

# Updated AGA GFMC Exam Questions with Accurate Answers in PDF



## AGA GFMC

Examination 3: Governmental Financial Management and Control (GFMC)

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### AGA GFMC Exam Syllabus Topics:

Topic	Details
Topic 1	<ul style="list-style-type: none"><li>• Financial and Managerial Analysis Techniques: This section of the exam measures the skills of budget analysts and financial managers in using quantitative tools and data to assess financial decisions. It includes techniques like trend and ratio analysis, forecasting, regression, and data analytics. It also tests understanding of data sources, reliability, and how forensic auditing can be used for deeper insight into financial activities.</li></ul>

Topic 2	<ul style="list-style-type: none"> <li>• <b>Financial Management Functions:</b> This section of the exam measures the competencies of public sector finance officers and treasury analysts in managing financial operations in government environments. It covers essential areas such as cash flow practices, investment strategy, debt recovery, and procurement processes. Candidates are expected to understand property and inventory systems, evaluate IT-based financial systems, and apply emerging technologies. Shared services and project management principles are also included as foundational knowledge areas.</li> </ul>
Topic 3	<ul style="list-style-type: none"> <li>• <b>Performance Measurement</b></li> <li>• <b>Metrics</b></li> <li>• <b>Service Efforts and Accomplishments:</b> This section of the exam measures the ability of program managers and strategic planners to align performance indicators with organizational outcomes. It covers the integration of financial and non-financial metrics with strategic goals, the importance of transparency and accountability, and how performance data informs budgetary decisions. Candidates must understand stakeholder engagement, baseline setting, legal compliance, and benchmark creation.</li> </ul>
Topic 4	<ul style="list-style-type: none"> <li>• <b>Internal Control:</b> This section of the exam measures the capabilities of compliance officers and internal auditors in implementing and evaluating internal control systems. It includes knowledge of COSO frameworks, OMB standards, and audit procedures aimed at fraud prevention and legal compliance. Candidates must understand roles and responsibilities related to internal control, risk assessment, reporting mechanisms, and enterprise risk management frameworks.</li> </ul>
Topic 5	<ul style="list-style-type: none"> <li>• <b>Auditing:</b> This section of the exam measures the auditing knowledge of financial controllers and government auditors. It focuses on audit standards, types of audits, the audit process, and the responsibilities of both auditors and auditees. Key topics include audit preparation, follow-up, independence, materiality, and the scope of the Single Audit Act. Candidates are also expected to be familiar with fieldwork, reporting, and confidentiality concerns relevant to public sector audits.</li> </ul>

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## New GFMC Test Testking & Valid GFMC Exam Experience

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## AGA Examination 3: Governmental Financial Management and Control (GFMC) Sample Questions (Q52-Q57):

### NEW QUESTION # 52

In state and local financial audits, material weaknesses must be reported to the

- A. legislature.
- **B. governing body.**
- C. local media.
- D. taxpayers.

**Answer: B**

Explanation:

What Are Material Weaknesses?

\* A material weakness in internal control is a deficiency or combination of deficiencies that creates a reasonable possibility of a material misstatement in the financial statements that would not be prevented or detected in a timely manner.

\* In the context of state and local financial audits, material weaknesses must be reported to those charged with governance, as they are responsible for oversight and corrective actions.

Why Is the Governing Body the Correct Answer?

\* The governing body (e.g., city council, county board, or state commission) is directly responsible for overseeing the entity's financial operations and ensuring accountability. Reporting material weaknesses to them ensures that corrective actions can be implemented to strengthen internal controls.

\* Auditors communicate such findings through an audit report or a management letter addressed to the governing body.

Why Other Options Are Incorrect:

\* A. Legislature: The legislature may have oversight of state budgets and appropriations but is not the direct governing body for financial audits.

\* C. Taxpayers: While transparency is important, material weaknesses are not directly reported to taxpayers. They may be disclosed in public audit reports, but taxpayers are not the primary audience.

\* D. Local media: Material weaknesses are not formally reported to the media; their disclosure depends on the entity's public reporting processes.

References and Documents:

\* GAO Yellow Book (GAGAS): Requires auditors to report material weaknesses to those charged with governance.

\* GASB (Governmental Accounting Standards Board): Emphasizes the importance of communicating significant audit findings to governing bodies.

\* AICPA Audit Standards (AU-C 265): Requires auditors to communicate material weaknesses to management and those charged with governance.

### NEW QUESTION # 53

The four general government auditing standards are

- A. planning, internal controls, independence and irregularities.
- **B. qualifications, independence, due professional care and quality control.**
- C. supervision, planning, management controls and evidence.
- D. compliance, timeliness, qualifications and due professional care.

**Answer: B**

Explanation:

What Are the Four General Government Auditing Standards?

\* These standards, as defined in the GAO Yellow Book (Government Auditing Standards):

\* Qualifications: Auditors must have the necessary professional skills and competence to perform their work.

\* Independence: Auditors must remain free from personal, external, and organizational impairments to maintain objectivity.

\* Due Professional Care: Auditors must exercise care and diligence, adhering to professional standards and ethical requirements.

\* Quality Control: Auditors must establish and maintain a system of quality control to ensure audit work meets professional standards.

Why Is Option D Correct?

\* These four elements are explicitly outlined in the GAO Yellow Book as the core principles of government auditing standards.

Why Other Options Are Incorrect:

\* A. Compliance, timeliness, qualifications, and due professional care: Timeliness and compliance are not part of the four general standards; they are components of audit objectives.

\* B. Supervision, planning, management controls, and evidence: These are aspects of audit performance, not general standards.

\* C. Planning, internal controls, independence, and irregularities: Planning and internal controls are part of the audit process, not general standards.

References and Documents:

\* GAO Yellow Book (Generally Accepted Government Auditing Standards - GAGAS): Lists qualifications, independence, due professional care, and quality control as the four general standards.

\* AICPA Audit Standards: Aligns with GAGAS in emphasizing these four principles.

### NEW QUESTION # 54

A sound investment category for pension funds that can be easily valued is

- A. internal investment pools.
- **B. open-ended mutual funds.**
- C. derivative instruments.
- D. reverse repurchase agreements.

**Answer: B**

Explanation:

What Are Open-Ended Mutual Funds?

\* Open-ended mutual funds are investment vehicles that allow investors to buy and sell shares at the current net asset value (NAV), which is determined daily.

\* These funds are highly liquid and can be easily valued, making them a sound investment option for pension funds.

Why Are They Suitable for Pension Funds?

\* Pension funds require investments that are easily valued, transparent, and provide liquidity to meet benefit obligations. Open-ended mutual funds meet all these criteria.

Why Other Options Are Incorrect:

\* B. Reverse repurchase agreements: While they can be part of investment strategies, they are not easily valued compared to open-ended mutual funds.

\* C. Derivative instruments: Derivatives can be complex and difficult to value, making them less suitable for pension funds that prioritize transparency and simplicity.

\* D. Internal investment pools: These are investment vehicles used by governments, but their valuation may not be as straightforward or frequent as mutual funds.

References and Documents:

\* GAO Guide to Investment Management for Pension Funds: Recommends transparent, easily valued investments like mutual funds.

\* AICPA Pension Plan Audit Guidelines: Emphasizes liquidity and valuation in pension fund investments.

### NEW QUESTION # 55

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 necessary.
- C. Outsourcing printing is feasible.
- D. ABC Printing should be awarded the outsourcing contract.

**Answer: C**

Explanation:

\* Understanding the Scenario: The table compares the costs of four printing jobs performed by an "Internal Print Shop" versus three external vendors (Ace Printing, ABC Printing, and Printing, Inc.).

Each vendor's pricing varies by print job type. The task is to evaluate whether outsourcing (hiring external vendors) is a reasonable alternative to keeping the work in-house.

\* Key Considerations in Outsourcing: According to governmental accounting principles and budgeting practices outlined by the Association of Government Accountants (AGA), the decision to outsource should consider:

\* Cost-effectiveness: Does outsourcing reduce costs without compromising quality or service delivery?

\* Operational efficiency: Can outsourcing free up internal resources for other priorities?

\* Comparative pricing: How do external vendor rates compare to internal costs for identical services?

\* Analysis of the Print Jobs: Let's break down the cost comparison for each print job:

\* Zone Map: Internal cost = \$4.23. Cheapest vendor = Printing, Inc., at \$4.00. Outsourcing is cheaper for this job.

\* Agenda Packet: Internal cost = \$23.18. Cheapest vendor = Printing, Inc., at \$22.00. Outsourcing is cheaper for this job.

\* Budget Cover: Internal cost = \$840.00. Cheapest vendor = ABC Printing, at \$624.30. Outsourcing is significantly cheaper for this job.

\* Employee Benefit Brochure: Internal cost = \$6.14. Cheapest vendor = ABC Printing, at \$4.90.

Outsourcing is cheaper for this job.

\* Conclusion Based on Analysis:

\* Across all four print jobs, the lowest-cost external vendor always beats the Internal Print Shop's costs.

\* From a budgetary perspective, outsourcing is feasible as it offers cost savings across all jobs.

\* Why Not A, C, or D?:

\* Option A (Keep printing in-house): Incorrect, as in-house costs are consistently higher than the cheapest external vendor.

\* Option C (Outsourcing is necessary): Incorrect, as feasibility doesn't mean necessity; internal printing is still an option if other factors (like quality or control) outweigh costs.

\* Option D (Award contract to ABC Printing): Incorrect, since the best vendor depends on the job (e.g., Printing, Inc. is cheaper for Zone Map and Agenda Packet).

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Association of Government Accountants (AGA), Government Financial Manager Certification Study Guide: Budgeting, Cost Accounting, and Auditing Principles.

Government Finance Officers Association (GFOA), Best Practices in Outsourcing and Procurement.

**NEW QUESTION # 56**

A township wants to buy a new piece of equipment that will reduce costs by \$20,550 at the end of year 2. If the township could invest its funds at a rate of 10%, what is the most the township should spend now to get the return it desires?

- A. \$16,440
- B. \$20,550
- C. \$18,495
- **D. \$16,983**

**Answer: D**

Explanation:

What Are We Solving For?

\* We are calculating the present value (PV) of \$20,550 to be received at the end of year 2 using a discount rate of 10%.

\* The formula for present value is:  $PV = \frac{FV}{(1+r)^n}$

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