Exam : **CFE Fraud Investigations and Legal Issues**

Title : Certified Fraud Examiner (CFE) - Fraud Investigations and Legal Issues

Version : DEMO

1.Which of the following statements about civil actions in most jurisdictions is CORRECT?
A. The plaintiff's complaint must typically contain a copy of all documents that might be relevant to the case.
B. Civil actions begin with the filing of a pleading, usually in the jurisdiction where the defendant resides or where the claim originated.
C. The plaintiff's complaint does not need to state the grounds for legal relief.
D. All of the above are correct.
Answer: B
Explanation:
This question tests your knowledge of Domain 1.
In the context of Overview of the Legal System, specifically relating to civil, the question asks about civil actions in most jurisdictions is CORRECT, CORRECT.
The correct answer is B: Civil actions begin with the filing of a pleading, usually in the jurisdiction where the defendant resides or where the claim originated.
This question relates to the legal system framework. Understanding the distinction between different legal systems and processes is crucial for fraud examiners. The correct answer accurately describes the relationship between different legal entities and their jurisdictions.
Reference:
- CFE Exam Content Outline: Domain 1: Overview of the Legal System
- civil
- Fraud Examiners Manual, Law Section

2.Louis, a Certified Fraud Examiner (CFE). is investigating a potential internal fraud case originating from a whistteblower tip about embezzlement. He discovers that the organization purportedly affected by the embezzlement recorded the tip in a memorandum.
Which type of evidence would the memorandum be considered?
A. Testimonial evidence
B. Incriminating evidence
C. Documentary evidence
D. Verbal evidence
Answer: C
Explanation:
A memorandum recording a whistleblower tip is a written record. The Fraud Examiners Manual defines documentary evidence as evidence “presented in the form of documents such as memoranda, contracts, emails, or other records”. Testimonial evidence comes from oral statements; here, the memorandum itself is the evidence, so it is documentary.

3.To prepare an organization for a formal fraud investigation, which of the following steps should be taken?
A. Notify all managers that an investigation will be taking place and why it will be occurring.
B. Alert the subject that they are being investigated by the organization and must comply with any requests.
C. Send an email to staff in affected departments explaining that they might be questioned as part of the investigation.

D. Inform both key decision-makers and the organization’s legal counsel when the investigation is about to start.

Answer: D

Explanation:

Before a formal fraud investigation begins, the organization should prepare carefully while preserving confidentiality. The Fraud Examiners Manual explains that key decision-makers and the organization’s in-house or outside counsel should be notified when the investigation is about to commence. This allows management and counsel to address authority, scope, legal risks, privilege, and evidence-preservation issues.

Option A is too broad because all managers do not need to know the purpose of the investigation.

Option B is improper because alerting the subject can compromise evidence and allow concealment.

Option C is also poor practice because broad email notices can spread confidential information and damage the investigation. Fraud investigations should be controlled on a need-to-know basis from the outset.

4.Lance stole cash from his employer and then deposited the funds into a domestic bank account. Next, he wired the funds to a foreign bank account and engaged in several other transactions using foreign accounts to make them difficult to trace. Finally, he transferred the funds back to a domestic account and then spent the money on some home improvements.

In which of the following stages of money laundering did Lance engage when he spent the money on home improvements?

A. Implementation

B. Layering

C. Integration

D. Placement

Answer: C

Explanation:

The correct answer is C. Integration. Money laundering is commonly described as having three stages: placement, layering, and integration. Placement is the initial introduction of illicit funds into the financial system. Layering involves moving the money through multiple transactions, accounts, or jurisdictions to obscure its source. Integration is the final stage, where the laundered funds are reintroduced into the economy and used in ways that appear legitimate. FinCEN and the FFIEC both describe integration as the stage where illicit proceeds are returned to the criminal in apparently lawful form, after the paper trail has been obscured.

In Lance’s fact pattern, the deposit of stolen cash into a domestic account reflects placement. The wires to foreign accounts and multiple transfers are classic layering because they are designed to make the funds difficult to trace. When Lance finally brings the money back and spends it on home improvements, he is using the funds as if they were legitimate personal assets. That is the hallmark of integration. FinCEN also notes that purchases of real estate-related assets and improvements commonly appear in the last stage of laundering because they help the criminal enjoy the proceeds with a veneer of legitimacy.

5.When documenting interviews, it is best practice for the interviewer to:

A. Record notes from all interviews that have been conducted in the same document for easy reference.

B. Avoid drawing unnecessary attention to electronic recording devices, if legally permitted to record, so the interviewee is not distracted.
C. Conclude the interview notes by documenting any opinions or impressions regarding each subject's guilt or innocence.
D. Transcribe all the subject's responses using their exact words to prevent any potential claims of misquotation.

Answer: B

Explanation:

Interview documentation should be accurate, objective, and useful, but the interviewer should avoid practices that distract the interviewee or compromise rapport. If recording is legally permitted, electronic recording equipment should not become the focus of the interview.
Option B reflects the practical goal of reducing distraction.
Option A is poor practice because each interview should generally be documented separately to preserve clarity and organization.
Option C is improper because fraud examiners should not document opinions on guilt or innocence; that determination belongs to the fact finder.
Option D is too rigid because interview notes normally need not be a verbatim transcript, though key statements may be quoted exactly when important. Proper documentation captures relevant facts without unnecessary editorializing.