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Examination 3: Governmental Financial Management and Control ()

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Topic Break Down

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QUESTION NO: 1

An agency benefit program allows employees who commute by public transit up to 10 free taxi trips home per calendar year. Employees can use the program for personal or family health emergencies. The most appropriate method to check for abuse of this program is

- A. using program data to look for instances of individuals using the service more than 10 times per year.
- B. using geographic information system data to determine if the destination addresses were hospitals or clinics.
- C. using personal data to determine if the destination address matches the employee's home address.
- D. requesting records from a random sample of employees to verify they used transit on the day they used the taxi services.

ANSWER: D

Explanation:

"requesting records from a random sample of employees to verify they used transit on the day they used the taxi services" is the most appropriate control because it tests the program's core eligibility condition: the employee must be a public-transit commuter and must have been using transit when the emergency ride was needed. A random sample provides a practical, proportionate means of monitoring compliance without imposing the cost and administrative burden of reviewing every ride. The review can compare taxi-trip records with credible supporting evidence of transit use, applying the test consistently across the selected population. This approach produces information that management can use to identify control weaknesses, assess whether ineligible use is occurring, and take corrective action when warranted. It also aligns with the federal internal-control principle that management should design control activities to enforce directives and mitigate identified risks, including risks of improper use of agency-supported benefits. The review should be documented, performed under appropriate privacy safeguards, and designed so the evidence requested is limited to what is needed to validate eligibility and the claimed transit use. See the [GAO Green Book](#) and GAO's [Fraud Risk Framework](#).

QUESTION NO: 2

The Parking Fund for a government entity has the following information in its Statement of Net Position. Calculate the current ratio.

Total current assets \$1,320

Total non-current assets \$8,100

Total assets \$9,420

Total current liabilities \$ 810

Total non-current liabilities \$ 360

Total liabilities \$1,170

Total net position \$8,250

- A. 0.61
- B. 0.98
- C. 1.14
- D. 1.63

ANSWER: D

Explanation:

The correct current ratio is **1.63**. The current ratio is a liquidity measure calculated by dividing total current assets by total current liabilities. For the Parking Fund, total current assets are \$1,320 and total current liabilities are \$810. Therefore, the calculation is $\$1,320 \div \$810 = 1.6296$, which rounds to 1.63. This means the fund reports approximately \$1.63 in current assets for each \$1.00 of obligations due within the current period. Because the ratio focuses exclusively on resources expected to be available in the short term and obligations due in the short term, noncurrent assets, noncurrent liabilities, and total net position are not part of this calculation. The Statement of Net Position distinguishes current from noncurrent amounts to help users assess liquidity and the availability of resources to meet near-term obligations. A ratio greater than 1.00 indicates that current assets exceed current liabilities, supporting the conclusion that the Parking Fund has sufficient reported short-term assets relative to its reported short-term liabilities. For general financial-ratio guidance, see the [U.S. Securities and Exchange Commission's balance-sheet overview](#). For governmental reporting context regarding statements of net position, see [the Governmental Accounting Standards Board](#).

QUESTION NO: 3 - (SIMULATION)

A performance measurement that is measured the same way over several periods is

- A. timely.
- B. relevant.
- C. reliable.
- D. consistent.

ANSWER: See the explanation for the answer

Explanation:

Answer: D. consistent.

A performance measure is **consistent** when it is calculated or measured using the same method over multiple reporting periods. Consistency enables meaningful comparisons of performance trends over time.

Timely means information is available when needed.

Relevant means the measure is useful for decisions or objectives.

Reliable means the information is accurate, dependable, and verifiable.

QUESTION NO: 4

A federal agency's financial system records transactions only in agency-defined account codes and converts year-end balances to U.S. Standard General Ledger accounts when preparing financial statements. Which conclusion is most appropriate?

- A. The system complies because year-end balances can be mapped to U.S. Standard General Ledger accounts.
- B. The system complies if management approves the agency-defined account structure.
- C. The system does not comply because it does not use the U.S. Standard General Ledger at the transaction level.
- D. The system does not comply only if it cannot produce a Statement of Budgetary Resources.

ANSWER: C

Explanation:

The system does not meet the requirement to use the **U.S. Standard General Ledger at the transaction level**. A year-end conversion of account balances may assist financial-statement preparation, but it does not provide the standardized transaction-level accounting and audit trail expected of a compliant federal financial management system.

Transaction-level use of the U.S. Standard General Ledger supports consistent recording, reporting, reconciliation, and governmentwide financial information. Producing financial statements from mapped balances does not by itself demonstrate compliance with this requirement.

QUESTION NO: 5

The best source for annual liability and cash flow data is a state's

- A. PAR.
- B. ACFR.
- C. appropriations bill.
- D. statement of activities.

ANSWER: B

Explanation:

ACFR. is correct because a state's Annual Comprehensive Financial Report is its principal annual, audited financial-reporting document. It presents the state's financial position and results of operations under generally accepted accounting principles, rather than merely describing authorized spending or program performance. The report's financial statements and accompanying notes provide the most complete annual information about liabilities, including long-term obligations, pensions, other postemployment benefits, leases, and other obligations that require disclosure. It also contains cash-flow information, particularly through statements of cash flows for proprietary-fund activities, along with broader information about cash balances, cash equivalents, and financing activities. Because the ACFR combines audited basic financial statements, required supplementary information, notes, and detailed combining or individual-fund schedules, it is the most reliable single state-level source for assessing annual liabilities and cash flows. The Government Finance Officers Association describes the ACFR as the annual report used to communicate a government's financial condition and operations, and GASB standards establish the financial-reporting framework used by state and local governments. See the [GFOA Annual Comprehensive Financial Reporting resources](#) and the [Governmental Accounting Standards Board](#).

QUESTION NO: 6

Business process re-engineering typically addresses all of the following EXCEPT the

- A. key processes.
- B. human environment.
- C. organizational mission.
- D. technical environment.

ANSWER: C

Explanation:

organizational mission. is the correct exception because business process re-engineering concentrates on achieving major improvements in how work is performed, rather than determining the organization's fundamental purpose. An organizational mission expresses the enduring reason the entity exists, whom it serves, and the broad public value it is intended to provide. Establishing or revising that direction is a strategic-governance activity, normally undertaken through leadership decision-making and strategic planning.

By contrast, re-engineering starts from the mission and desired outcomes as constraints and redesigns the end-to-end ways in which those outcomes are delivered. It considers how responsibilities, information, controls, technology, handoffs, and service delivery can be fundamentally changed to improve cost, quality, timeliness, and performance. Thus, the mission guides the re-engineering effort but is not ordinarily the object being re-engineered. This distinction is particularly important in government, where missions are established through law, executive direction, and formal strategic plans, while managers

retain responsibility for improving the processes used to carry out that mission. GAO's [Business Process Reengineering Assessment Guide](#) describes reengineering as a fundamental redesign of business processes to achieve dramatic improvements. Federal strategic planning guidance likewise treats mission and strategic objectives as foundational direction for agency operations; see [OMB Circular A-11](#).

QUESTION NO: 7

During a financial audit, an auditor identifies a significant unexpected increase in year-end accounts receivable. Management explains that several large billings were issued during the final week of the fiscal year. Which procedure would provide the most relevant evidence about whether the receivables were properly recorded at year-end?

- A. Compare the current-year receivable balance with the prior-year balance.
- B. Examine subsequent cash collections and documentation supporting the year-end billings.
- C. Review the budgeted amount of fee revenue for the fiscal year.
- D. Confirm outstanding balances with major vendors.

ANSWER: B

Explanation:

Examining subsequent cash collections and supporting documentation for the year-end billings is the most relevant procedure. It helps the auditor determine whether the receivables represented valid amounts owed at year-end and whether the revenue and receivable were recorded in the proper period.

Comparing current-year receivables with the prior year may identify an unusual relationship but does not by itself verify the asserted balances. Reviewing the budget addresses planned revenues rather than the validity of recorded receivables. Confirming vendor balances would address accounts payable, not accounts receivable.

QUESTION NO: 8

The ratios used to determine an organization's ability to meet its creditor's demands are

- A. budgetary cushion ratios.
- B. liquidity ratios.
- C. debt burden ratios.
- D. turnover ratios.

ANSWER: B

Explanation:

Liquidity ratios. are the measures used to assess whether an organization has sufficient cash, cash equivalents, and other assets that can be converted to cash in time to satisfy current obligations to creditors. In governmental financial analysis, this addresses the entity's short-term financial condition and its capacity to pay bills, payroll, vendors, debt-service amounts due, and other obligations as they mature. Common liquidity measures include the current ratio, quick ratio, and cash ratio. These ratios relate liquid or near-liquid assets to current liabilities, providing a practical indication of the resources available to meet near-term demands without needing to obtain additional financing or sell long-term assets. Strong liquidity supports reliable operations and creditor confidence because it demonstrates that the organization can continue meeting obligations on schedule. The Government Finance Officers Association identifies liquidity as a core component of financial-condition analysis and emphasizes evaluating cash and other resources available for near-term obligations. Similarly, GASB's financial-reporting framework distinguishes current assets and liabilities to help users evaluate short-term resource availability and obligations. See the [GFOA guidance on financial condition analysis](#) and [GASB pronouncements and guidance](#).

QUESTION NO: 9

A state agency is replacing its grant-payment system with an online application that permits staff to enter, approve, and release payments electronically. Which action by management would best address the increased risk of unauthorized payments?

- A. increase the system's storage capacity for grant records
- B. require separate authorization and payment-release roles, supported by system access controls and an audit trail
- C. retain paper copies of every grant application after it is entered into the system
- D. have internal audit review all payment activity at the end of each fiscal year

ANSWER: B

Explanation:

Require separate authorization and payment-release roles, supported by system access controls and an audit trail is correct. The new electronic process creates a risk that one employee could create or alter a payment and release it without independent review. Restricting incompatible functions and retaining a record of approvals directly responds to that risk.

Increasing the system's storage capacity or retaining paper copies of applications does not prevent unauthorized electronic payment activity. Relying solely on an annual review would detect problems too late and would not provide a preventive control over individual disbursements.

QUESTION NO: 10

The first step in investment management is to

- A. ensure all employees understand their investment options.
- B. develop a consensus among managers of the investment objectives.
- C. develop an investment policy manual.
- D. establish criteria for divesting.

ANSWER: B

Explanation:

The first step in investment management is to **develop a consensus among managers of the investment objectives**. Investment objectives establish the purpose and boundaries of the program before investment decisions, controls, or written procedures are designed. For a governmental entity, the responsible officials should agree on the funds' expected cash-flow needs, preservation of principal, liquidity requirements, permissible level of risk, expected return, investment horizon, and applicable statutory constraints. Reaching consensus is important because these factors can differ substantially among operating funds, reserve funds, debt-service funds, and trust or pension-related assets.

Once decision-makers have agreed on those objectives, the organization can translate them into a formal investment policy and an implementation approach that assigns authority, defines eligible investments, sets diversification and maturity limits, and establishes reporting and oversight practices. This sequence creates a defensible connection between the government's financial needs and the controls used to manage public resources. The Government Finance Officers Association's recommended practice on public-fund investment policies emphasizes that a policy should state objectives and guide investment activities; its guidance is available at [GFOA Investment Policy](#). The Government Accountability Office's internal-control framework likewise emphasizes defining objectives as a foundation for risk assessment and control design: [GAO Green Book](#).

QUESTION NO: 11

A city parks department is selecting a contractor to renovate a community playground. Which of the following contractors should be selected?

- A. The contractor with the lowest bid who has a history of delayed projects.
- B. The contractor with the second-lowest bid, who has no prior violations and meets all bid specifications.
- C. The contractor with the highest bid, who includes luxury, non-requested upgrades to the design.
- D. The contractor whose bid was submitted past the deadline but offers a discount for early payment.

ANSWER: B

Explanation:

The contractor with the second-lowest bid, who has no prior violations and meets all bid specifications, should be selected because public procurement awards must be made to a responsive and responsible bidder in accordance with the solicitation's stated requirements. A responsive bidder submits a bid that conforms to the material terms, conditions, and specifications of the invitation for bids. A responsible contractor has the demonstrated integrity, capability, and reliability to perform successfully. The absence of prior violations supports the agency's determination that the contractor is responsible, while meeting every bid specification establishes responsiveness. Because this contractor is eligible and provides the lowest price among the bids that satisfy the city's requirements, selection protects competition, fairness, and stewardship of public funds. Government entities should document the responsibility determination and the basis for award in the procurement file, applying the evaluation criteria and procurement rules announced before bids were received. These principles are reflected in the federal procurement standards at [2 CFR 200.320](#) and the responsibility standards in [FAR 9.104-1](#).

QUESTION NO: 12

»A key objective of a performance audit is

- A. providing an opinion on the entity's financial statement.
- B. assessing program effectiveness, economy and efficiency.
- C. providing an opinion on a subject matter that is the responsibility of another party.
- D. issuing a report of findings based upon an agreed-upon procedure.

ANSWER: B

Explanation:

Assessing program effectiveness, economy and efficiency is a key objective of a performance audit. Under Generally Accepted Government Auditing Standards (the Yellow Book), performance audits provide objective analysis and information to help management and those charged with governance improve programs and operations, facilitate decision-making, and promote accountability. Their objectives may address how well a program is achieving intended results (effectiveness), whether resources are obtained at the lowest reasonable cost while meeting appropriate quality standards (economy), and the relationship between resources used and outputs or outcomes achieved (efficiency). These audits can also examine internal control, compliance, prospective analyses, and other matters relevant to public accountability; however, the central performance focus is evaluating program or operational performance against appropriate criteria. By assessing effectiveness, economy, and efficiency, auditors provide useful findings and recommendations concerning the stewardship of public resources and opportunities for improvement. The U.S. Government Accountability Office describes performance audits as audits that provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. See the [GAO Yellow Book overview](#) and the [2018 Government Auditing Standards](#).

QUESTION NO: 13

Who holds primary responsibility for establishing internal controls?

- A. Accountants

- B. Internal auditors
- C. Management
- D. Audit committee

ANSWER: C

Explanation:

Management holds primary responsibility for establishing and maintaining an effective system of internal control. In a governmental entity, this responsibility rests with the organization's leadership and managers, who set objectives, establish the control environment, identify and respond to risks, design control activities, communicate relevant information, and monitor whether controls continue to operate effectively. Internal control is therefore an integral part of management's day-to-day stewardship of public resources and achievement of program objectives—not merely a compliance or audit function.

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*, commonly called the Green Book, states that management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of internal control. The framework also recognizes that management may delegate duties, but it retains overall accountability for the internal-control system. This assignment of responsibility supports reliable reporting, compliance with applicable laws and regulations, efficient operations, and safeguarding of assets. See the GAO's [Green Book resource page](#) and COSO's [Internal Control guidance](#).

QUESTION NO: 14

Based on the data below, what can be concluded about outsourcing print job?

- A. It is better to keep the printing in-house.
- B. Outsourcing printing is feasible.
- C. Outsourcing printing is necessary.
- D. ABC Printing should be awarded the outsourcing contract.

ANSWER: B

Explanation:

"Outsourcing printing is feasible." is the appropriate conclusion because feasibility means that the available information supports outsourcing as a practical and potentially viable alternative to performing the print work internally. A feasibility conclusion ordinarily follows from comparing relevant costs, capacity, service requirements, quality expectations, and the organization's ability to obtain the service from an external provider. It does not, by itself, establish that outsourcing is mandatory or that a particular vendor should receive an award. Those actions require additional decision-making and procurement steps, including consideration of all applicable requirements and a properly documented source-selection process. In governmental financial management, managers should use reliable cost and performance information to evaluate alternatives and support a reasoned decision. The Government Accountability Office's standards for internal control emphasize that management should use quality information to achieve objectives and document decisions appropriately. Similarly, federal procurement guidance recognizes that acquisition planning and contract award involve distinct processes beyond simply identifying that an external solution can be used. Therefore, the supported conclusion is that outsourcing is a feasible option for the print job. See the [GAO Standards for Internal Control in the Federal Government](#) and [Federal Acquisition Regulation, Part 7—Acquisition Planning](#).

QUESTION NO: 15

The Prompt Payment Act requires federal agencies to pay

- A. invoices immediately when received.
- B. interest when an invoice is paid late.

C. invoices no later than 60 days after receipt of the invoice.

D. interest on intragovernmental invoices.

ANSWER: B

Explanation:

interest when an invoice is paid late. is correct because the Prompt Payment Act establishes the federal government's responsibility to make timely payments for goods and services received under covered contracts. When an agency does not make payment by the applicable due date, it must pay an interest penalty to the contractor automatically, without requiring the contractor to submit a separate claim for that interest. The payment due date is generally determined under the contract and applicable Prompt Payment regulations; in many ordinary invoice situations, the standard due date is based on a 30-day period after receipt of a proper invoice or acceptance of the delivered goods or services, as applicable. The Act's interest-penalty requirement creates a financial incentive for agencies to maintain effective invoice processing, acceptance, certification, and disbursement controls. It also helps ensure that vendors are compensated for the cost of funds when the government does not pay timely. The statutory framework is codified in 31 U.S.C. chapter 39, and government-wide implementation guidance is provided in the Treasury Financial Manual. See [31 U.S.C. Chapter 39](#) and the [Treasury Financial Manual guidance on third-party payments](#).