sheets report items such as cash and cash equivalents, receivables, payables, and fund balance.

Capital assets, including land, buildings, equipment, and infrastructure, are not reported as assets in governmental-fund statements because they are not current financial resources. Similarly, long-term debt is not reported as a liability of governmental funds because repayment generally does not require current financial resources until amounts become due. Instead, capital assets and long-term liabilities are reported in the government-wide statement of net position, which uses the economic resources measurement focus and accrual basis of accounting. This distinction is a central feature of the governmental fund financial-reporting model established by GASB Statement No. 34. See the GASB pronouncements and standards guidance and GASB's standards guidance resources.

QUESTION NO: 18

When investing public funds, a government's investment policy should generally give priority to:

A. Safety of principal.

B. Liquidity to meet cash requirements.

C. Yield after safety and liquidity needs are satisfied.

D. Maximum return regardless of credit or market risk.

ANSWER: A B C

Explanation:

Safety, liquidity, and yield are the customary priorities in public-fund investing. Safety protects principal from loss, liquidity ensures that cash will be available to meet operating and debt-service obligations when due, and yield seeks an appropriate return after safety and liquidity needs have been met.

Maximizing yield without considering risk and liquidity would be inconsistent with prudent public cash management. Governments have a stewardship responsibility to preserve public resources and maintain sufficient cash availability for authorized obligations. See the GFOA investment management resources and the U.S. Treasury's cash management guidance.

QUESTION NO: 19

A governmental fund established to account for financial resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term debt is a:

A. special revenue fund.

B. capital projects fund.

C. debt service fund.

D. permanent fund.

ANSWER: C

Explanation:

debt service fund. A debt service fund is used to account for resources that are restricted, committed, or assigned for the payment of principal and interest on general long-term debt. Separately accounting for these resources helps the government demonstrate that amounts dedicated to debt repayment are being used for their intended purpose.

Debt service funds are governmental funds and therefore use the current financial resources measurement focus and modified accrual basis of accounting. They are distinct from capital projects funds, which account for resources used to acquire or construct major capital facilities, and enterprise funds, which account for business-type activities. See the GASB Standards & Guidance and the U.S. Census Bureau Government Finance glossary.

QUESTION NO: 20

Which of the following are generally required for costs charged to a federal award to be allowable under the Uniform Guidance?

A. The costs must be necessary and reasonable for the performance of the federal award.

B. The costs must be adequately documented.

C. The costs may be charged if the recipient has unspent award funds.

D. The costs may be charged even when prohibited by the award terms.

ANSWER: A B

Explanation:

The costs must be necessary and reasonable for the performance of the federal award and **the costs must be adequately documented** are correct. The Uniform Guidance requires costs charged to federal awards to meet applicable cost principles, be consistent with the terms and conditions of the award, and be supported by appropriate records.

Costs that are prohibited by law or that lack adequate documentation are not allowable merely because funds remain available in the award budget. See 2 CFR Part 200, Subpart E—Cost Principles.

QUESTION NO: 21

What type of analygis should a finance director use to determine if there will be enough funds available to cover bills

due within the next 30 days?

A. quick/current ratio

B. receivables turnover ratio

C. budgetary cushion ratio

D. debt burden ratio

E. cash flow analysis

ANSWER: E

Explanation:

Cash flow analysis is the appropriate tool because the question concerns whether cash will be available during a specific, very near-term period. A finance director would prepare a short-term cash forecast that identifies the expected timing and amounts of cash receipts, such as taxes, grants, transfers, and collections, and compares them with scheduled disbursements such as payroll, vendor invoices, debt service, and other bills due over the next 30 days. This timing-based view produces an expected daily or weekly cash position and identifies any projected shortfall early enough to manage it through available cash balances, investment liquidation, interfund borrowing where authorized, or short-term financing.

Liquidity management is fundamentally concerned with maintaining sufficient cash to meet obligations as they come due. A cash flow forecast is therefore more directly responsive than a balance-sheet measure because it focuses on when funds are actually expected to be received and paid, rather than merely reporting asset and liability balances at a point in time. The Government Finance Officers Association identifies cash forecasting as a core element of effective government cash management and liquidity planning. See the GFOA Cash Management resources and the GAO Standards for Internal Control in the Federal Government for related guidance on managing financial resources and obligations.

QUESTION NO: 22

In non-reciprocal interfund activities transfers without repayment may occur because?

A. A proprietary fund is self-supporting

B. A proprietary fund is not self-supporting

C. For instance a public transit system may require a transfer form the general fund because fares and other revenues do not offset costs.

D. None of there

ANSWER: B C

Explanation:

“A proprietary fund is not self-supporting” and “For instance a public transit system may require a transfer form the general fund because fares and other revenues do not offset costs.” are correct. A nonreciprocal interfund transfer is a movement of financial resources between funds that is not a payment for goods or services and does not create an expectation of

repayment. Governments commonly use such transfers to subsidize an enterprise activity operated through a proprietary fund when user charges and other operating revenues are insufficient to cover the cost of providing the service.

Public transit is a standard example. A government may intentionally set fares below the full cost of service to promote access, mobility, or other public-policy objectives. When fare revenue, advertising, grants, and related receipts do not fully support transit operations or capital needs, the general fund may transfer resources to the transit enterprise fund. The transfer represents the government's decision to provide financial support rather than an exchange transaction or an interfund loan. This treatment helps users of the financial statements distinguish operating revenues earned by the proprietary activity from resources supplied by other governmental funds. GASB standards provide the authoritative framework for state and local government financial reporting: GASB Standards and Guidance. Additional governmental fund-accounting resources are available from the Government Finance Officers Association.

QUESTION NO: 23

Pay.gov is an example of

A. a zero-balance account.

B. a concentration system.

C. an electronic lockbox.

D. a data warehouse system.

ANSWER: C

Explanation:

an electronic lockbox. Pay.gov is Treasury's secure, web-based payment collection platform for federal agencies. It enables agencies to accept payments electronically from the public and businesses for items such as fees, fines, permits, and other obligations. In the federal cash-management context, this function is an electronic lockbox: rather than having an agency manually receive, deposit, and reconcile mailed checks or other individual payments, the system centrally captures payment and remittance information and supports prompt processing into the government's collection and accounting workflow.

The designation reflects the operational role Pay.gov performs. A traditional lockbox arrangement uses a financial institution to receive and process remittances for an organization; Pay.gov provides the comparable collection-processing capability electronically for participating federal agencies. It supports several payment methods and provides agencies with tools for forms, payment acceptance, reporting, and reconciliation, helping accelerate collections while improving the quality and availability of remittance data. Treasury describes Pay.gov as a system through which federal agencies collect payments online, and Treasury's Financial Management Service materials identify it as an electronic lockbox solution. See Pay.gov and Treasury Financial Manual, Volume I.

QUESTION NO: 24

The main objective of the Cash Management Improvement Act is to require

A. states to pay invoices within 30 days of receipt of a proper invoice.

B. states to minimize the time elapsing between funds drawn and their final disposition.

C. federal agencies to take discounts when available and cost-effective.

D. federal agencies to disburse payments via electronic funds transfer.

ANSWER: B

Explanation:

The correct completion is "states to minimize the time elapsing between funds drawn and their final disposition." The Cash Management Improvement Act establishes cash-management rules for federal funds transferred to states under federal

assistance programs. Its central purpose is to minimize the period during which one party has use of the other party's money before the funds are ultimately paid out for program purposes. This minimizes unnecessary federal cash balances held by states and helps ensure that neither the federal government nor a state receives an unintended financial benefit from timing differences.

In practice, covered states and federal agencies develop Treasury-State agreements that specify funding techniques and procedures designed to align federal fund transfers as closely as possible with a state's actual disbursement needs. The framework also provides for interest liability when a party has improperly retained the other party's funds. Thus, the key concept tested is the timing between the drawdown of federal funds and their final disposition, rather than a general invoice-payment standard or a particular payment technology. The statutory basis appears in 31 U.S.C. § 6503, and Treasury's implementing requirements are in 31 CFR Part 205.

QUESTION NO: 25

Which of the following actions help a government reduce the risk of fraud in a purchasing-card program?

A. requiring timely independent review of cardholder statements.

B. restricting merchant category codes when appropriate.

C. eliminating receipt requirements for card purchases.

D. permitting cardholders to approve their own transactions.

ANSWER: A B

Explanation:

Requiring timely independent review of cardholder statements and **restricting merchant category codes when appropriate** are correct. Supervisory review of statements and supporting documentation can identify unauthorized or unsupported purchases. Merchant-category-code restrictions can prevent or flag transactions at vendors that are inconsistent with authorized business needs.

Eliminating receipt requirements or permitting cardholders to approve their own transactions weakens oversight and increases the risk of misuse. See GSA SmartPay and the GAO Green Book.

QUESTION NO: 26

Which of the following controls help reduce the risk of improper disbursements?

A. Separating authorization, custody, and recording functions.

B. Requiring approval of invoices before payment.

C. Reconciling disbursement records to bank activity.

D. Assigning vendor setup, payment approval, check issuance, and reconciliation to one employee.

ANSWER: A B C

Explanation:

Separating authorization, custody, and recording functions; requiring approval of invoices before payment; and reconciling disbursement records to bank activity are effective controls over disbursements. Segregation of duties reduces the opportunity for one individual to initiate, approve, record, and conceal an improper payment. Invoice approval helps verify that goods or services were received and that payment is authorized. Bank reconciliations can identify unauthorized, duplicate, or unrecorded disbursements.

Allowing one employee to initiate vendors, approve invoices, issue payments, and perform reconciliations concentrates incompatible duties and substantially increases fraud and error risk. The GAO Green Book emphasizes segregation of

duties, authorization, and ongoing monitoring as important control activities. See the GAO Standards for Internal Control in the Federal Government.

QUESTION NO: 27

Life cycle costing results in _____ overall cost.

A. Lower

B. Higher

C. Balancing

D. It depends

ANSWER: A

Explanation:

Life cycle costing results in **Lower** overall cost because it evaluates the full cost of owning, operating, maintaining, and ultimately disposing of an asset or system, rather than focusing only on its initial purchase price. This broader view helps government managers identify choices that may require a somewhat greater up-front investment but avoid substantial future expenditures, such as recurring repairs, excess energy consumption, support requirements, replacement needs, or disposal costs. Considering these costs early in planning and procurement supports selecting the alternative that provides the best value over its useful life and allows agencies to budget more reliably for total resource needs.

The federal life-cycle-cost approach is intended to inform economically sound decisions by comparing alternatives on a common total-cost basis. The U.S. General Services Administration describes life-cycle cost analysis as a method for evaluating the total cost of facility ownership, including acquisition, operation, maintenance, and disposal. Similarly, the Government Accountability Office emphasizes that credible cost estimates account for costs across a program's full life cycle. Applying this discipline promotes efficient stewardship of public funds and, in the intended test-prep context, produces a lower overall cost. See GSA Life-Cycle Cost Analysis and GAO Cost Estimating and Assessment Guide.

QUESTION NO: 28

Commercial papers are sold through:

A. Secondary market

B. Dealers

C. Directly by issuers and has no secondary market

D. Both B&C

ANSWER: D

Explanation:

"Both B&C" is correct because commercial paper may be distributed either as dealer paper or as direct paper. Dealer paper is placed with investors through securities dealers, while direct paper is sold by the issuing corporation directly to investors, generally when the issuer is a large, highly rated borrower with an established investor base. These alternatives describe the principal distribution channels for this short-term, unsecured promissory-note market.

Commercial paper is commonly held to maturity because its maturities are short, ordinarily not exceeding 270 days. Consequently, it is generally characterized in government-finance and cash-management instruction as having no organized secondary market; the practical focus for an investor is the original purchase and repayment at maturity. This structure makes commercial paper a money-market instrument used by issuers to obtain short-term financing and by eligible investors to invest temporarily available cash. The Federal Reserve's discussion of the market distinguishes direct issuance from issuance through dealers, and the New York Fed identifies commercial paper as an important short-term funding instrument.

See the Federal Reserve's commercial-paper market overview and the Federal Reserve Bank of New York commercial-paper resources.

QUESTION NO: 29

Which of the following characteristics indicate that a recipient of federal award funds is more likely to be a subrecipient rather than a contractor?

A. Determining who is eligible to receive federal assistance.

B. Having performance measured against federal program objectives.

C. Making programmatic decisions in carrying out part of a federal program.

D. Providing goods or services within normal business operations to many purchasers.

ANSWER: A B C

Explanation:

Determining eligibility for assistance, having performance measured against program objectives, and making programmatic decisions are characteristics associated with a subrecipient relationship. A subrecipient receives federal award funds to carry out part of a federal program and is accountable for programmatic performance and compliance requirements associated with the award.

A contractor, by contrast, normally provides goods or services within its normal business operations, provides similar goods or services to many purchasers, and operates in a competitive environment. The substance of the relationship, rather than the title used in an agreement, determines whether an entity is a subrecipient or contractor. See 2 CFR 200.331.