AGA CGFM Practice Questions

Shared by Guerrero on 10-11-2026

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Question 1

Question Type: MultipleChoice

According to the GAO, internal control is a process used by management to

Options:

A- help an entity achieve its objectives.
B- design an ERM system.
C- set the tone at the top.
D- develop a strategic plan.

Answer:

A

Explanation:

Definition of Internal Control (According to GAO):

Internal control is a process implemented by management to provide reasonable assurance that the organization will achieve its objectives in:

Operations (effectiveness and efficiency).

Reporting (reliable and accurate financial and non-financial reporting).

Compliance (adherence to laws and regulations).

Explanation of Answer Choices:

A . Help an entity achieve its objectives: Correct. This is the primary purpose of internal controls.

B . Design an ERM system: Incorrect. Enterprise Risk Management (ERM) is broader than internal control and includes risk strategy and appetite.

C . Set the tone at the top: Incorrect. While the tone at the top is part of the control environment, it is not the full scope of internal control.

D . Develop a strategic plan: Incorrect. Internal control supports strategic plans but is not directly involved in developing them.

GAO, Standards for Internal Control in the Federal Government (Green Book).

COSO, Internal Control - Integrated Framework.

Question 2

Question Type: MultipleChoice

When reviewing a report on internal control from a shared service provider that noted a weakness, the agency

should

Options:

A- consider the existence of compensating or mitigating controls.
B- ask the service provider to correct the weakness.
C- dismiss the weakness.
D- refer the weakness to the Contracting Officer.

Answer:

A

Explanation:

Response to Weaknesses in Shared Service Providers:

Shared service providers often issue reports on internal controls (e.g., SOC 1 or SOC 2 reports).

When a weakness is identified, the recipient agency must evaluate whether compensating or mitigating controls exist to address the risk, ensuring continued reliability.

Explanation of Answer Choices:

A . Consider the existence of compensating or mitigating controls: Correct. This is a standard response to internal control weaknesses, as outlined in auditing and risk management best practices.

B . Ask the service provider to correct the weakness: Incorrect. While this may be appropriate, the recipient agency is ultimately responsible for evaluating and addressing the risk.

C . Dismiss the weakness: Incorrect. Ignoring a weakness can expose the agency to risk.

D . Refer the weakness to the Contracting Officer: Incorrect. This may be part of the process, but the agency must first assess the impact and controls.

American Institute of Certified Public Accountants (AICPA), SOC Reports Guidance.

Government Accountability Office (GAO), Internal Control Standards for Federal Agencies.

Question 3

Question Type: MultipleChoice

In addition to the Yellow Book, which group's external audit standards can the GAO reference?

Options:

A- Public Company Accounting Oversight Board
B- International Auditing and Assurance Standards Board.
C- International Organization of Supreme Audit Institutions
D- AICPA

Answer:

C

Explanation:

GAO and External Audit Standards:

The Government Accountability Office (GAO) uses the Yellow Book as its primary standard. However, it may also reference external standards from recognized international and professional auditing organizations. INTOSAI is specifically mentioned in the Yellow Book as a source of additional standards for governmental audits.

Explanation of Answer Choices:

A . Public Company Accounting Oversight Board (PCAOB): This regulates audits of publicly traded companies, not government entities.

B . International Auditing and Assurance Standards Board (IAASB): This focuses on global private-sector audits, not specifically government-related.

C . International Organization of Supreme Audit Institutions (INTOSAI): Correct. INTOSAI sets audit standards for public-sector auditors worldwide and is relevant for the GAO.

D . AICPA: While the AICPA sets standards for U.S. auditors, INTOSAI is more relevant for international public-sector audits.

GAO, Government Auditing Standards (Yellow Book).

INTOSAI, Framework of Professional Standards for Supreme Audit Institutions.

Question 4

Question Type: MultipleChoice

The Prompt Payment Act requires federal agencies to pay

Options:

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.
U- S. Department of the Treasury, Prompt Payment Act Guidelines.

Answer:

B

Explanation:

Overview of the Prompt Payment Act (PPA):

The Prompt Payment Act (31 U.S.C. Chapter 39) requires federal agencies to pay vendors for goods and services in a timely manner.

If payment is not made within the required time frame (usually 30 days after receiving a proper invoice), the agency must pay interest penalties to the vendor for the late payment.

Explanation of Answer Choices:

A . Invoices immediately when received: Incorrect. Federal agencies are not required to pay invoices immediately; they must process payments within the specified timeframe.

B . Interest when an invoice is paid late: Correct. Agencies must pay interest penalties for late payments.

C . Invoices no later than 60 days after receipt of the invoice: Incorrect. The standard timeframe is 30 days unless otherwise specified in the contract.

D . Interest on intragovernmental invoices: Incorrect. The PPA does not apply to intragovernmental transactions.

Prompt Payment Act, 31 U.S.C. Chapter 39.

Question 5

Question Type: MultipleChoice

The legislation that expanded the requirements of audits to virtually all federal agencies is the

Options:

A- CFO Act of 1990.
B- Accountability for Tax Dollars Act of 2002.
C- Federal Financial Management Improvement Act of 1996.
D- Government Management Reform Act of 1994.

Answer:

B

Explanation:

* What Did the Accountability for Tax Dollars Act Do?

This act expanded the audit requirements to virtually all federal agencies, not just those covered under the CFO Act of 1990.

It mandated that agencies prepare audited financial statements to improve transparency, accountability, and the management of federal funds.

* Why Other Options Are Incorrect:

A . CFO Act of 1990: This act required audited financial statements but only applied to the 24 largest federal agencies (those covered under the Chief Financial Officers Act).

C . Federal Financial Management Improvement Act of 1996: Focused on financial system compliance with federal accounting standards, not expanding audit requirements.

D . Government Management Reform Act of 1994: Extended the CFO Act requirements to consolidated government-wide financial statements, not all federal agencies.

* Reference and Documents:

Accountability for Tax Dollars Act of 2002: Specifies the expanded audit requirements for federal agencies.

GAO Guide on Federal Financial Management Laws: Provides a comprehensive overview of key legislation.

Question 6

Question Type: MultipleChoice

Using Benford Digital Analysis, an auditor can identify potential fraud when

Options:

A- a higher-than-expected number of payment amounts to one vendor start with the number three.
B- a large number of contracts are awarded to one vendor.
C- a large contract is awarded to the director's close relative.
D- an employee receives kickbacks from real estate developers.
D- An employee receives kickbacks from real estate developers: This is fraud but cannot be identified using Benford's Law.

Answer:

A

Explanation:

Benford's Law and Fraud Detection:

Benford's Law is a statistical principle that predicts the frequency of leading digits in naturally occurring datasets.

Deviations from the expected distribution (e.g., a higher-than-expected frequency of a specific leading digit) can indicate manipulation or fraud.

For example, if too many payments start with the number '3,' it suggests potential tampering.

Explanation of Answer Choices:

A . A higher-than-expected number of payment amounts to one vendor start with the number three: Correct. This aligns with how Benford's Law is used to detect anomalies in numerical data.

B . A large number of contracts are awarded to one vendor: While concerning, this is not related to Benford's Law.

C . A large contract is awarded to the director's close relative: This indicates a conflict of interest but is unrelated to Benford's Law.

Association of Certified Fraud Examiners (ACFE), Fraud Detection Using Benford's Law.

GAO, Fraud Risk Management Framework.

Question 7

Question Type: MultipleChoice

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

Options:

A- PAR.
B- ACFR.
C- appropriations bill.
D- statement of activities.
D- Statement of activities: This is part of the ACFR but does not include all necessary cash flow or liability data.

Answer:

B

Explanation:

Annual Comprehensive Financial Report (ACFR):

The ACFR (formerly CAFR) is the primary source for a state's annual financial information, including liability and cash flow data.

It provides comprehensive financial statements, including the balance sheet, statement of activities, and cash flow statements.

Explanation of Answer Choices:

A . PAR: The Performance and Accountability Report (PAR) focuses on federal agencies and includes performance goals and achievements but lacks detailed liability and cash flow data for states.

B . ACFR: Correct. The ACFR is the best source for detailed liability and cash flow data at the

state level.

C . Appropriations bill: Provides legislative authority for spending but does not include detailed financial data.

Government Finance Officers Association (GFOA), Best Practices for ACFR Reporting.

GASB, Annual Comprehensive Financial Report Guidance.

Question 8

Question Type: MultipleChoice

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

Options:

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 the maintenance needs only as complaints are received or as employees
report problems.
D- The agency checks the references of bidders.

Answer:

C

Explanation:

* What Is an Internal Control Deficiency?

An internal control deficiency occurs when an organization fails to implement controls to prevent or detect risks effectively.

In this case, responding only to maintenance needs when complaints are received demonstrates a lack of proactive controls, increasing the risk of issues going unnoticed or escalating over time.

* Why Is Option C Correct?

Proactive maintenance schedules and inspections are essential for ensuring the safety and functionality of critical infrastructure like dams. Relying solely on complaints or employee reports is a reactive approach and represents a deficiency in internal controls.

* Why Other Options Are Incorrect:

A . Inspecting completed work: This is a proper control to ensure compliance with contract specifications.

B . Releasing the bond after work completion: This ensures contractual obligations are met and is a good control practice.

D . Checking bidder references: This is part of the procurement process and a valid internal control.

* Reference and Documents:

GAO Standards for Internal Control (Green Book): Emphasizes proactive controls and monitoring for critical operations.

Federal Infrastructure Maintenance Best Practices: Highlights proactive inspections and maintenance as essential controls.

Question 9

Question Type: MultipleChoice

A purchasing officer is asked to select a vendor to provide office supplies. Which option best vendors should be selected?

Options:

A- the mayor's high school classmate's company with the lowest qualified bid
B- the second lowest priced qualified bidder
C- the third lowest priced qualified bidder who is pending state disbarment
D- the highest priced qualified bidder with the highest quality products

Answer:

A

Explanation:

* Why Select the Lowest Qualified Bidder?

Procurement rules in government require selecting the lowest qualified bidder to ensure fairness, cost-efficiency, and compliance with procurement regulations.

If the mayor's high school classmate's company meets the qualification criteria and provides the lowest bid, there is no conflict of interest unless favoritism or improper influence is proven.

* Why Other Options Are Incorrect:

B . Second lowest priced qualified bidder: Selecting the second lowest bidder without justification violates the principle of fairness and cost-efficiency.

C . Third lowest bidder pending state disbarment: This vendor is not a qualified bidder due to pending disbarment.

D . Highest priced qualified bidder with the highest quality products: If quality specifications are already met by lower bidders, selecting the highest-priced bidder is unjustifiable.

* Reference and Documents:

Federal Acquisition Regulation (FAR): Requires selecting the lowest qualified bidder.

GAO Guide on Procurement Standards: Emphasizes fairness and cost-effectiveness in vendor selection.

Question 10

Question Type: MultipleChoice

Government entity SEA reporting provides users of general purpose financial reports with an

Options:

A- evaluation of the effects of changes in public policy.
B- assessment of financial condition and results of operations.
C- assessment of the accountability of the public administrators.
D- evaluation of the efficiency and effectiveness of governmental programs.

Answer:

D

Explanation:

Service Efforts and Accomplishments (SEA) Reporting:

SEA reporting is designed to provide non-financial performance information about the efficiency and effectiveness of government programs.

It evaluates how well resources are being used to achieve desired outcomes, helping stakeholders assess program performance and accountability.

Explanation of Answer Choices:

A . Evaluation of the effects of changes in public policy: Incorrect. SEA reporting does not focus on policy changes but on program performance.

B . Assessment of financial condition and results of operations: Incorrect. This is the role of financial statements, not SEA reports.

C . Assessment of the accountability of the public administrators: Incorrect. While SEA reports indirectly support accountability, their main purpose is to assess program efficiency and effectiveness.

D . Evaluation of the efficiency and effectiveness of governmental programs: Correct. This is the primary focus of SEA reporting.

GASB, Concepts Statement No. 2: Service Efforts and Accomplishments Reporting.

GFOA, Performance Reporting in Government.

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