

Audit Report: latest_audit_report

Report Information

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Audit Summary

AI Analysis Insights

Audit Finding: Anomalous IT Department Transactions

Date: October 26, 2023

Subject: Review of Potentially Anomalous IT Department Financial Transactions

Scope: This audit finding summarizes the analysis of a dataset containing 1,000 flagged IT department financial transactions for the period of February 15, 2025, to March 17, 2025. The transactions were flagged as potentially anomalous based on an initial risk scoring system.

1. Most Serious Potential Issues:

* **High-Value Cash Transactions:** The most concerning issue is the prevalence of large cash payments to various vendors. Specifically, transactions such as TRX-000306 (\$10,000 to Vendor D), TRX-004122 (\$14,180.71 to Vendor G), TRX-004166 (\$5,000 to Vendor H), TRX-004753 (\$5,926.69 to Vendor F), TRX-007591 (\$21,078.90 to Vendor I), TRX-008016 (\$4000 to Vendor J), TRX-008064 (\$10,000 to Vendor A), and TRX-008174 (\$11172.50 to Vendor D), TRX-008992 (\$7431.26 to Vendor B), TRX-009659 (\$2686.03 to Vendor C) are red flags. Cash payments, especially in large amounts, are inherently difficult to track and increase the risk of misappropriation and lack of adequate supporting documentation. This increases the risk of ghost vendors or inflated invoices with kickbacks to employees of the IT Department.

* **Checks Paid to Vendors H and I for Large Amounts:** Transaction IDs: TRX-009665 (\$24369.86 to Vendor I), TRX-007223 (\$9282.81 to Vendor I), TRX-008606 (\$66.13 to Vendor I), TRX-008606 (\$66.13 to Vendor I), TRX-009148 (\$31.55 to Vendor F), and TRX-007056 (\$9968.69 to Vendor J), these transactions are red flags. Check payments, especially in large amounts, are inherently difficult to track and increase the risk of misappropriation and lack of adequate supporting documentation. This increases the risk of ghost vendors or inflated invoices with kickbacks to employees of the IT Department. * **Vendor F and I Have Numerous Payments via Cash:** These vendors have some of the most frequent payments done via cash. With cash payments so frequent, it's difficult to track where the funds have been.

* **High-Risk Score & Unusual Vendor Combination:** Transactions involving "Unusual Vendor" designations in conjunction with high-risk scores (even if the amount is low) indicate a potential lack of established vendor vetting processes and create an opportunity for fictitious vendors or shell companies.

****2. Common Patterns:****

* **Vendor Concentration:** A significant number of transactions are concentrated among a small number of vendors (A, B, C, D, E, F, G, H, I and J), with Vendors F, G, H, I and A appearing most frequently. This could point to preferential treatment, lack of competitive bidding, or collusive agreements.

* **Payment Method Anomalies:** There's a noticeable use of cash for relatively large transactions. While not inherently fraudulent, it deviates from typical business practices involving traceable payment methods and poses a higher risk. There is a large amount of Check payments done for various vendors.

* **End-of-Month/Beginning-of-Month Activity:** There seems to be an elevated number of flagged transactions occurring near the end of February and beginning of March, which could indicate pressure to meet budget targets or attempts to conceal fraudulent activity within reporting periods.

* **Low-Value/High-Risk Transactions:** Numerous transactions with low dollar amounts exhibit surprisingly high-risk scores, which is a very unusual combination that begs further investigation. These may be attempts to "test" internal controls or payments to employees of the IT Department.

* **Time Stamp Repetition:** All transaction have the same Time Stamp. It is extremely unlikely that over 9,000 transaction would occur with the same time stamp.

****3. Recommendations for Further Investigation:****

* **Vendor Due Diligence:** Conduct a thorough review of all vendors, focusing on those with a high transaction volume, particularly Vendors A, B, C, D, E, F, G, H, I, and J, and all 'Unusual Vendors'. Verify their legitimacy, conduct background checks, and confirm they are not associated with any employees within the IT Department or related parties.

* **Review and Strengthen IT Department Expense Policies:** Enforce and update expense policies to minimize the use of cash payments, especially for substantial amounts. Implement mandatory competitive bidding for contracts above a certain threshold, ensuring proper documentation of the bidding process.

* **Internal Control Assessment:** Evaluate and strengthen internal controls related to vendor onboarding, invoice processing, payment authorization, and segregation of duties. Perform an audit on the timestamps

* **Targeted Transaction Review:** Investigate high-value cash payments and unusual vendor transactions, with attention to supporting documentation, invoice approvals, and the business purpose of the expenditures.

* **Employee Interviews:** Conduct interviews with key personnel in the IT Department to gain insights into procurement processes, vendor relationships, and the rationale behind specific transactions.

* **Review Risk Scoring Model:** Evaluate the effectiveness of the current risk scoring model to ensure it adequately captures relevant fraud indicators and adjust the model based on findings from this investigation.

****4. Possible Non-Fraudulent Explanations:****

* **Legitimate Cash Requirements:** Some IT-related expenses (e.g., small repairs, emergency purchases) might legitimately require cash payments, although adequate documentation is still essential.

* **Centralized Procurement:** Concentrated transactions with specific vendors might reflect a centralized procurement strategy to leverage volume discounts or preferred vendor agreements.

* **Timing Considerations:** The end-of-month activity could be attributed to standard accounting practices for expense accruals and reconciliation.

* **Inaccurate Risk Scoring:** The risk scoring model may have flaws, leading to false positives. Certain criteria might need recalibration to better reflect the actual risk associated with specific transactions.

* **Bulk Payments:** Vendor payments made to various people are done via batch, to make the payment more efficient.

Conclusion:

The identified anomalies warrant further investigation to determine whether fraudulent activity has occurred. A comprehensive review of vendor relationships, procurement processes, and internal controls is crucial to mitigate the potential risks highlighted in this audit finding. Furthermore, a review of how the risk score is determined would be beneficial.

Flagged Transactions

Showing 50 of 1611 flagged transactions

Transaction Id	Date	Amount	Department	Risk Score
TRX-000002	2025-02-28T16:57:54.778	136.2498948491	IT	64.3927298379
TRX-000008	2025-02-25T16:57:54.778	364.7704257841	IT	63.9804725674
TRX-000009	2025-03-13T16:57:54.778	655.5079355793	IT	28.5228286116
TRX-000020	2025-02-25T16:57:54.778	38.2957770919	IT	58.2997925339
TRX-000023	2025-03-16T16:57:54.778	512.5748458135	IT	60.2085491045
TRX-000026	2025-03-11T16:57:54.778	92.9796894056	IT	33.3537716045
TRX-000030	2025-02-28T16:57:54.778	1232.7082786321	IT	72.9425489475
TRX-000031	2025-02-25T16:57:54.778	1232.0635085784	IT	47.9340410638
TRX-000038	2025-03-12T16:57:54.778	503.8700195266	IT	27.6816385355
TRX-000047	2025-03-14T16:57:54.778	827.5022685751	IT	48.3835418946
TRX-000080	2025-02-17T16:57:54.778	282.0736248881	IT	29.8304278451
TRX-000082	2025-03-09T16:57:54.778	394.7935618877	IT	47.4663805653
TRX-000083	2025-02-15T16:57:54.778	411.2187922064	IT	56.7968227673
TRX-000084	2025-02-23T16:57:54.778	460.1164343367	IT	37.2152795894
TRX-000101	2025-02-22T16:57:54.778	570.3832587423	IT	50.3203644507
TRX-000110	2025-02-17T16:57:54.778	660.0800575284	IT	50.1476176553
TRX-000112	2025-02-22T16:57:54.778	485.9450700499	IT	44.3081365946
TRX-000113	2025-03-04T16:57:54.778	224.3174368021	IT	37.9318250062
TRX-000114	2025-03-13T16:57:54.778	148.7051728417	IT	64.0827855538

TRX-000117	2025-03-08T16:57:54.778	6147.9091715212	IT	48.8446179418
TRX-000119	2025-02-25T16:57:54.778	225.7665766972	IT	58.4268470519
TRX-000123	2025-02-16T16:57:54.778	698.4457905559	IT	34.0206636669
TRX-000138	2025-03-17T16:57:54.778	221.0032276747	IT	45.0133187615
TRX-000141	2025-03-14T16:57:54.778	178.3297151121	IT	38.1550875535
TRX-000143	2025-03-03T16:57:54.778	139.3683077922	IT	60.5826832005
TRX-000144	2025-03-06T16:57:54.778	1511.7857836099	IT	46.0388811925
TRX-000146	2025-02-20T16:57:54.778	6.217925888	IT	62.9003578825
TRX-000172	2025-03-10T16:57:54.778	2805.5687166113	IT	61.9619686367
TRX-000176	2025-02-20T16:57:54.778	15.0397829635	IT	45.0959437029
TRX-000190	2025-03-09T16:57:54.778	80.6704133731	IT	36.5538131131
TRX-000192	2025-03-12T16:57:54.778	435.5857323894	IT	47.5241790419
TRX-000193	2025-03-06T16:57:54.778	127.3367922114	IT	56.3275650281
TRX-000195	2025-02-19T16:57:54.778	276.8979852571	IT	20.3842012477
TRX-000203	2025-03-01T16:57:54.778	206.6489906365	IT	39.8374366704
TRX-000208	2025-03-06T16:57:54.778	29.3578667487	IT	63.5166330202
TRX-000209	2025-02-22T16:57:54.778	335.1813573123	IT	44.0298915612
TRX-000213	2025-03-15T16:57:54.778	48.6130705263	IT	25.2862003824
TRX-000217	2025-02-19T16:57:54.778	39.4602339984	IT	35.2664576714
TRX-000220	2025-03-06T16:57:54.778	412.6857636536	IT	28.4762586043
TRX-000222	2025-02-23T16:57:54.778	381.452041118	IT	73.1899908558
TRX-000226	2025-03-17T16:57:54.778	211.2157040196	IT	40.5920821878
TRX-000250	2025-03-13T16:57:54.778	713.23735039	IT	45.3363039367
TRX-000251	2025-03-04T16:57:54.778	142.6003144179	IT	32.479854292
TRX-000255	2025-02-20T16:57:54.778	416.0851233564	IT	39.8763016178
TRX-000259	2025-02-17T16:57:54.778	789.1212720364	IT	70.5435027503
TRX-000261	2025-02-28T16:57:54.778	387.0603084746	IT	80.1539804996
TRX-000265	2025-02-18T16:57:54.778	67.7872947909	IT	40.7927053502
TRX-000271	2025-03-14T16:57:54.778	1328.1804841265	IT	47.943984448
TRX-000276	2025-03-13T16:57:54.778	892.9905429483	IT	58.1525071759
TRX-000280	2025-02-17T16:57:54.778	454.9471189479	IT	54.9614385354