ALGORITHMS FOR FRAUD AND CORRUPTION DETECTION

Vicente Humberto Monteverde, PhD

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e-mail: globalyayinlari@gmail.com

https://www.globalacademy.com.tr/

Algorithms against Fraud and Corruption - with practical application

Phd. Vicente Humberto Monteverde

Dedication

This book is dedicated to humanity, to fight against fraud and corruption.

Acknowledgments

To Almighty God.

To my Parents, Grandparents, and my ancestors, I am a part of them.

To my beloved son Ulysses, the reason for my life.

To Dr. Suhail Montaño Sánchez and Dr. Rosalia Susana Lastra Barrios, I thank them for their collaboration on this book.

To Mariana E. Quaizel, my dear cousin, a collaborator on this book.

To my teachers in Data Science, Cristian Darío Ortega Yubro and Gustavo Raul Machin Urbay, without their teaching, it would have been impossible to write this book.

To Luis del Prado, a great friend.

To my Professors, Teachers, and Students.

To Maria Mabel Mazza, the love.

Index

Chapter 01. Abstract

This book explores the practical application of advanced algorithms to **detect, prevent, and mitigate fraud and corruption** in real-world scenarios. The goal is to bridge the gap between algorithmic theory and its practical impact.

Methodology

The article reviews existing algorithmic techniques, such as machine learning and anomaly detection, as applied in this field. It presents and analyzes the results of **three specific algorithms** that have proven efficient in detecting fraud and corruption in real-life cases.

Key Results

The implementation of these algorithms leads to:

- **Reduced financial losses.**
- **Increased detection rates** of illicit activities.
- **Improved efficiency** in oversight and enforcement.

Ultimately, these tools contribute to **greater integrity and accountability** across various sectors.

Practical and Social Implications

The primary practical implication is that these algorithms **directly enhance the efficiency and effectiveness** of detecting and preventing fraud and corruption. They offer concrete tools for organizations to safeguard resources and uphold integrity, moving beyond mere theory.

However, their application carries significant social implications. While they promise **greater transparency and efficiency**, it's crucial to consider the **ethical dilemmas, potential biases, and privacy concerns** that arise when deploying them in the real world.

Originality

This work is **original**, as no other research publishing these specific algorithms and their practical application was available at the time of writing this article. No limitations were identified concerning the models presented.

KEYWORDS: Algorithms, Fraud Analytics, Corruption Detection,

JEL, classification : C45, C53, D73, G28, K42

Chapter 02. Introduction.

In the intricate and often shadowy intersection of unchecked ambition and questionable ethics, **fraud** and **corruption** persist as scourges that erode public trust, divert crucial resources, and undermine the very fabric of our societies and institutions. These illicit practices, ranging from subtle embezzlement to complex networks of bribery and misappropriation, adopt diverse and sophisticated forms, presenting a constant challenge for their detection and prevention.

Traditionally, the fight against fraud and corruption[1] has largely relied on human intuition, retrospective audits, and forensic investigations. While these methods remain valuable, the increasing complexity of financial operations and the vast amount of data generated in the modern world demand a more powerful and proactive approach. It is in this context that **algorithms** emerge as indispensable allies, offering an unprecedented capacity to analyze patterns, identify anomalies, and predict suspicious behaviors in real time.

The present article distinguishes itself by its emphasis on the **practical application** of these tools. We develop the algorithms, including their code, through the creation of datasets and the algorithm's application code.

Through three concrete examples, illustrative case studies, and a detailed index of potential implementations, we will demonstrate how algorithmic concepts translate into tangible and effective tools to combat these scourges. From detecting fraudulent

[1] **Aidt, Toke S.** "Corruption and Economic Growth: A Review of the Evidence." *European Journal of Political Economy*, Vol. 20, No. 2 (June 2004), pp. 401-424.

credit card transactions to identifying irregularities in public tenders and tracking suspicious financial flows, the transformative potential of algorithms in building a more transparent and just world will be unveiled. As an interactive web application presented in the last chapter will show, our approach is not merely theoretical but eminently functional and demonstrative.

This work invites you to discover how the power of **data analysis** and **artificial intelligence** are becoming the vanguard in the battle against fraud and corruption, offering new hope for strengthening integrity and accountability in all areas.

2.Theory of fraud and corruption.

2.1 Definition and Types of Fraud

Evidence of the potential for implementing AI-based algorithms to more deeply and accurately understand the circumstances related to criminal acts in general is still developing. However, we must always account for some degree of limitation derived from the unpredictable nature of the human mind. To define our object of study, let's focus on the following types of fraud: a) bribery, nepotism/favoritism, b) the use of public resources for personal or partisan gain, and c) the abuse of power used to influence political or administrative decision-makers. The importance of focusing on these types lies in their potential to affect everything from the personal economy to macroeconomics. These are operations that interact with society, including practices like money laundering, tax evasion, and even the creation of

monopolies and agreements to impose anti-competitive practices.

2.2 Manifestations of Corruption

Once it's clear that a nuanced difference exists—remember, fraud is a qualified offense characterized by deceit or scam as a specific form of corruption, which refers to any questionable practice whether by omission or abuse of power—let's detail its manifestations. Bribery involves the payment of money or goods in exchange for favors or influence, ranging from obtaining personal or group benefits to avoiding sanctions. Nepotism is defined by the exercise of favoritism towards family or friends in selecting or assigning personnel. Clientelism refers to the exchange of favors or benefits for loyalty or political support, possibly related to influence peddling. Embezzlement of funds implies the improper use of public or private funds, generally in public procurement, leading to the irregular use of contractor or supplier selection procedures. Finally, among the most damaging to public morality, is the manipulation of justice, essentially through undue access to judges, prosecutors, or lawyers.

2.3 Economic and Social Impact of Fraud and Corruption

The analysis of economic-administrative crimes does not yet lead in the use of algorithms, as it still suffers from informational limitations regarding the controversial causes. This explains why, to date, its study is restricted to effects and simple perception measurements, making it essential to transform the

analytical paradigm towards studying the essence of the human being. The good news is that, regarding technical restrictions, the solution is on its way through the action of AI. AI overcomes previous impossibilities of connecting not only real data from individuals and their interactions but also capturing previously hidden circumstances implied by each type of crime, as well as addressing interpretive needs from different viewpoints and disciplinary approaches. The main ones are those concerning frauds that affect economics, politics, sociology, and psychology, using quantitative, qualitative, mixed methods, and case studies, in addition to analyzing both causes and dire consequences.

Economic Impact

Financial fraud represents a significant threat to the global economy. According to a NASDAQ report, in 2023, it was estimated that over $3.1 trillion circulated through the global financial system in illicit funds, comprising $485.6 billion in losses from scams and banking fraud[2].

In Latin America, significant cases of fraud have impacted the regional economy. For example, the JP Morgan Chase case and the Barings Bank fraud are examples of how fraudulent practices can have devastating consequences for financial institutions and the economy in general [3].

[2] Gaceta Sanitaria. (2020). Fraudes financieros, salud y calidad de vida: un estudio cualitativo.

[3] Pirani. (2025). *Cómo prevenir y gestionar el fraude interno*.

Political Impact

Frauds also have an impact on the political sphere, undermining trust in institutions and democratic processes. Corruption and financial scandals can erode the legitimacy of governments and weaken the rule of law.

For instance, in Poland, over 15,000 cases of banking fraud were registered in six months, totaling over €64 million. This increase in fraud has raised concerns about the effectiveness of financial institutions and the need to strengthen oversight and regulatory mechanisms [4].

Furthermore, a qualitative study on financial fraud and quality of life revealed that individuals affected by financial fraud associated with the economic crisis experienced effects on their physical, mental, and social health. People who had received financial compensation for losses generated by the fraud had better health indicators than those who had not received compensation [5].

It's evident that suppressing the aforementioned restrictions represents one of the essential tasks for the scientific community, due to the deterioration caused in, for example, credibility in institutions, the distribution of public resources, and, consequently, immediate harm to society as a whole. The path forward consists of creating approaches that enable

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[4] HuffPost. (2023). *Una jubilada gana el juicio a su banco tras sufrir una estafa bancaria de 10.000 euros*.

[5] BioCatch. (2021). *Abordar el impacto emocional del fraude financiero*.: https://www.biocatch.com/es/blog/abordar-el-impacto-emocional-del-fraude-financiero

their prediction, in addition to prevention and combat, knowing that their disappearance is unlikely as it's intrinsic to human nature. It is true that some cultures have managed to keep the phenomenon under control, notably Japan and the Nordic countries, which have learned from their painful history that, without perception of the damage to future generations, wars inevitably occur under the guise of unethical practices, incompatible with human progress.

Chapter 03. Theory of Fraud and Corruption [6]

3.1 Definition and Classes of Fraud

The potential of implementing AI-based algorithms to more deeply and accurately understand the circumstances related to criminal actions in general is under development, although always with some degree of reduction derived from the unpredictable nature of the human mind. Attempting to define the object of study, let's focus on the following types of fraud: a) **bribery, nepotism/favoritism**, b) the **use of public resources for personal or partisan benefit**, and c) the **abuse of power used to influence political or administrative decision-makers**. The importance of focusing on these types lies in their potential to affect everything from personal finances to macroeconomics, dealing with operations that interact with society, including practices such as **money laundering, tax evasion, and even the creation of monopolies and agreements to impose anti-competitive practices.**

3.2 Manifestations of Corruption

Once it's clarified that there is a nuanced difference—remember, fraud is a qualified crime involving deceit or swindling as a specific form of corruption, which refers to any questionable practice, whether by omission or abuse of power—let's detail. **Bribery** implies the payment of money or goods in exchange for favors or influence to obtain personal or group benefits or to avoid sanctions. **Nepotism** is defined by

[6] This chapter was a collaboration of the Mexican researchers: **Dr. Suhail Montaño Sánchez and Dr. Rosalía Susana Lastra Barrios**

the exercise of favoritism towards family or friends in selecting or assigning personnel. **Clientelism** refers to the exchange of favors or benefits for loyalty or political support, possibly related to influence peddling. **Embezzlement** involves the misuse of public or private funds, generally in public procurement, which leads to irregular selection procedures for contractors or suppliers. Finally, among the most damaging to public morality, is the **manipulation of justice**, essentially through undue access to judges, prosecutors, or lawyers.

3.3 Economic and Social Impact of Fraud and Corruption

The analysis of economic-administrative crimes does not yet lead in the use of algorithms, still suffering from informational limitations regarding the controversial causes. This explains why, to date, their study is restricted to effects and simple perception measurements, making it indispensable to transform the analytical paradigm towards the study of the essence of the human being. The good news is that, regarding technical restrictions, the solution is underway through the action of AI, which overcomes previous impossibilities of connecting, in addition to real data of individuals and their interactions, towards capturing previously hidden circumstances that each type of crime implies, as well as addressing interpretive needs from different points of view and disciplinary approaches. The main approaches are those of fraud affecting economics, politics, sociology, and psychology, using quantitative, qualitative, mixed methods, and case studies, in addition to analyzing both causes and the terrible consequences.

Economic Impact

Financial fraud represents a considerable threat to the global economy. According to a NASDAQ report, in 2023, it was estimated that over **$3.1 trillion** circulated through the global financial system in illicit funds, including **$485.6 billion in losses from scams and bank fraud**[7].

In Latin America, significant cases of fraud have been recorded that have affected the regional economy. For example, the **JP Morgan Chase case and the Barings Bank fraud** are examples of how fraudulent practices can have devastating consequences for financial institutions and the economy in general [8].

Political Impact

Fraud also has an impact on the political sphere, undermining confidence in institutions and democratic processes. Corruption and financial scandals can **erode the legitimacy of governments and weaken the rule of law.**

For example, in Poland, over **15,000 cases of bank fraud** were registered in six months, with a value of more than **€64 million**. This increase in fraud has raised concerns about the effectiveness of financial institutions and the need to strengthen oversight and regulatory mechanisms[9]

Furthermore, a qualitative study on financial fraud and quality of life revealed that individuals affected by

[7] Gaceta Sanitaria. (2020). Financial fraud, health and quality of life: a qualitative study..
[8] Pirani. (2025). How to prevent and manage internal fraud..
[9] HuffPost. (2023). A retiree wins a lawsuit against her bank after being scammed out of 10,000 euros..

financial fraud associated with the economic crisis experienced effects on their physical, psychological, and social health. People who had received financial compensation for losses incurred due to fraud had better health indicators than those who had not received compensation[10]

It is evident that suppressing the aforementioned restrictions represents one of the essential tasks of the scientific community, due to the deterioration caused in, for example, credibility in institutions, the distribution of public resources, and consequently, immediate damage to society as a whole. The path forward involves creating approaches that enable its **prediction, as well as its prevention and combat**, recognizing that its disappearance is unlikely as it is intrinsic to human nature. It is true that some cultures have managed to keep the phenomenon under control, notably **Japan and the Nordic countries**, who have learned from their painful history that, without perception of the damages for future generations, wars inevitably occur under the protection of unethical practices, incompatible with human progress.

[10] BioCatch. (2021). Addressing the emotional impact of financial fraud: https://www.biocatch.com/es/blog/abordar-el-impacto-emocional-del-fraude-financiero

Chapter 04. Psychological and Sociological Analysis of Fraud and Corruption [11]

4.1 Definition and Classes of Fraud

The potential for implementing AI-based algorithms to more deeply and accurately understand the circumstances related to criminal actions in general is still developing. This development always accounts for some degree of limitation stemming from the unpredictable nature of the human mind. To define the scope of study, we'll focus on the following types of fraud: a) **bribery, nepotism/favoritism**; b) the **use of public resources for personal or partisan benefit**; and c) the **abuse of power used to influence political or administrative decision-makers**. The importance of focusing on these types lies in their potential to affect everything from personal finances to macroeconomics, involving operations that interact with society, including practices such as **money laundering, tax evasion, and even the creation of monopolies and agreements to impose anti-competitive practices.**

4.2 Manifestations of Corruption

It's clear there's a nuanced difference: fraud is a specific crime involving deceit or swindling, whereas **corruption** refers to any questionable practice,

[11] This chapter was a collaboration of the Spanish researcher: **Lic. Mariana E.Quaizel**

whether by omission or abuse of power. More specifically, **bribery** involves the payment of money or goods in exchange for favors or influence, aiming to gain personal or group benefits or avoid sanctions. **Nepotism** is defined by showing favoritism towards family or friends in personnel selection or assignment. **Clientelism** refers to exchanging favors or benefits for loyalty or political support, potentially linked to influence peddling. **Embezzlement** implies the misuse of public or private funds, often in public procurement, leading to irregular contractor or supplier selection procedures. Finally, among the most damaging to public morale, is the **manipulation of justice**, essentially through undue access to judges, prosecutors, or lawyers.

4.3 Economic and Social Impact of Fraud and Corruption

The analysis of economic-administrative crimes has not yet fully embraced algorithmic approaches, still hampered by informational limitations regarding their controversial causes. This explains why, to date, studies are often restricted to measuring effects and perceptions, making it essential to shift the analytical paradigm towards understanding the core human element. The good news is that, on the technical front, a solution is emerging through AI. It overcomes previous challenges in connecting real individual and interaction data, enabling the capture of previously hidden circumstances inherent in each type of crime. AI also facilitates the interpretation of needs from various viewpoints and disciplinary approaches, primarily focusing on fraud impacting economics, politics, sociology, and psychology. This involves using quantitative, qualitative, mixed methods, and case studies, as well as analyzing both causes and their daunting consequences.

Economic Impact

Financial fraud poses a significant threat to the global economy. According to a NASDAQ report, an estimated **$3.1 trillion** in illicit funds circulated through the global financial system in 2023, including **$485.6 billion in losses from scams and bank fraud** [1].

In Latin America, substantial fraud cases have impacted the regional economy. For example, the **JP Morgan Chase case and the Barings Bank fraud** illustrate how fraudulent practices can have devastating consequences for financial institutions and the broader economy [2].

Political Impact

Fraud also impacts the political sphere, undermining trust in institutions and democratic processes. Corruption and financial scandals can **erode government legitimacy and weaken the rule of law**.

For instance, in Poland, over **15,000 cases of bank fraud** totaling more than **€64 million** were recorded in six months. This surge in fraud has raised concerns about the effectiveness of financial institutions and the need to strengthen oversight and regulatory mechanisms [3].

Moreover, a qualitative study on financial fraud and quality of life revealed that individuals affected by financial fraud linked to the economic crisis experienced impacts on their physical, psychological, and social health. Those who received financial compensation for losses due to fraud showed better health indicators than those who did not [4].

Clearly, overcoming these restrictions is a crucial task for the scientific community, given the resulting damage to institutional credibility, public resource distribution, and consequently, immediate harm to society as a whole. The path forward involves developing frameworks that enable the **prediction, prevention, and combat** of fraud, acknowledging that its complete eradication is unlikely due to its intrinsic link to human nature. However, some cultures have successfully controlled this phenomenon, notably **Japan and the Nordic countries**. They've learned from their painful histories that, without recognizing the harm to future generations, wars inevitably arise from unethical practices incompatible with human progress.

[1] Gaceta Sanitaria. (2020). Financial fraud, health, and quality of life: A qualitative study. [2] Pirani. (2025). How to prevent and manage internal fraud. [3] HuffPost. (2023). A retiree wins lawsuit against her bank after suffering a €10,000 bank scam. [4] BioCatch. (2021). Addressing the emotional impact of financial fraud.: https://www.biocatch.com/es/blog/abordar-el-impacto-emocional-del-fraude-financiero

Psychological Approach

The Intricate Mental Labyrinth of the Fraudster

Fraud and bribery are complex phenomena that extend beyond simple legal infringements. To thoroughly understand their origins and manifestations, it is fundamental to explore the **psychological and sociological dimensions** that fuel them. This section delves into the intricate world of the human mind and social structures, elucidating the motives and dynamics that foster these damaging behaviors.

Justification and Self-Deception:

Fraudsters often construct narratives that **exculpate their actions**, diminishing their severity and shifting responsibility[12]. Defense mechanisms like denial and projection allow them to maintain a favorable self-image, despite their illicit acts.

The Dark Triad:

Personality traits such as **narcissism, Machiavellianism, and psychopathy** can predispose individuals to fraud[13]. Arrogance, manipulation, and a lack of empathy facilitate the commission of fraudulent acts[14] without remorse.

Contextual Factors:

Economic pressure, excessive ambition, and the perception of impunity can cloud judgment and promote ethically dubious decision-making. The workplace or social environment can normalize fraudulent behaviors, creating fertile ground for corruption.

Psychology of the Fraudster:

The "intricate mental labyrinth of the fraudster" alludes to the complex web of motivations, justifications, and cognitive processes that characterize a person who commits fraud. Although each case is unique, psychological and criminological studies have

[12] Bergoglio, Jorge Mario sj, Cardinal. (2013). *Corruption and Sin*. Editorial Claretiana.
[13] Paulhus, D. L., & Williams, K. M. (2002). The dark triad of personality: Narcissism, Machiavellianism, and psychopathy. *Journal of Research in Personality, 36*(6), 556-563.
[14] Ashforth, B. E., & Anand, V. (2003). The normalization of corruption in organizations. *Research in Organizational Behavior, 25*, 1-52.

identified recurrent patterns in the mental profile of fraudsters. Below, I break down the fundamental elements of this psychological labyrinth:

1. The Fraud Triangle[15]

Criminologist Donald Cressey proposed a classic model to explain fraud, known as: "The Fraud Triangle":

1. **Pressure:** The fraudster experiences pressure, which can be economic (debts, unsustainable lifestyle), personal (maintaining status), or professional (meeting unrealistic goals). This pressure is not always evident to others.
2. **Opportunity:** There is a belief that the fraud can be carried out without being detected, thanks to weaknesses in control systems or privileged access.
3. **Rationalization:** The fraudster justifies their actions to alleviate guilt. Common examples include: "It's just a temporary loan," "The company won't notice," or "I deserve it for my work."

2. Common Psychological Traits

Fraudsters do not always fit the "criminal" stereotype. They are often charismatic, intelligent, and trustworthy individuals, which allows them to gain the credibility of their victims. Some common psychological traits include:

A) **Narcissism:** An exaggerated self-image that leads to the belief that they are above the rules or deserve

[15] Cressey, D. R. (1953). *Other people's money: A study of the social psychology of embezzlement*. Free Press.

more than they have. B) **Lack of Empathy:** Although not all fraudsters are psychopaths, many show an emotional detachment from the harm they cause [16]. C) **Thrill-Seeking:** Some commit fraud not only out of need, but for the adrenaline rush of "getting away with it." D) **Manipulation Capability:** The ability to deceive and persuade, often by exploiting the trust of others.

3. Defense Mechanisms

The fraudster uses psychological mechanisms to manage the cognitive dissonance between their values and their actions:

A) **Denial:** They minimize the severity of their acts ("It's not that big a deal"). B) **Projection:** They blame others, such as the company ("They forced me by not paying me enough"). C) **Constant Rationalization:** They reinterpret the fraud as something morally acceptable.

4. The Fraud Cycle

Fraudulent behavior tends to follow a cycle:

A) **Initiation:** An initial pressure leads to the first act of fraud, often minor. B) **Escalation:** When not discovered, the fraudster becomes bolder, increasing the magnitude of the fraud [17]. C) **Risk Addiction:** Repeated success can create a feeling of invincibility, leading to careless mistakes. D) **Collapse:** Detection,

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[16] Hare, R. D. (1993). *Without conscience: The disturbing world of the psychopaths among us*. Pocket Books.

[17] Ashforth, B. E., & Anand, V. (2003). The normalization of corruption in organizations. *Research in Organizational Behavior, 25*, 1-52.

whether through audits, complaints, or self-inflicted errors, is usually inevitable.

5. Contextual Factors

The environment also shapes the psychological labyrinth:

A) **Organizational Culture:** Companies with high demands for results or a lack of ethics can foster fraud. B) **Normalization of Deception:** In some contexts, small transgressions are seen as "part of the game," which makes it easier to justify larger acts. C) **Lack of Consequences:** If the fraudster perceives no repercussions, the threshold for acting is reduced[18].

6. Emotional Profile

Although fraudsters may appear confident, many experience:

A) **Stress and paranoia:** The fear of being discovered generates constant anxiety. B) **Isolation:** The need to maintain the deception isolates them from authentic relationships. C) **Repressed Guilt:** Although they justify their actions, some face internal conflicts that emerge in times of crisis.

Practical Example

A typical case could be a finance manager who, under pressure to meet unrealistic goals, falsifies reports to show better results. Initially, they justify it as a temporary measure, but over time, the falsification

[18] Klitgaard, R. (1988). *Controlling corruption*. University of California Press.

becomes routine. Their narcissism makes them believe they are too intelligent to be caught, but paranoia consumes them until an auditor discovers the irregularities.

In summary: the intricate mental labyrinth of the fraudster is a web of personal motivations, moral justifications, and contextual opportunities. Understanding this phenomenon requires analyzing both internal (personality, emotions) and external (environment, control systems) factors. Fraud prevention not only involves strengthening controls but also addressing the pressures and cultures that facilitate it.

More recent research, such as that detailed in *The psychology, sociology, and behavioral patterns of a fraudster*, has expanded this model with two additional elements:

- **Motivation:** The main reason for fraud, not always linked to pressure, can include the desire for money, luxury, or other benefits.
- **Capability:** Includes skills such as lying, managing stress, coercing others, and leveraging experience to avoid detection.

These elements interact to form the psychological "labyrinth," where the fraudster navigates between needs, opportunities, and justifications to perpetuate fraud.

Behavioral Indicators

Within an organization, certain behaviors can be warning signs of a potential fraudster. According to *Psychology of Fraud: Profiling the Fraudster in the Organization*, these include:

- **Changes in lifestyle:** Sudden luxury acquisitions, such as vehicles or trips, that do not correspond to the declared salary, may indicate undeclared income.
- **Resistance to sharing tasks:** Refusal to take vacations or delegate responsibilities, to prevent others from detecting irregularities in their work.
- **Changes in behavior:** Increased stress, anxiety, or mood swings without an apparent cause, which may indicate guilt or fear of being discovered.

These indicators, although not definitive, can be useful for identifying possible cases of fraud and strengthening internal controls.

Conclusions

The "intricate mental labyrinth of the fraudster" is a term that reflects the complex interaction between pressures, opportunities, justifications, and personal characteristics that lead a person to commit fraud. Understanding this labyrinth not only helps to detect and prevent fraud, but also to design more effective policies and controls in organizations. Research suggests that a combination of education, robust internal controls, and an ethical culture can significantly reduce the risk.

Sociological Approach

The Social Fabric of Corruption:

The social fabric of corruption encompasses the social, cultural, economic, and institutional dynamics that allow corruption to take root and perpetuate in a

society. This phenomenon is not just an individual act, but behavior deeply ingrained in social structures and relationships. Below, this fabric, its components, the theories that explain it, and strategies to combat it are explored, based on recent research and sociological approaches.

The Culture of Impunity:

When corruption is perceived as a common practice and punishments are lenient [19], a favorable context for its expansion is created. The absence of transparency and accountability undermines trust in institutions and promotes corruption.

Power and Inequality:

Unequal power structures can generate a feeling of injustice and resentment, which some individuals channel through corruption. The concentration of power in the hands of a few facilitates the abuse and embezzlement of resources.

Corruption Networks:

Corruption is often organized into complex networks, where individuals and organizations collaborate to obtain illicit benefits. The influence of social networks in the increase of fraud and corruption and the increase of misinformation.

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[19] Klitgaard, R. (1988). *Controlling corruption*. University of California Press.

The Influence of Media:

Constant exposure to corruption cases in the media can desensitize society and create a perception of normalcy. The impact the media has in constructing a perception of reality, and the effect this has on individuals.

Towards a Comprehensive Understanding

Fraud and corruption are multifaceted phenomena that require a holistic analysis. By combining psychological and sociological perspectives, we can achieve a deeper understanding of their causes and consequences. This knowledge is fundamental for designing effective prevention and combat strategies that foster a culture of integrity and transparency.

Detailed Analysis of the Situation

Components of the Social Fabric:

Power and Clientelism Networks:

Corruption is often sustained by social networks that function as systems for exchanging favors. In many contexts, especially in countries with weak institutions, clientelism is a common practice where political or economic leaders offer resources (jobs, contracts, money) in exchange for loyalty or votes. According to an analysis in *Corruption from a Sociological Perspective*, these networks create a structure of dependence that normalizes corruption as a means to access power or scarce resources.

Example: In Latin America, political clientelism, where parties distribute goods or services in exchange for electoral support, is a key mechanism of

corruption, as detailed in *Corruption and Clientelism: A Sociological Perspective*.

Culture and Social Norms:

Cultural norms significantly influence the perception of corruption. In societies where corrupt acts are tolerated or seen as a "way of life," individuals tend to justify their participation in them. This is known as "normalization of corruption." For example, paying bribes to speed up procedures may be considered an acceptable practice instead of a crime.

Overall Conclusions

- Fraud and bribery are complex phenomena that transcend purely legal aspects, requiring an analysis from psychological and sociological dimensions.
- From a psychological perspective, the fraudster operates within a "mental labyrinth" characterized by justification, self-deception, defense mechanisms like denial and projection, and personality traits such as narcissism, Machiavellianism, and psychopathy.
- Cressey's "Fraud Triangle" (pressure, opportunity, and rationalization) is a key model for understanding the motivation behind fraud.
- Behavioral patterns can alert to potential fraudsters within an organization, such as changes in lifestyle, resistance to sharing tasks, and behavioral alterations.
- Fraud prevention requires a multifaceted approach that combines education, robust internal controls, and the promotion of an ethical culture within organizations.

- Understanding the "fraudster's psychological labyrinth" is crucial for designing effective fraud detection and prevention strategies.

Chapter 05. Introduction to Data Analysis Tools.

In the exciting world of information analysis, the ability to explore, manipulate, and extract valuable knowledge from data is essential. Fortunately, you don't need to invest large sums of money in expensive software to begin this adventure. In this chapter, we'll examine some powerful and accessible tools that are available for free and will allow you to take your first steps (and much more!) into data analysis.

The democratization of access to analytical tools has opened up a range of possibilities for students, professionals, and enthusiasts of all levels. Today, you have access to robust, user-friendly platforms that allow you to perform complex analyses without needing to install software on your computer or worry about licenses.

Why Choose Free Tools?

- **Unrestricted Access:** The main advantage is immediate, cost-free access. This enables you to experiment, learn, and develop your skills without an initial investment.
- **Dynamic Community:** Many of these tools have vibrant and active user communities that share knowledge, answer questions, and create useful resources.
- **Flexibility and Versatility:** These platforms often offer a wide variety of functionalities that adapt to different types of analysis and projects.
- **Constant Updates:** Free tools are typically updated and improved continuously by their

developers, ensuring you always have access to the latest features and enhancements.

Exploring Some Key Tools:

Below, we'll introduce two prominent examples of free platforms that have become pillars for data analysis:

Google Colaboratory (Colab): Your Cloud Data Lab

Imagine having an interactive development environment directly in your browser, without having to install anything on your computer. Google Colaboratory, or simply Colab, offers precisely that.

- **What is Colab?** Colab is a free Python execution environment that runs entirely in the cloud. It's based on Jupyter Notebooks, allowing you to write and run Python code, visualize data, and add explanatory text (like this very paragraph) in a single interactive document: https://colab.google/
- **What is it used for?** Colab is ideal for a wide range of data analysis tasks, including:
    - **Machine learning and artificial intelligence:** It's a popular platform for experimenting with machine learning models thanks to its free access to computing resources (including GPUs and TPUs).
    - **Exploratory data analysis (EDA):** You can load your data, clean it, transform it, and visualize it interactively.

    - **Rapid prototyping:** It's an excellent tool for quickly testing ideas and developing data analysis prototypes.
    - **Collaboration:** You can share your Colab notebooks with other users to work on projects collaboratively.
- **How to access?** You simply need a Google account to access Colab through your web browser.
- **Usage requirements:**
    - **Web browser:** You need a modern web browser (such as Chrome, Firefox, Edge, etc.).
    - **Google account:** A Google account is required to access and save your Colab notebooks.
    - **Internet connection:** Colab runs in the cloud, so a stable internet connection is needed.

Marimo: Interactive Notebooks for Data Science

Marimo is a newer tool gaining popularity in the world of data analysis and data science. It presents itself as an innovative way to create interactive notebooks that are easy to share and deploy.

- **What is Marimo?** Marimo is a Python library that allows you to create interactive notebooks that automatically update as you change parameter values. It's designed to be user-friendly and focused on creating interactive data applications: https://marimo.io/
- **What is it used for?** Marimo is excellent for:
    - **Creating interactive dashboards and visualizations:** It allows you to build

simple user interfaces for exploring data.
    - **Sharing data analysis more dynamically:** Marimo notebooks are easy to share and run by other users.
    - **Developing data application prototypes:** Its focus on interactivity makes it ideal for creating quick demos and prototypes.
- **How to access?** Marimo is a Python library that you can install in your local Python environment (or in Colab, for example!). Its use is free and open source.

Beyond These Two:

It's important to note that many other free and open-source tools are valuable for data analysis, such as programming languages like **Python** and **R**, specific libraries like **Pandas**, **NumPy**, **Scikit-learn**, **Matplotlib**, **Seaborn**, and many more.

In the exciting world of data analysis, the ability to explore, manipulate, and extract valuable information from data is fundamental. Fortunately, you don't need to invest large sums of money in expensive software to begin this journey. In this chapter, we'll explore some powerful and accessible tools that are available for free and will allow you to take your first steps (and much more!) into data analysis.

The democratization of access to analytical tools has opened up a range of possibilities for students, professionals, and enthusiasts of all levels. Today, you have access to robust, user-friendly platforms that allow you to perform complex analyses without

needing to install software on your computer or worry about licenses.

Why Choose Free Tools?

- **Unrestricted Access:** The main advantage is immediate, cost-free access. This enables you to experiment, learn, and develop your skills without an initial investment.
- **Dynamic Community:** Many of these tools have vibrant and active user communities that share knowledge, answer questions, and create useful resources.
- **Flexibility and Versatility:** These platforms often offer a wide variety of functionalities that adapt to different types of analysis and projects.
- **Constant Updates:** Free tools are typically updated and improved continuously by their developers, ensuring you always have access to the latest features and enhancements.

Other Platforms and Development Environments:

In addition to Colab and Marimo, there are other valuable platforms and development environments for data analysis that, in many cases, also offer free or open-source options. Some of these include:

- **Jupyter Notebooks***: The foundation upon which Colab is built, Jupyter Notebooks is an interactive computing environment that allows you to combine code, text, and visualizations in a single document. It can be installed locally and is widely used in the data science community.

https://www.anaconda.com/download; Untitled.ipynb? - JupyterLab
    - **Usage requirements:**
        - **Python installed:** You need to have Python installed.
        - **pip package manager:** pip is required to install the Jupyter library.
        - **Web browser:** It runs in your local web browser.
        - **Terminal or command line:** It's launched from the terminal or command line.
- **RStudio***: A popular integrated development environment (IDE) for the R programming language, offering a user-friendly interface for writing and executing R code, as well as for visualizing data and managing projects. Its basic version is free: https://www.r-project.org/
    - **Usage requirements:**
        - **R installed:** You need to have the R programming language installed on your system.
        - **Compatible operating system:** Available for Windows, macOS, and Linux.
- **Visual Studio Code*** (VS Code): A highly versatile and free code editor that supports a wide range of programming languages, including Python and R, and can be extended with extensions for data analysis and visualization: https://code.visualstudio.com/
    - **Usage requirements:**
        - **Compatible operating system:** Available for Windows, macOS, and Linux.
        - **Installation:** Download and install the software from the official website.

- **Local Python environments***: While Colab is cloud-based, installing Python and libraries like Pandas, NumPy, Matplotlib, Seaborn, etc., on your own computer gives you full control over your development environment.
    - **Usage requirements:**
        - **Python installed:** You need to install Python on your operating system.
        - **pip package manager:** Used to install the necessary libraries.
        - **Text editor or IDE:** You need a text editor or an IDE to write your Python code.

This point has introduced you to the exciting world of free tools for data analysis. Platforms like Colab and Marimo are just two examples of how you can start exploring and working with data without needing to make a financial investment. Throughout this course, we will delve deeper into the use of these and other tools, equipping you with the necessary skills to begin your journey in the fascinating field of data analysis. Get ready to discover the power of data at your fingertips!

Chapter 06. Introduction to Algorithms and Artificial Intelligence.

To understand the scope of algorithms in the battle against fraud and corruption, it's essential to establish a firm foundation regarding their nature, operation, and their connection to artificial intelligence (AI). The purpose of this chapter is to offer an introduction to these essential concepts, laying the groundwork for a deeper understanding of the applications that will be explored in subsequent chapters.

What are Algorithms? Fundamental Concepts

In essence, an **algorithm** constitutes a set of precise and unambiguous instructions or rules that are followed to solve a problem or execute a specific task. Consider an algorithm as a culinary recipe: a sequence of ordered and exact steps that, when followed appropriately, will produce a desired result. In the context of computer science, algorithms are the foundation of any program or system.[20]

Algorithms are distinguished by several relevant characteristics:

- **Finiteness:** They must conclude after a defined number of steps.
- **Definition:** Each step must be clearly specified and unambiguous.
- **Input:** They can receive zero or more initial values.
- **Output:** They must generate one or more target values.

[20] **Aggarwal, Charu C.** *Data Mining: The Textbook*. Springer, 2015.

- **Effectiveness:** Each step must be elementary enough to be performed in principle by a person using paper and pencil within a limited time.

Algorithms can be designed to carry out a wide variety of tasks, from sorting a list of numbers to performing complex calculations. In the field of fraud and corruption detection, algorithms are used to analyze data, identify patterns, discover anomalies, and make decisions based on available information.[21]

Significant Types of Algorithms for Fraud and Corruption Detection

There are various classes of algorithms, each with its own strengths and limitations, that are particularly relevant for identifying fraud and corruption. Some of the most significant include:

- **Classification Algorithms:** These algorithms are used to categorize data into different classes or groups. In the context of fraud detection, they can classify a transaction as "fraudulent" or "non-fraudulent" based on a set of attributes. Examples include decision trees, support vector machines (SVM), and neural networks.
- **Clustering Algorithms:** These algorithms group similar data into sets or "clusters" without prior categorization. They can be useful for recognizing unusual behaviors or schemes that might indicate fraud or corruption. Examples include k-means and DBSCAN.

[21] **Bishop, Christopher M.** *Pattern Recognition and Machine Learning*. Springer, 2006.

- **Anomaly Detection (Outlier Detection) Algorithms:** These algorithms are specifically designed to locate data points that deviate significantly from usual behavior. They are fundamental for detecting suspicious transactions or atypical activities. Examples include algorithms based on distance, density, or deviation.
- **Network Analysis Algorithms:** These algorithms study the relationships and connections between different entities (people, organizations, transactions, etc.). They are essential for identifying collusion schemes or corruption plots. Examples include centrality analysis and community detection.

Introduction to Artificial Intelligence and Machine Learning

Artificial Intelligence (AI) is a field of computer science dedicated to creating systems capable of performing tasks that typically require human intelligence. The goal of AI is to develop machines that can reason, learn, and make decisions similar to humans.[22]

Machine Learning (ML) is a branch of AI that focuses on developing algorithms that can learn from data without being explicitly programmed. Instead of following fixed instructions, ML algorithms examine vast datasets to discover patterns, make predictions, and improve their performance over time.

[22] **Russell, Stuart J., and Peter Norvig.** *Artificial Intelligence: A Modern Approach*. Pearson, 4th ed., 2021.

There are different types of machine learning relevant for fraud and corruption detection:

- **Supervised Learning:** Algorithms acquire knowledge from **labeled data**, i.e., data where the desired outcome is known (for example, fraudulent vs. non-fraudulent transactions). They are used for classification and prediction tasks.
- **Unsupervised Learning:** Algorithms learn from **unlabeled data**, seeking hidden patterns and structures within the data. They are used for tasks such as clustering and anomaly detection.
- **Reinforcement Learning:** Algorithms learn through interaction with an environment, receiving rewards or penalties for their actions. Although less common in direct fraud detection, it can be applied in optimizing prevention strategies.

AI and ML are crucial for developing more sophisticated and adaptable fraud and corruption detection systems, capable of learning new behaviors and improving their accuracy over time.

Ethics and Biases in Algorithms

While algorithms and AI offer great potential in the fight against fraud and corruption, it is fundamental to recognize and address the ethical implications and potential biases inherent in these systems.

Algorithms learn from the data they are fed. If the training data contains **biases** (for example, if they

reflect historical patterns of discrimination), the algorithm can learn and perpetuate those prejudices in its predictions and decisions. This could lead to unfair or discriminatory results in fraud and corruption detection, disproportionately affecting certain groups.

It is essential to consider ethical aspects such as **data privacy**, **transparency** in algorithm operation (the "black box" of some AI models can make it difficult to understand how decisions are made), and **accountability** in case of errors or incorrect decisions.

The responsible implementation of algorithms in the fight against fraud and corruption requires a thorough evaluation of potential biases, ensuring transparency, and adopting ethical frameworks to guide their design, implementation, and use.

Importance of Technology Against Corruption

Corruption and fraud are complex problems that demand innovative solutions. The application of algorithms and data analysis offers significant potential to strengthen the fight against these practices, allowing for:

- **Early identification** of suspicious schemes.
- **Efficient analysis** of large volumes of data.
- **Recognition of hidden networks** and connections.
- **Automation of monitoring** and control processes.
- **Increased clarity** in processes.

Chapter 07. Methodology

This book adopts a **practical and results-oriented approach** to demonstrate the effective deployment of advanced algorithms in combating fraud and corruption. Our methodology is designed to **bridge the gap between theoretical algorithmic capabilities and their tangible, real-world application.**

Design and Approach

Our approach begins with a comprehensive **review of existing algorithmic techniques** pertinent to fraud and corruption detection. This includes an examination of various **machine learning methods** and **anomaly detection strategies** that have shown promise in this domain.

The core of our methodology involves the **presentation and practical application of three distinct algorithms**. These algorithms have been carefully selected for their efficiency in detecting fraud and corruption within real-life scenarios. For each algorithm, we will:

- **Detail its underlying principles** and how it addresses specific types of illicit activities.
- **Present the creation of relevant datasets** that simulate real-world conditions for fraud and corruption.
- **Provide the algorithm's application code**, enabling reproducibility and practical understanding.
- **Showcase the results** derived from its application to these datasets.

This hands-on approach, emphasizing code and data, distinguishes our work by demonstrating the practical effectiveness of these tools rather than merely discussing their theoretical potential.

Expected Outcomes and Implications

The implementation of this methodology is expected to yield several significant results. These include a demonstrated capacity for **reduced financial losses, increased detection rates of illicit activities, and improved efficiency in oversight and enforcement** across various sectors. Ultimately, these practical applications aim to contribute to greater **integrity and accountability.**

While the models themselves have no inherent limitations in their design, it is crucial to acknowledge the **social implications** of deploying such powerful tools. Algorithms offer a promise of enhanced transparency and efficiency in combating fraud and corruption. However, their real-world application necessitates careful consideration of **ethical dilemmas, potential biases** embedded within training data, and paramount **privacy concerns.**

The **practical implication** of this work is to directly enhance the efficiency and effectiveness of fraud and corruption detection and prevention. By moving beyond theoretical discussions, we aim to offer concrete, deployable tools that organizations can use to safeguard resources and uphold integrity.

Originality and Value

This research's **originality and value** lie in its unique focus on presenting specific algorithms with their practical application and corresponding code—a

combination not widely published at the time of this article's writing. This work serves as a valuable resource for practitioners and researchers alike, advancing the practical front in the ongoing battle against fraud and corruption.

Chapter 08. Algorithms against fraud.

Identifying online fraudulent operations is essential for e-commerce security. Algorithms play a crucial role in evaluating each transaction in real-time to determine its legitimacy.

Operational Data Analysis

Multiple attributes of each transaction are examined, including credit or debit card information, shipping address, billing address, purchase amount, and currency. Algorithms look for suspicious patterns, such as high-value transactions from atypical locations or with inconsistent payment information.

Customer Information Verification

Algorithms are used to verify the authenticity of customer-provided information by comparing it against databases of fraudulent records or credit information. This can include verifying the IP address, email, and phone number.

Identification of Known Fraud Schemes

Rule-based and machine learning algorithms are implemented to identify known fraud patterns, such as stolen card usage, phishing, or triangulation fraud.

Analyzing customer behavior over time offers valuable information for identifying e-commerce fraud.

Habitual Behavior Modeling

Algorithms build habitual behavior profiles for each customer based on their purchase history, Browse, and other interactions on the platform.

Identifying Deviations from Habitual Behavior

Any activity that significantly deviates from the customer's habitual behavior can be a red flag. This could include sudden changes in purchasing patterns, the use of unusual payment methods, or purchases in product categories that are uncommon for the customer.

Browse Path Analysis

Algorithms can analyze how a customer navigates the website, looking for suspicious behaviors such as quickly adding numerous items to the cart without exploring products or making an unusually fast purchase.

In summary, algorithms are indispensable tools for protecting the e-commerce environment from fraud. By examining operational information, customer information, and behaviors, these systems help identify and prevent fraudulent activities, ensuring a safer and more reliable shopping experience for all users.

-Algorithm Application[23]

We will develop the application of algorithms based on the following procedures:

- The datasets used in this book will be generated by code, thus avoiding practical and legal issues related to the use of real data. The

[23] **Mitchell, Tom M.** *Machine Learning*. McGraw-Hill, 1997.

goal is to establish datasets that exemplify plausible scenarios.

- Most of the example datasets will consist of 30 records, indexed from 0 to 29 (following the convention in data science).
- The variables used will simulate data relevant to fraud and corruption analysis.
- Specific applications of the algorithms will be presented, developing open-source code based on data science. The reader will have an appendix with a glossary of the tools and libraries used.
- Using datasets with similar characteristics to those presented, the reader will be able to directly apply the algorithms to their own data and analyze the resulting outputs as conclusions. It is clarified that each time the dataset construction code is executed, the data will change randomly.
- The reader will have access to the author's and Github repository: https://github.com/Viny2030/algorithms_fraud_corruption
-), where they will find the datasets and open-access code notebooks.
- The datasets will be available as .csv files, along with two Colab notebooks containing the developed code and their respective outputs, all with open access: https://github.com/Viny2030/algorithms_fraud_corruption
- The main objective of this book is to propose practical applications of basic data science code, using open-access libraries.
- Each algorithm, its dataset, explanation, code, output, and explanation of the output are delimited by '======' to facilitate their presentation and understanding in the text.

- The construction of the datasets and the analysis of the outputs resulting from the application of the algorithms will be explained in detail, facilitating the observation and understanding of the results.

We will develop the following algorithm in this chapter:

1. **Algorithm:** The Python code uses the pandas, scikit-learn, os, and numpy libraries to analyze e-commerce data with the aim of detecting possible fraud and suspicious activities. Data is loaded, and various transformations and analyses are performed, including the identification of fraudulent transactions, the detection of fake accounts, and user behavior analysis.

I) E-commerce fraud analysis algorithm using logistic regression to classify transactions as fraudulent or not, DBSCAN to cluster IP addresses, and a simplified user behavior analysis to identify highly active users.

Dataset = df_ecomerce.csv

The reader can access the dataset in the author's repository:

https://raw.githubusercontent.com/Viny2030/algorithms_fraud_corruption/refs/heads/main/df_ecommerce.csv

	Transaction_ID	Amount	Date_Time	User_ID	IP_Address	Product	Is_Fraudulent
0	1	9864.48	2024-12-31 13:38:39.874220	heidichase	192.168.104.70	Charger	0
1	2	4042.04	2025-04-08 21:28:40.551705	lmiranda	192.168.237.213	T-shirt	1

2	3	477.49	2025-05-18 15:57:24.6 88353	zreese	10.3.132.230	Shoes	0
3	4	835.04	2025-03-06 17:34:17.6 93536	adammendoza	172.27.31.250	Charger	0
4	5	14063.93	2024-10-10 18:19:05.4 66110	rochaedward	172.17.54.119	Book	0
5	6	12149.2	2025-03-11 22:54:23.6 06329	sandra00	88.20.162.106	Smartphone	1

Dataset Column Descriptions:

Transaction_ID:

- A unique identifier for each transaction.
- Allows for tracking and referencing each transaction individually.
- In your example, the values are 1, 2, 3, 4, 5, and 6. In a complete dataset, we'd expect each transaction to have a different ID.

Amount:

- The monetary value of the transaction.
- Values are numbers (e.g., 50.00, 1000.50).
- This data is crucial, as unusually high or low amounts can be indicators of fraud.

Date_Time:

- The date and time the transaction was made.
- Allows for analyzing temporal trends, such as fraud occurring at certain times of day or days of the week.
- In your example, all transactions occur between March 10, 2024, at 10:00 and March 10, 2024, at 10:20.

User_ID:

- The identifier of the user who made the transaction.
- Allows for tracking the activity of individual users.
- In your example, there are users like "user123," "guest456," "user789," "fraudster01," and "user987."

IP_Address:

- The IP address from which the transaction was made.
- Can help identify the user's location and device.
- Examples in your dataset: "192.168.1.10," "10.0.0.5," "1.2.3.4."

Product:

- The product purchased in the transaction.
- Examples: "Laptop," "Book," "T-shirt," "Shoes," "Television," "Headphones."

Is_Fraudulent:

- A binary variable indicating whether the transaction is considered fraudulent (1) or not (0).
- This is the target variable, the one intended to be predicted.
- In your example, only the transaction with Transaction_ID 5 is marked as fraudulent.

Code:

The reader can access the Algorithm in the author's repository.

https://github.com/Viny2030/algorithms_fraud_corruption/blob/main/fraud.ipynb

```
import pandas as pd
from sklearn.model_selection import
train_test_split
from sklearn.linear_model import
LogisticRegression
from sklearn.preprocessing import
StandardScaler, LabelEncoder
from sklearn.metrics import
classification_report, accuracy_score
from sklearn.cluster import DBSCAN
import numpy as np
import matplotlib.pyplot as plt
import seaborn as sns
from faker import Faker
import random
import datetime

# Initialize Faker for data generation
fake = Faker()
num_records = 30

# Generate synthetic e-commerce data
# MODIFIED URL TO RAW FORMAT
url =
'https://raw.githubusercontent.com/Viny2030/
algorithms_fraud_corruption/main/df_ecommerc
e.csv'
df_ecommerce = pd.read_csv(url)
```

```
df_ecommerce['Date_Time'] =
pd.to_datetime(df_ecommerce['Date_Time']) #
Convert the column to datetime

# Mark nighttime transactions as fraudulent
(example rule)
# Ensure 'Is_Fraudulent' column exists
before assigning values
if 'Is_Fraudulent' not in
df_ecommerce.columns:
    df_ecommerce['Is_Fraudulent'] = 0 #
Initialize with 0 (not fraudulent)

for index, row in df_ecommerce.iterrows():
    if row['Date_Time'].hour >= 21:
        df_ecommerce.at[index,
'Is_Fraudulent'] = 1

# 4.1 Online Fraudulent Transaction
Identification
print("\n---")
print("## 4.1 Online Fraudulent Transaction
Identification (Logistic Regression
Example)")
print("---")
if 'Amount' in df_ecommerce.columns and
'Date_Time' in df_ecommerce.columns and
'Is_Fraudulent' in df_ecommerce.columns:
    # Extract temporal features
    df_ecommerce['Hour'] =
df_ecommerce['Date_Time'].dt.hour
    df_ecommerce['Day_of_Week'] =
df_ecommerce['Date_Time'].dt.dayofweek

    # Encode categorical variables
```

```
    # Only encode 'Product' and 'IP_Address'
for features, 'User_ID' is used for
behavioral analysis later
    df_encoded_transactions =
pd.get_dummies(df_ecommerce,
columns=['Product'], prefix='Prod',
dummy_na=False)
    df_encoded_transactions =
pd.get_dummies(df_encoded_transactions,
columns=['IP_Address'], prefix='IP',
dummy_na=False, prefix_sep='_')

    # Select features for the model
    # Filter out columns that might not
exist after one-hot encoding if a category
is missing
    features_transactions = ['Amount',
'Hour', 'Day_of_Week'] + \
                            [col for col in
df_encoded_transactions.columns if
col.startswith('Prod_')] + \
                            [col for col in
df_encoded_transactions.columns if
col.startswith('IP_')]

    # Ensure all selected features are
actually in the DataFrame
    features_transactions = [col for col in
features_transactions if col in
df_encoded_transactions.columns]

    if 'Is_Fraudulent' in
df_encoded_transactions.columns and
all(feature in
df_encoded_transactions.columns for feature
in features_transactions):
```

```
        X_trans =
df_encoded_transactions[features_transaction
s]
        y_trans =
df_encoded_transactions['Is_Fraudulent']

        # Handle cases where there's only
one class in y_trans
        if len(np.unique(y_trans)) < 2:
            print("\nCannot perform logistic
regression: 'Is_Fraudulent' column has only
one unique class.")
        else:
            X_train_trans, X_test_trans,
y_train_trans, y_test_trans =
train_test_split(X_trans, y_trans,
test_size=0.3, random_state=42,
stratify=y_trans)

            scaler_trans = StandardScaler()
            X_train_scaled_trans =
scaler_trans.fit_transform(X_train_trans)
            X_test_scaled_trans =
scaler_trans.transform(X_test_trans)

            model_ecommerce =
LogisticRegression(random_state=42,
solver='liblinear') # Use liblinear for
smaller datasets
            model_ecommerce.fit(X_train_scal
ed_trans, y_train_trans)
            y_pred_ecommerce =
model_ecommerce.predict(X_test_scaled_trans)

            print("\nLogistic Regression
Predictions:", y_pred_ecommerce)
```

```
            print("Actual Values:",
y_test_trans.values)
            print("Model Accuracy:",
accuracy_score(y_test_trans,
y_pred_ecommerce))
            print("\nClassification
Report:\n",
classification_report(y_test_trans,
y_pred_ecommerce, target_names=list(map(str,
np.unique(y_trans))), zero_division=0))

            # Plotting actual vs predicted
for Logistic Regression
            plt.figure(figsize=(8, 5))
            sns.scatterplot(x=range(len(y_te
st_trans)), y=y_test_trans, label='Actual',
marker='o', s=100)
            sns.scatterplot(x=range(len(y_pr
ed_ecommerce)), y=y_pred_ecommerce,
label='Predicted', marker='x', s=100)
            plt.title('Logistic Regression:
Actual vs. Predicted Fraudulent
Transactions')
            plt.xlabel('Transaction Index')
            plt.ylabel('Is Fraudulent (0=No,
1=Yes)')
            plt.yticks([0, 1])
            plt.legend()
            plt.grid(True)
            plt.show()

    else:
        print("\nCannot perform analysis for
4.1 due to missing necessary columns or
features after encoding.")
else:
```

```
    print("\nCannot perform analysis for 4.1
due to missing necessary initial columns.")

# 4.2 Detection of Fake Accounts and
Malicious Activities
print("\n---")
print("## 4.2 Detection of Fake Accounts and
Malicious Activities (DBSCAN on IPs)")
print("---")
if 'IP_Address' in df_ecommerce.columns:
    le_ip = LabelEncoder()
    df_ecommerce['IP_Encoded'] =
le_ip.fit_transform(df_ecommerce['IP_Address
'])
    ip_array =
df_ecommerce[['IP_Encoded']].values
    scaler_ip = StandardScaler()
    ip_scaled =
scaler_ip.fit_transform(ip_array)

    # Adjust eps based on data scale to get
meaningful clusters
    # A smaller eps might result in more
noise, larger eps in fewer, larger clusters
    # For scaled data, 0.5 is a common
starting point, but it's often tuned.
    dbscan_ip = DBSCAN(eps=0.5,
min_samples=2)
    df_ecommerce['IP_Group'] =
dbscan_ip.fit_predict(ip_scaled)

    print("\nIP Clustering (DBSCAN):")
    print(df_ecommerce[['User_ID',
'IP_Address', 'IP_Group']])
    print("\nIP Groups:",
df_ecommerce['IP_Group'].unique())
```

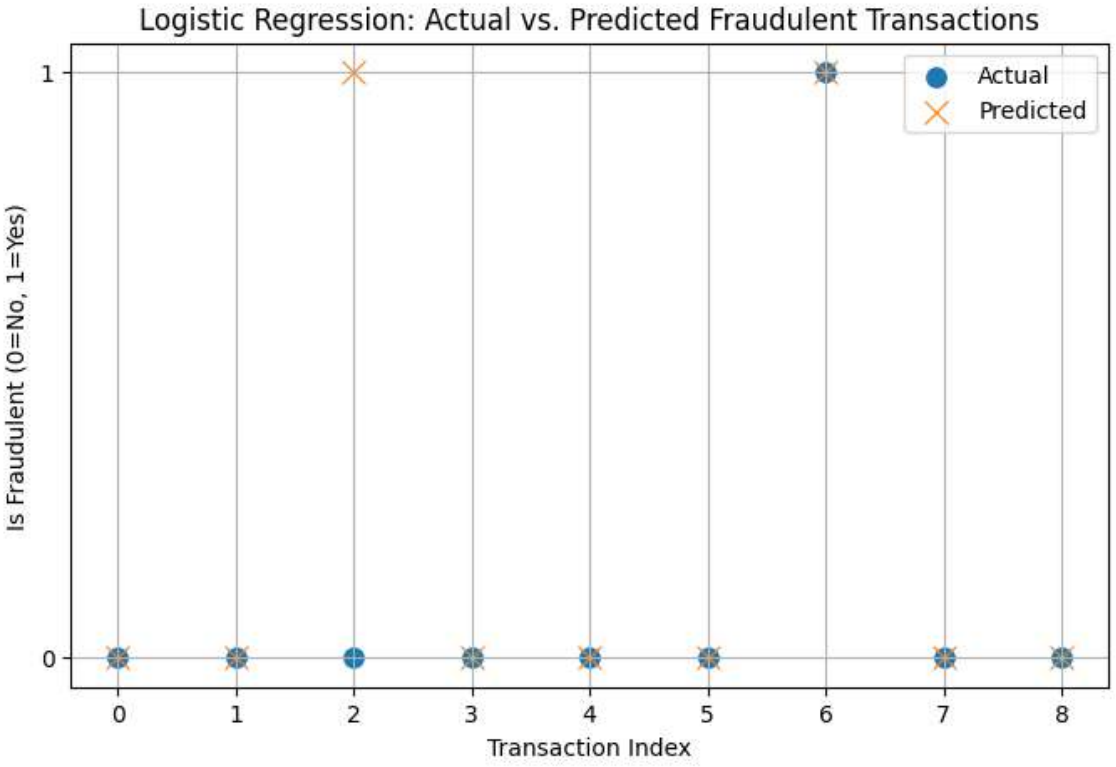
```
    # Count fraudulent transactions per IP
group, excluding noise (-1)
    fraudulent_per_group =
df_ecommerce[df_ecommerce['IP_Group'] != -
1].groupby('IP_Group')['Is_Fraudulent'].sum(
)
    print("\nNumber of Fraudulent
Transactions per IP Group (excluding
noise):")
    print(fraudulent_per_group)

    # Plotting DBSCAN results
    plt.figure(figsize=(10, 6))
    sns.scatterplot(x=df_ecommerce.index,
y=df_ecommerce['IP_Encoded'],
hue=df_ecommerce['IP_Group'],
palette='viridis', legend='full', s=100)
    plt.title('DBSCAN Clustering of IP
Addresses')
    plt.xlabel('Transaction Index')
    plt.ylabel('Encoded IP Address')
    plt.grid(True)
    plt.show()

else:
    print("\nCannot perform analysis for 4.2
because the 'IP_Address' column is
missing.")

# 4.3 User Behavior Analysis for Fraud
Detection (Conceptual Example)
print("\n---")
print("## 4.3 User Behavior Analysis for
Fraud Detection (Conceptual Example)")
print("---")
if 'User_ID' in df_ecommerce.columns and
'Date_Time' in df_ecommerce.columns:
```

```
    user_frequency =
df_ecommerce.groupby('User_ID')['Date_Time']
.count().reset_index(name='Num_Transactions'
)
    print("\nTransaction Frequency per
User:")
    print(user_frequency)

    frequency_threshold = 3
    high_activity_users =
user_frequency[user_frequency['Num_Transacti
ons'] >=
frequency_threshold]['User_ID'].tolist()
    if high_activity_users:
        print(f"\nHigh Activity Users
({frequency_threshold} or more
transactions): {high_activity_users}")
        high_activity_transactions =
df_ecommerce[df_ecommerce['User_ID'].isin(hi
gh_activity_users)]
        print("\nTransactions of High
Activity Users:")
        print(high_activity_transactions[['U
ser_ID', 'Date_Time', 'Amount',
'Is_Fraudulent']])

        # Plotting transaction frequency per
user
        plt.figure(figsize=(12, 6))
        sns.barplot(x='User_ID',
y='Num_Transactions',
hue='Num_Transactions', data=user_frequency,
palette='coolwarm', dodge=False,
legend=False)
        plt.title('Transaction Frequency per
User')
        plt.xlabel('User ID')
```

```
        plt.ylabel('Number of Transactions')
        plt.xticks(rotation=45, ha='right')
        plt.grid(axis='y', linestyle='--',
alpha=0.7)
        plt.tight_layout()
        plt.show()
    else:
        print("\nNo users with high
transaction frequency were found in this
example.")
else:
    print("\nCannot perform analysis for 4.3
due to missing necessary columns.")
```

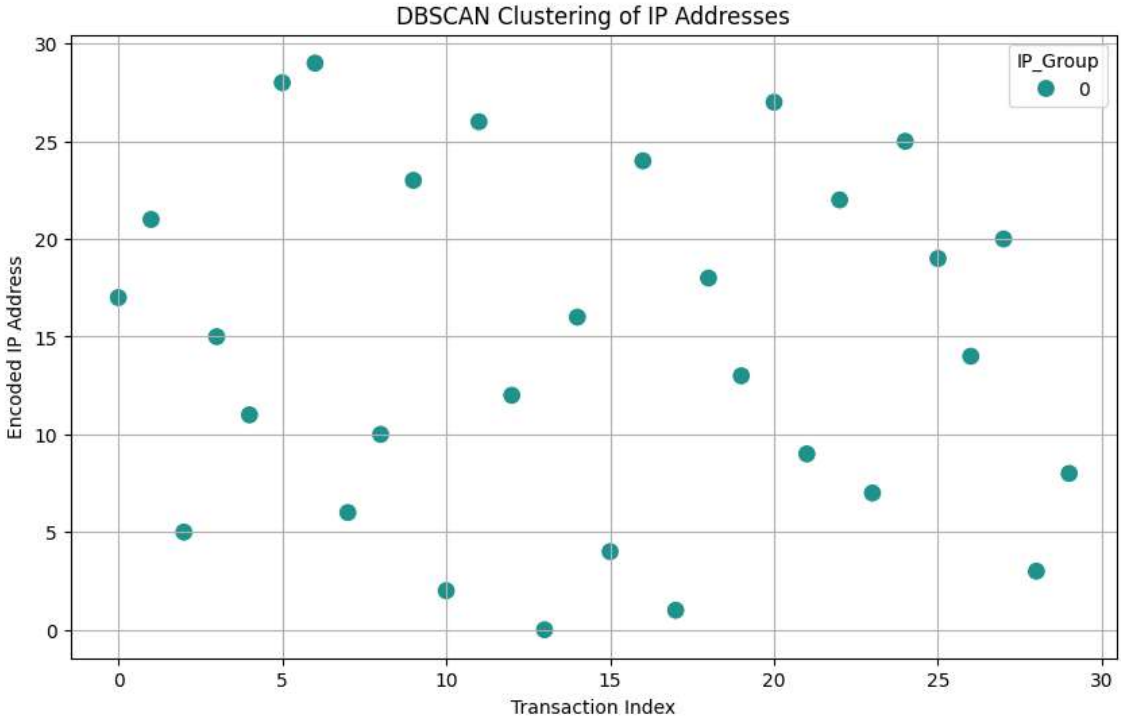
output:

```
## 4.1 Online Fraudulent Transaction
Identification (Logistic Regression Example)
---

Logistic Regression Predictions: [0 0 1 0 0 0 1
0 0]
Actual Values: [0 0 0 0 0 0 1 0 0]
Model Accuracy: 0.8888888888888888

Classification Report:
              precision    recall  f1-score
support

           0       1.00      0.88      0.93
8
           1       0.50      1.00      0.67
1

    accuracy                           0.89
9
   macro avg       0.75      0.94      0.80
9
weighted avg       0.94      0.89      0.90
9
```




```
---
## 4.2 Detection of Fake Accounts and Malicious
Activities (DBSCAN on IPs)
---

IP Clustering (DBSCAN):
          User_ID       IP_Address  IP_Group
0      heidichase   192.168.104.70         0
1        lmiranda  192.168.237.213         0
2          zreese     10.3.132.230         0
3     adammendoza    172.27.31.250         0
4     rochaedward    172.17.54.119         0
5        sandra00    88.20.162.106         0
6       lharrison    88.88.168.137         0
7       jgonzalez    10.87.223.126         0
8          dprice   172.16.252.126         0
9    meaganwalton    192.168.57.43         0
10  harmonanthony   10.144.135.200         0
11       daniel81    52.183.225.24         0
12    carsonjames    172.19.179.77         0
```

```
13          oevans   10.124.237.141         0
14      laurawhite    172.29.145.42         0
15         karen11    10.188.174.33         0
16        sierra36    192.168.87.25         0
17         ewagner   10.139.255.138         0
18     guzmankaren   192.168.146.48         0
19      santosgina     172.20.113.3         0
20          tcurry     71.34.225.88         0
21        mcollier   172.16.228.132         0
22     judyaguilar   192.168.48.224         0
23     marydelgado      10.89.7.208         0
24           ehicks   203.227.27.227         0
25      veronica01  192.168.214.242         0
26      nmccormick   172.23.246.228         0
27         zsuarez  192.168.231.206         0
28         znelson    10.163.12.214         0
29         cpeters   123.218.88.208         0

IP Groups: [0]

Number of Fraudulent Transactions per IP Group
(excluding noise):
IP_Group
0    5
Name: Is_Fraudulent, dtype: int64
```



4.3 User Behavior Analysis for Fraud Detection (Conceptual Example)

Transaction Frequency per User:

	User_ID	Num_Transactions
0	adammendoza	1
1	carsonjames	1
2	cpeters	1
3	daniel81	1
4	dprice	1
5	ehicks	1
6	ewagner	1
7	guzmankaren	1
8	harmonanthony	1
9	heidichase	1
10	jgonzalez	1
11	judyaguilar	1
12	karen11	1
13	laurawhite	1
14	lharrison	1

```
15       lmiranda                1
16    marydelgado                1
17       mcollier                1
18   meaganwalton                1
19     nmccormick                1
20          oevans                1
21    rochaedward                1
22       sandra00                1
23     santosgina                1
24       sierra36                1
25          tcurry                1
26     veronica01                1
27         znelson                1
28          zreese                1
29         zsuarez                1

No users with high transaction frequency were
found in this example.
```

Explanation:

4.1 Online Fraudulent Transaction Identification (Logistic Regression Example)

This section focuses on using a **Logistic Regression model** to identify potentially fraudulent transactions in your e-commerce dataset.

- **Logistic Regression Predictions:** [0 0 1 0 0 0 1 0 0]
    - These are the **binary predictions** made by the model for the test set. A 0 indicates the model predicted the transaction as **not fraudulent**, and a 1 indicates it predicted it as **fraudulent**. In this specific output, the model predicted two transactions as fraudulent (the 3rd and 7th transactions in the test set).
- **Actual Values:** [0 0 0 0 0 0 1 0 0]
    - These are the **true labels** for the test set transactions. In reality, only one transaction (the 7th) was actually fraudulent.

- **Model Accuracy:** 0.8888888888888888
  - This indicates the **overall accuracy** of the model. It correctly predicted 8 out of 9 transactions (8 not fraudulent, and 1 fraudulent). This means about **88.89%** of the predictions were correct.
- **Classification Report:** This provides a more detailed breakdown of the model's performance for each class (0 for non-fraudulent and 1 for fraudulent).
  - **precision**:
    - **For class 0 (Not Fraudulent): 1.00**: When the model predicted a transaction was NOT fraudulent, it was correct 100% of the time. This means there were no "false positives" for non-fraudulent cases (no actual non-fraudulent transactions were incorrectly flagged as fraudulent).
    - **For class 1 (Fraudulent): 0.50**: When the model predicted a transaction was fraudulent, it was correct 50% of the time. This indicates a "false positive" for fraudulent cases: out of the two transactions predicted as fraudulent, only one was actually fraudulent.
  - **recall**:
    - **For class 0 (Not Fraudulent): 0.88**: The model correctly identified 88% of all actual non-fraudulent transactions. This means it missed some non-fraudulent transactions and incorrectly classified them as fraudulent (which aligns with the 0.50 precision for class 1).

        - **For class 1 (Fraudulent): 1.00**: The model correctly identified 100% of all actual fraudulent transactions. This is excellent, as it means the model did not miss any *true* fraudulent transactions (no "false negatives").
    - **f1-score**: This is the harmonic mean of precision and recall, providing a balanced measure.
        - **For class 0: 0.93**: Very good, reflecting both high precision and reasonable recall.
        - **For class 1: 0.67**: Decent, balancing the perfect recall with the lower precision.
    - **support**: This shows the actual number of instances for each class in the test set. There were 8 non-fraudulent transactions and 1 fraudulent transaction.
    - **macro avg**: The unweighted average of precision, recall, and f1-score across both classes.
    - **weighted avg**: The average weighted by the number of instances (support) for each class.

Summary of 4.1: The Logistic Regression model performed quite well at identifying the single fraudulent transaction (perfect recall for class 1), but it also had one false positive (it incorrectly flagged a non-fraudulent transaction as fraudulent). This type of trade-off (high recall for the positive class at the cost of some precision) is often acceptable in fraud detection, where catching all fraudulent cases is often prioritized over a few false alarms.

4.2 Detection of Fake Accounts and Malicious Activities (DBSCAN on IPs)

This section uses the **DBSCAN clustering algorithm** to group transactions based on their IP addresses. The goal is to identify clusters of transactions originating from similar IPs, which could indicate coordinated malicious activity or fake accounts.

- **IP Clustering (DBSCAN) Table:** This table shows the User_ID, IP_Address, and the IP_Group assigned by DBSCAN for each transaction.
    - Each row represents a transaction.
    - IP_Group is the cluster ID assigned by DBSCAN. A value of -1 would indicate "noise" (outliers that don't belong to any cluster), but in this specific output, all transactions are assigned to IP_Group 0.
- **IP Groups: [0]**
    - This confirms that DBSCAN identified only **one cluster (group 0)** among all the provided IP addresses. This suggests that, based on the eps (maximum distance between two samples for one to be considered as in the neighborhood of the other) and min_samples (number of samples in a neighborhood for a point to be considered as a core point) parameters used (0.5 and 2 respectively), all your IP addresses were considered part of the same dense region.
    - **Implication:** If you were expecting to see distinct clusters of suspicious IPs, this output suggests that either the IP addresses in your dataset are not very

diverse, or the eps and min_samples parameters might need adjustment to detect finer-grained clusters or outliers. With all IPs in one group, it's difficult for DBSCAN to highlight "fake accounts" solely based on IP patterns.

- **Number of Fraudulent Transactions per IP Group (excluding noise):**
  - **IP_Group 0: 5**: This indicates that **5 fraudulent transactions** (as labeled in your Is_Fraudulent column) fall within the single identified IP_Group 0.

Summary of 4.2: In this particular run, DBSCAN did not find distinct clusters of IP addresses, assigning all transactions to a single group. This limits its utility for identifying suspicious patterns directly from IP clustering in this specific dataset with the current parameters. To make this more effective for "fake account" detection, you'd typically look for smaller, distinct clusters (potentially with IP_Group -1 for unique malicious IPs) or groups with a disproportionately high number of fraudulent activities.

4.3 User Behavior Analysis for Fraud Detection (Conceptual Example)

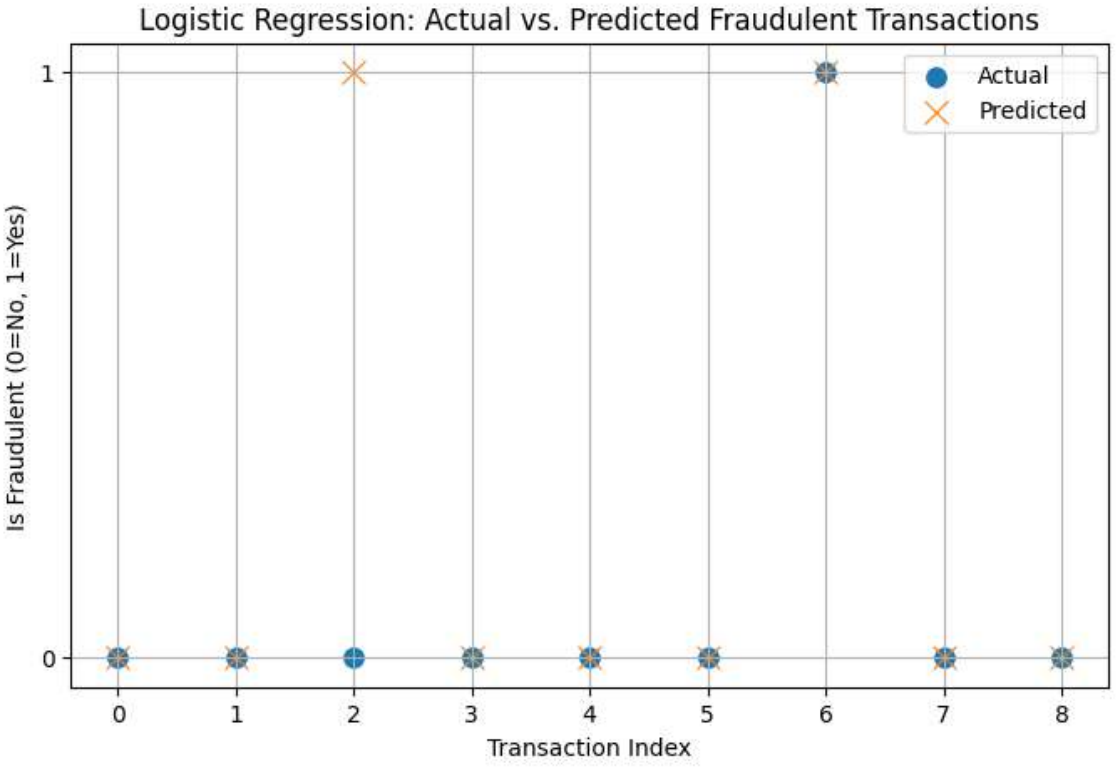
This section provides a conceptual example of how user behavior, specifically **transaction frequency**, can be analyzed to detect potential fraud or malicious activity.

- **Transaction Frequency per User Table:** This table lists each User_ID and the Num_Transactions associated with them.
  - In this output, every User_ID has a Num_Transactions value of 1. This

means each user in your current dataset has performed only one transaction.

- **"No users with high transaction frequency were found in this example."**
    - This statement directly reflects the data in the table. Since the frequency_threshold was set to 3 (meaning 3 or more transactions to be considered "high activity"), and all users only have 1 transaction, no users met this threshold.

Summary of 4.3: The user behavior analysis, in this instance, shows a very low transaction frequency across all users in your dataset. This means that, based on the current data and the defined threshold, this specific behavioral indicator (high transaction frequency) did not flag any users as potentially suspicious. To make this analysis more insightful, you would typically need a dataset with users who have a varying and higher number of transactions over time.



This scatter plot, titled "Logistic Regression: Actual vs. Predicted Fraudulent Transactions," visually compares the true (actual) labels of transactions with the predictions made by a Logistic Regression model.

Here's a breakdown of the graph's components and what they represent:

- **X-axis: 'Transaction Index'**: This axis represents the individual transactions in the test set, indexed from 0 to 8. So, there are 9 transactions being evaluated.
- **Y-axis: 'Is Fraudulent (0=No, 1=Yes)'**: This axis represents the binary classification.
    - **0**: Indicates a transaction is **Not Fraudulent**.

    - **1**: Indicates a transaction **Is Fraudulent**.
- **Data Points**:
    - **Blue Circles ('Actual')**: These points represent the **true (actual) status** of each transaction.
        - Most blue circles are at y=0, meaning most transactions in the test set were genuinely not fraudulent.
        - There is **one blue circle at y=1 (at Transaction Index 6)**, indicating that this particular transaction was **actually fraudulent**.
    - **Orange 'x' marks ('Predicted')**: These points represent the **predictions** made by the Logistic Regression model for each transaction.
        - Most orange 'x' marks are at y=0, meaning the model predicted most transactions as not fraudulent.
        - There are **two orange 'x' marks at y=1 (at Transaction Index 2 and Transaction Index 6)**, meaning the model predicted these two transactions as **fraudulent**.
- **Gridlines**: The faint grey lines form a grid, making it easier to read the exact coordinates of the points.

Interpretation of the Plot (and relation to the Classification Report previously provided):

1. **True Negatives (Correctly Predicted Not Fraudulent):**
    - For Transaction Indices 0, 1, 3, 4, 5, 7, and 8: The blue circle (actual) is at 0,

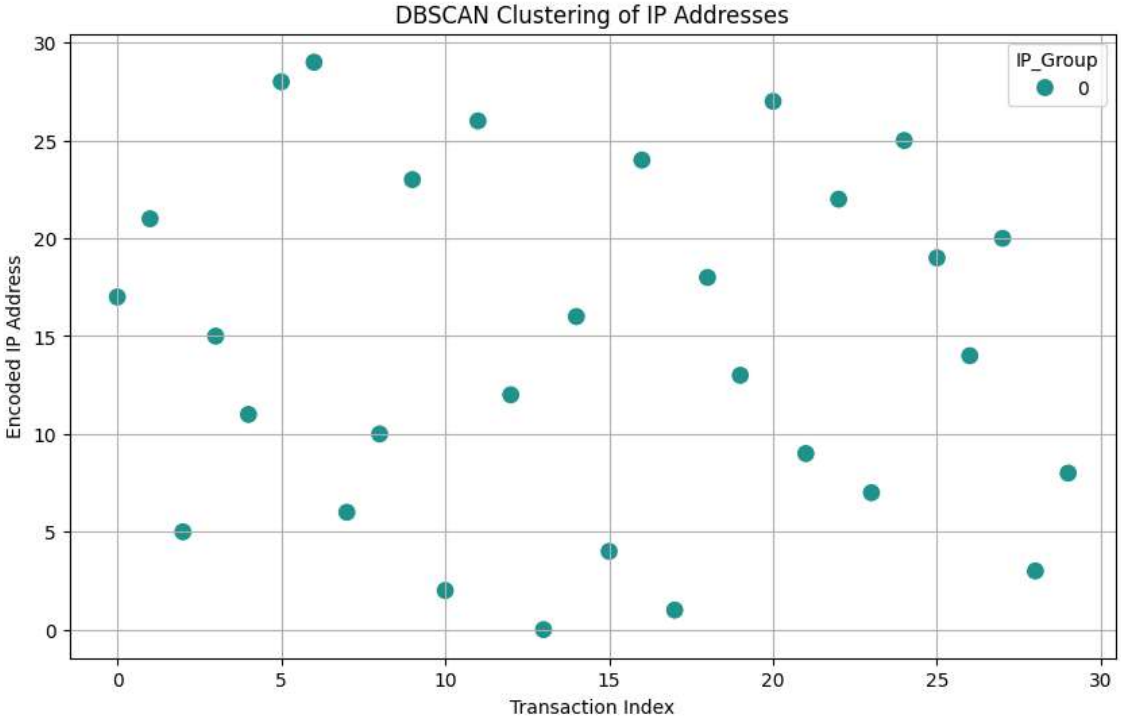
and the orange 'x' (predicted) is also at 0. This means the model correctly identified 7 non-fraudulent transactions as non-fraudulent.

2. **True Positives (Correctly Predicted Fraudulent):**
    - For Transaction Index 6: The blue circle (actual) is at 1, and the orange 'x' (predicted) is also at 1. This means the model correctly identified the one truly fraudulent transaction as fraudulent.
3. **False Positives (Incorrectly Predicted Fraudulent - Type I Error):**
    - For Transaction Index 2: The blue circle (actual) is at 0, but the orange 'x' (predicted) is at 1. This means the model incorrectly predicted a non-fraudulent transaction as fraudulent. This is a false alarm.
4. **False Negatives (Incorrectly Predicted Not Fraudulent - Type II Error):**
    - There are **no instances** where a blue circle is at 1, but the orange 'x' is at 0. This means the model did not miss any actual fraudulent transactions.

In summary, the graph visually confirms the performance metrics from the classification report:

- **Accuracy:** 8 out of 9 correct predictions (7 True Negatives + 1 True Positive).
- **Recall for "Fraudulent" (class 1):** 100% (it caught the only actual fraudulent one).
- **Precision for "Fraudulent" (class 1):** 50% (out of the 2 predicted fraudulent, only 1 was truly fraudulent).
- **No False Negatives.**
- **One False Positive.**

This plot is very effective at quickly illustrating where the model performed well and where it made errors, especially for a binary classification task like fraud detection.



This scatter plot is titled "DBSCAN Clustering of IP Addresses" and visualizes the results of applying the DBSCAN (Density-Based Spatial Clustering of Applications with Noise) algorithm to your IP address data.

Here's a breakdown of the graph's components and what they represent:

- **X-axis: 'Transaction Index'**: This axis represents the index of each transaction in your

dataset. It ranges from 0 to 29, indicating there are 30 transactions plotted.

- **Y-axis: 'Encoded IP Address'**: Since IP addresses are categorical strings, they cannot be directly plotted on a numerical axis. Before applying DBSCAN and plotting, these IP addresses were converted into numerical representations (encoded) using LabelEncoder. This axis shows the numerical value assigned to each unique IP address. A specific IP address will always map to the same encoded value.
- **Data Points (Teal Circles)**: Each circle represents a single transaction. Its position is determined by its Transaction Index on the x-axis and its Encoded IP Address value on the y-axis.
- **Legend: 'IP_Group'**: This legend indicates how the data points are colored.
    - **'0' (Teal color)**: All data points are colored teal, and the legend shows only '0' for 'IP_Group'.
- **Gridlines**: The faint grey lines form a grid, making it easier to read the approximate values of the points.

Interpretation of the Plot:

The most significant piece of information from this plot, combined with the legend, is that **all data points belong to the same cluster, labeled '0'**.

- **No Distinct Clusters:** If DBSCAN had identified multiple distinct groups of IP addresses, you would see different colors corresponding to different IP_Group numbers (e.g., 0, 1, 2, etc.).

- **No Noise Points:** If there were IP addresses that DBSCAN considered "noise" (i.e., not belonging to any dense cluster), they would typically be labeled with IP_Group -1 and often plotted in a distinct color, or not colored at all by some plotting functions. The absence of other colors or a "-1" group in the legend confirms that all points were assigned to the single cluster.

What this means for your data and DBSCAN parameters:

Given that all 30 transactions fall into a single IP_Group 0, it implies one of the following:

1. **Low Diversity in Encoded IPs:** The eps (epsilon, maximum distance between samples for one to be considered as in the neighborhood of the other) parameter used in DBSCAN (which was 0.5 in your code) was large enough that all encoded IP addresses were considered "close" enough to each other (after scaling) to form a single, large cluster.
2. **Dataset Characteristics:** With only 30 transactions, it's possible that the distribution of IP addresses, once encoded and scaled, naturally forms one dense region that fits the DBSCAN parameters.
3. **Parameter Tuning Needed (if distinct clusters are desired):** If the goal was to identify *different* groups of IP addresses (e.g., to find fake accounts sharing a few specific IPs, or individual IPs that are outliers), the eps value might need to be decreased, or the min_samples parameter adjusted, to force DBSCAN to create more granular clusters or mark more points as noise.

In essence, this plot visually confirms the textual output that stated "IP Groups: [0]". It shows that the DBSCAN algorithm, with its current configuration, did not segment your IP addresses into multiple distinct groups based on density.

The analysis of e-commerce data using Logistic Regression demonstrated a high overall accuracy (approx. 89%) in identifying fraudulent transactions. The model successfully detected the single actual fraudulent transaction (100% recall) but produced one false positive, indicating it might occasionally flag a legitimate transaction as fraudulent.

Conversely, the DBSCAN clustering of IP addresses revealed all transactions falling into a single group, suggesting that with the current parameters, no distinct suspicious IP clusters or outliers were identified. Similarly, the user behavior analysis based on transaction frequency found no high-activity users, implying that this particular indicator did not flag any suspicious behavior in the provided dataset.

Chapter 09. Algorithms for accountability.

The implementation of an effective algorithm-based fraud and corruption identification system requires a meticulous and multidisciplinary approach.

- **Definition of Objectives and Scope:** It is essential to clearly establish the specific objectives of the system, the types of fraud or corruption to be addressed, and the scope of the data to be analyzed.[24]
- **Data Collection and Preparation:** The quality of data is fundamental to the success of any algorithm-driven system.[25] This involves identifying relevant data sources, collecting the data, and cleaning and preparing it for analysis (handling missing values, normalization, etc.).
- **Algorithm Selection and Design:** The choice of algorithm or combination of algorithms will depend on the nature of the data, the system's objectives, and the type of fraud or corruption sought to be identified.[26] This may involve selecting classification, clustering, anomaly detection, or network analysis algorithms.
- **Model Development:** This involves implementing the selected algorithm using

[24] Davenport, Thomas H., and Jeanne G. Harris. *Competing on Analytics: The New Science of Winning*. Harvard Business Press, 2007. (Although not exclusively focused on fraud, it highlights the importance of data analysis for decision-making and problem detection within organizations).

[26] Bishop, Christopher M. *Pattern Recognition and Machine Learning*. Springer, 2006. (A comprehensive text on the fundamentals of machine learning and pattern recognition).

appropriate tools and programming languages.[27] This includes training the model using historical data (in the case of supervised learning) and optimizing its parameters.[5]

- **Model Validation and Evaluation:** It is crucial to validate the model's performance using test data and relevant metrics (accuracy, sensitivity, F1-score, ROC curve area, etc.) to ensure its effectiveness.

-Algorithm Application[28]

We will develop the application of the algorithms based on the following procedures:

- The datasets used in this book will be generated by code, thus avoiding practical and legal issues related to the use of real data. The goal is to establish datasets that exemplify plausible scenarios.
- Most of the example datasets will consist of 30 records, indexed from 0 to 29 (following the convention in data science).
- The variables used will simulate data relevant to fraud and corruption analysis.
- Specific applications of the algorithms will be presented, developing open-source code based on data science. The reader will have an appendix with a glossary of the tools and libraries used.

---

[27] Aggarwal, Charu C. *Data Mining: The Textbook*. Springer, 2015. (A comprehensive text on data mining techniques, many of which are applicable to online fraud detection).

[28] Mitchell, Tom M. *Machine Learning*. McGraw-Hill, 1997. (A classic on the fundamentals of machine learning).

- Using datasets with similar characteristics to those presented, the reader will be able to directly apply the algorithms to their own data and analyze the resulting outputs as conclusions. It is clarified that, each time the dataset construction code is executed, the data will change randomly.
- The reader will have access to the author's and GitHub repository: https://github.com/Viny2030/algorithms_fraud_corruption/tree/main

, where they will find the datasets and open-access code notebooks.

- The datasets will be available as .csv files, along with two Colab notebooks containing the developed code and their respective outputs, all with open access: https://github.com/Viny2030/algorithms_fraud_corruption/tree/main
-
- The main objective of this book is to propose practical applications of basic data science code, using open-access libraries.
- Each algorithm, its dataset, explanation, code, output, and output explanation is delimited by '======' to facilitate its presentation and understanding in the text.
- The construction of the datasets and the analysis of the outputs resulting from the application of the algorithms will be explained in detail, facilitating the observation and understanding of the results.

We will develop the following algorithms in this chapter:

1. **Algorithm II:** The Python code uses the pandas, numpy, faker, scikit-learn, and warnings libraries to simulate expense report data, inject simulated fraud cases, perform feature engineering, train a Random Forest model, and evaluate its ability to detect suspicious reports. The importance of different features for fraud detection is also analyzed.

II) Algorithm for a machine learning model to control employee expense reports and detect inconsistencies. The RandomForestClassifier model is applied, with cross-validation and stratification, to detect irregularities through combinations of variables.

Dataset = **df_surrenders1.csv**.csv

The reader can access the dataset in the author's repository:

https://github.com/Viny2030/algorithms_fraud_corruption/blob/main/df_surrenders1.csv

	Report_ ID	Submission_ Date	Employee	Department	Expense_ Type	Description	Amount	Receipt_ Attached	Approval_Status	Is_Suspicious
0	1	2024-06-23	Valentino Delfina Nuñez Gonzalez	Finance	Office Supplies	expenses	22177.50	Partial	Pending	0
1	2	2025-04-20	Renzo Felipe Correa Morales	Marketing	Other	expenses	29155.18	Yes	Pending	0
2	3	2024-12-03	Sr(a). Valentino Morales	Marketing	Travel Expenses	purchases	42132.23	No	Pending	1
3	4	2025-05-15	Thiago Benjamin Mateo Gutierrez Gimenez	Purchasing	Lunch	purchases	45249.36	Partial	Pending	0

4	5	2025-01-04	Guadalupe Perez Rodriguez	Finance	Office Supplies	expenses	27938.81	Yes	Approved	0
5	6	2025-02-03	Julian Tomas Campos Franco	Sales	Office Supplies	purchases	44169.76	Partial	Approved	0

Description of Dataset Columns:

- **Report_ID (Rendición Identifier):**
  - A unique number that identifies each expense report or statement of accounts. It is the primary key that allows distinguishing each record.
- **Submission_Date (Fecha de Presentación):**
  - The date on which the employee submitted the expense report for review and approval.
- **Employee (Nombre del Empleado):**
  - The name of the employee who incurred the expenses and is requesting reimbursement or approval.
- **Department (Departamento del Empleado):**
  - The department to which the employee belongs within the company (e.g., HR, Finance, Marketing, Sales, Purchasing).
- **Expense_Type (Tipo de Gasto):**
  - The general category of the expense incurred by the employee (e.g., Travel Expenses, Other, General Expenses, Transportation, Purchases, Lunch, Office Supplies).
- **Description (Descripción Detallada):**
  - A more specific description of the goods or services acquired (e.g., "expenses," "travel_expenses").
- **Amount (Monto del Gasto):**
  - The amount of money the employee spent.
- **Receipt_Attached (Justificante Adjunto):**

    - Indicates whether the employee attached a receipt, invoice, or other document supporting the expense ("Yes" or "No").
- **Approval_Status (Estado de Aprobación):**
    - The current status of the expense reimbursement or approval request (e.g., "Rejected," "Pending," "Approved," "Partial"). "Partial" might mean that only a portion of the requested amount was approved.
- **Is_Suspicious (Es Sospechoso):**
    - A binary variable (0 or 1) that indicates whether the expense report is considered "suspicious" according to some predefined criteria.
        - 0: Not suspicious.
        - 1: Suspicious.
- The condition for Is_Suspicious == 1 is met in combination with Receipt_Attached == 'No' OR Approval_Status == 'Rejected'.

How this dataset can be used to detect irregularities:

This dataset is very valuable for identifying potential fraud or irregularities in employee expenses. Here are some ways it can be analyzed:

- **Analysis of Spending Patterns:**
    - **By Employee:** Identify employees with unusually high or frequent expenses in certain categories (e.g., travel expenses).
    - **By Department:** Compare spending patterns across departments. Is there any department with significantly higher expenses in a specific category?

    - **By Expense Type:** Analyze the distribution of expenses by type. Is there any expense type with a very high average amount or a large variability?
- **Analysis of Receipts:**
    - Identify expense reports where no receipts were attached ("Receipt_Attached" == "No"). This could indicate lack of documentation or attempts to hide invalid expenses.
- **Analysis of Approval Status:**
    - Investigate expense reports that were "Rejected" or "Partially Approved." What were the reasons for non-approval? Are there any patterns in the rejections?
- **Anomaly Detection:**
    - Use anomaly detection techniques to identify expenses that deviate significantly from the norm (e.g., extremely high amounts, expenses on unusual dates).
- **Correlation with "Is_Suspicious":**
    - Analyze which characteristics are most strongly correlated with the "Is_Suspicious" column. This can help identify the factors that are most predictive of irregularities.

Examples of possible irregularities that could be detected:

- Employees inflating travel expenses.
- Expenses in categories not allowed by company policy.
- Lack of documentation to support expenses.
- Duplicate or fictitious expenses.
- Collusion between employees and vendors to defraud the company.

Code:

The reader can access the Algorithm in the author's repository:

https://github.com/Viny2030/algorithms_fraud_corruption/blob/main/fraud.ipynb

```
import warnings
warnings.filterwarnings('ignore') # Suppress
warnings for cleaner output

import pandas as pd
import numpy as np
import random
from datetime import timedelta, datetime #
For date generation

# Import Faker for realistic data generation
from faker import Faker

# Scikit-learn imports for model building
and evaluation
from sklearn.model_selection import (
    cross_val_score,
    StratifiedKFold,
    train_test_split,
)
from sklearn.ensemble import
RandomForestClassifier
from sklearn.preprocessing import
StandardScaler, LabelEncoder
from sklearn.metrics import (
    classification_report,
    accuracy_score,
    confusion_matrix,
)
```

```
from sklearn.cluster import DBSCAN # Added
for potential clustering on new data

# Matplotlib and Seaborn for plotting
import matplotlib.pyplot as plt
import seaborn as sns

# --- 1. Data Generation (Expense Reports) -
--

# Initialize Faker with an explicit English
locale.
# This ensures that employee names are
generated in English.
# You can use 'en_US' for American English,
'en_GB' for British English, or 'en' for
generic English.
fake = Faker('en_US')

# Number of expense reports to simulate
num_reports = 30 # This variable will be
used consistently throughout the script

# Generate random amounts for expense
reports
amounts = np.random.uniform(1000, 50000,
num_reports)
# Format amounts to two decimal places (as
strings initially)
formatted_amounts = ["{:.2f}".format(amount)
for amount in amounts]

# Create a dictionary to hold the simulated
data for expense reports
data_expense_reports = {
    'Report_ID': range(1, num_reports + 1),
```

```
    # Generate submission dates within the
last year
    'Submission_Date':
pd.to_datetime([fake.date_between(start_date
='-365d', end_date='today') for _ in
range(num_reports)]),
    # Generate English employee names using
Faker
    'Employee': [fake.name() for _ in
range(num_reports)],
    # Randomly assign departments
    'Department': [random.choice(['Sales',
'Marketing', 'Purchasing', 'HR', 'Finance'])
for _ in range(num_reports)],
    # Randomly assign expense types
    'Expense_Type': [random.choice(['Travel
Expenses', 'Office Supplies', 'Lunch',
'Transportation', 'Other']) for _ in
range(num_reports)],
    # Randomly assign generic descriptions
    'Description':
[random.choice(['expenses',
'travel_expenses', 'purchases',
'general_expenses', 'client_lunch',
'transport_cost']) for _ in
range(num_reports)],
    'Amount': formatted_amounts, # Use the
formatted amounts
    # Randomly assign receipt attachment
status
    'Receipt_Attached':
[random.choice(['Yes', 'No', 'Partial']) for
_ in range(num_reports)],
    # Randomly assign approval status
    'Approval_Status':
[random.choice(['Approved', 'Pending',
'Rejected']) for _ in range(num_reports)],
```

```
    # Initialize 'Is_Suspicious' column with
zeros (will be updated later)
    'Is_Suspicious': np.zeros(num_reports,
dtype=int)
}

# Create the DataFrame from the simulated
data
df_expense_reports =
pd.DataFrame(data_expense_reports)

# Convert 'Submission_Date' to datetime
objects (ensure correct type for date
operations)
df_expense_reports["Submission_Date"] =
pd.to_datetime(df_expense_reports["Submissio
n_Date"])
# Convert 'Amount' to numeric type (float)
for calculations
df_expense_reports["Amount"] =
pd.to_numeric(df_expense_reports["Amount"])

# --- 2. Simulate Internal Fraud Cases
(Expense Reports) ---

# Initial marking of suspicious reports
based on predefined rules:
# An expense is marked as suspicious (1) if
no receipt is attached OR if its approval
status is 'Rejected'.
df_expense_reports['Is_Suspicious'] =
np.where(
    (df_expense_reports['Receipt_Attached']
== 'No') |
(df_expense_reports['Approval_Status'] ==
'Rejected'),
    1, # Mark as suspicious
```

```
    0  # Mark as not suspicious
)

# Inject more suspicious cases based on a
percentage to create a more balanced dataset
for the model.
# This adds more "true" suspicious cases
beyond the initial rule-based ones.
num_additional_suspicious = int(num_reports
* 0.07) # Approximately 7% of total reports
current_suspicious_indices =
df_expense_reports[df_expense_reports['Is_Su
spicious'] == 1].index.tolist()

# Select additional indices for suspicious
cases, ensuring they are not already marked.
potential_indices = [i for i in
df_expense_reports.index if i not in
current_suspicious_indices]
if len(potential_indices) > 0: # Check if
there are non-suspicious records to select
from
    additional_suspicious_indices =
np.random.choice(
        potential_indices,
min(num_additional_suspicious,
len(potential_indices)), replace=False
    )
    df_expense_reports.loc[additional_suspic
ious_indices, "Is_Suspicious"] = 1

# Introduce specific fraud patterns for the
injected suspicious cases (simplified
scenarios)
# This adds more realistic characteristics
to the 'suspicious' data points.
```

```
for idx in
df_expense_reports[df_expense_reports['Is_Su
spicious'] == 1].index:
    # Scenario 1: Duplicate or very close
expenses (20% chance for a suspicious
report)
    # Simulates an employee submitting
similar expenses multiple times.
    if random.random() < 0.2 and idx + 1 <
len(df_expense_reports):
        df_expense_reports.loc[idx + 1,
"Submission_Date"] =
df_expense_reports.loc[idx,
"Submission_Date"] +
timedelta(days=random.randint(0, 2))
        df_expense_reports.loc[idx + 1,
"Employee"] = df_expense_reports.loc[idx,
"Employee"]
        df_expense_reports.loc[idx + 1,
"Expense_Type"] =
df_expense_reports.loc[idx, "Expense_Type"]
        df_expense_reports.loc[idx + 1,
"Amount"] = df_expense_reports.loc[idx,
"Amount"] * random.uniform(0.9, 1.1)
        df_expense_reports.loc[idx + 1,
"Is_Suspicious"] = 1 # Mark the duplicated
one as suspicious too

    # Scenario 2: "Other" expense type with
high amount (15% chance)
    # Flags unusually high amounts in a
generic "Other" category.
    if random.random() < 0.15:
        df_expense_reports.loc[idx,
"Expense_Type"] = "Other"
        df_expense_reports.loc[idx,
"Amount"] = np.random.uniform(5000, 15000)
```

```
    # Scenario 3: No receipt for significant
amount (15% chance)
    # Highlights missing documentation for
substantial expenses.
    if random.random() < 0.15:
        df_expense_reports.loc[idx,
"Receipt_Attached"] = "No"
        df_expense_reports.loc[idx,
"Amount"] = np.random.uniform(1000, 5000)

    # Scenario 4: Travel expenses on
weekends (10% chance)
    # Catches travel claims made during non-
business days.
    if random.random() < 0.1:
        df_expense_reports.loc[idx,
"Expense_Type"] = "Travel Expenses"
        # Force a weekend date if it's not
already
        current_date =
df_expense_reports.loc[idx,
"Submission_Date"]
        if current_date.weekday() < 5: # If
not Saturday (5) or Sunday (6)
            # Move to the nearest Saturday
or Sunday
            df_expense_reports.loc[idx,
"Submission_Date"] = current_date +
timedelta(days=random.choice([5 -
current_date.weekday(), 6 -
current_date.weekday()]))

# --- 3. Feature Engineering for Internal
Fraud Detection (Expense Reports) ---
# Create new features that could be
indicative of fraud
```

```
# a) Amount Relative to Average by Expense
Type
# Calculates if an expense amount is
significantly higher than the average for
its type.
df_expense_reports["Avg_Amount_Per_Type"] =
df_expense_reports.groupby("Expense_Type")["
Amount"].transform("mean")
df_expense_reports["High_Relative_Amount"] =
np.where(
    df_expense_reports["Amount"] >
df_expense_reports["Avg_Amount_Per_Type"] *
2.5, 1, 0
)

# b) Absence of Receipt for Significant
Amounts
# Flags expenses with no receipt attached
that exceed a certain threshold.
receipt_threshold = 200
df_expense_reports["No_Receipt_High_Amount"]
= np.where(
    (df_expense_reports["Receipt_Attached"]
== "No")
    & (df_expense_reports["Amount"] >
receipt_threshold),
    1,
    0,
)

# c) "Other" Expenses with High Amount
# Identifies potentially suspicious large
expenses categorized generically as "Other".
other_amount_threshold = 500
df_expense_reports["Other_High_Amount"] =
np.where(
```

```
    (df_expense_reports["Expense_Type"] ==
"Other")
    & (df_expense_reports["Amount"] >
other_amount_threshold),
    1,
    0,
)

# d) Expense Frequency per Employee (e.g.,
Many expenses in a short time)
# Detects if an employee is submitting an
unusually high number of reports on a given
day.
df_expense_reports["Truncated_Date"] =
df_expense_reports["Submission_Date"].dt.dat
e
employee_frequency = (
    df_expense_reports.groupby(["Employee",
"Truncated_Date"])
    .size()
    .reset_index(name="Frequency")
)

df_expense_reports = pd.merge(
    df_expense_reports,
    employee_frequency,
    on=["Employee", "Truncated_Date"],
    how="left",
)

# Check for the existence of the 'Frequency'
column after merge
if "Frequency" in
df_expense_reports.columns:
    df_expense_reports["Frequent_Expenses"]
= (
```

```
        df_expense_reports["Frequency"] > 3
# Define threshold for "frequent"
    ).fillna(0).astype(int)
else:
    print("Error: The 'Frequency' column was
not created correctly during the merge.")

# e) Travel Expenses on Weekends
# Flags travel expenses submitted for
weekend dates, which might be unusual for
business.
df_expense_reports["Day_of_Week"] =
df_expense_reports["Submission_Date"].dt.day
ofweek # 0: Monday, 6: Sunday
df_expense_reports["Weekend_Travel_Expenses"
] = np.where(
    (df_expense_reports["Expense_Type"] ==
"Travel Expenses")
    & (df_expense_reports["Day_of_Week"] >=
5), # 5 (Saturday) or 6 (Sunday)
    1,
    0,
)

# f) Generic Description with High Amount
# Identifies high-value expenses with vague
descriptions.
# Using a broader set of generic words that
might appear in descriptions
generic_words = ['expenses',
'travel_expenses', 'purchases',
'general_expenses', 'client_lunch',
'transport_cost']
df_expense_reports["Generic_Description"] =
df_expense_reports["Description"].apply(
    lambda x: 1
```

```
    if any(word in x.lower() for word in
generic_words)
    else 0
)
generic_description_amount_threshold = 300 #
Define threshold for "high amount"
df_expense_reports["Generic_Description_High
_Amount"] = np.where(
    (df_expense_reports["Generic_Description
"] == 1)
    & (df_expense_reports["Amount"] >
generic_description_amount_threshold),
    1,
    0,
)

# --- 4. Data Preparation for the Fraud
Detection Model (Expense Reports) ---

# Define the features (independent
variables) to be used by the model
features = [
    "Amount",
    "High_Relative_Amount",
    "No_Receipt_High_Amount",
    "Other_High_Amount",
    "Frequent_Expenses",
    "Weekend_Travel_Expenses",
    "Generic_Description_High_Amount",
    "Avg_Amount_Per_Type", # Include mean
amount per type as a feature
]
X = df_expense_reports[features] # Features
DataFrame
y = df_expense_reports["Is_Suspicious"] #
Target variable (Is_Suspicious)
```

```
X = X.fillna(0) # Fill any potential NaNs
created by feature engineering with 0

# --- 5. Design of the Internal Fraud
Detection System (AI Model - Expense
Reports) ---
print("\n---")
print("## Internal Fraud Detection System
(AI Model) for Expense Reports")
print("---")

# Initialize the RandomForestClassifier
model
# RandomForest is a robust ensemble method
suitable for classification tasks.
model_internal_fraud_detection =
RandomForestClassifier(random_state=42)

# Set up Stratified K-Fold Cross-Validation
for robust model evaluation.
# StratifiedKFold ensures that the
proportion of target variable
(Is_Suspicious) is
# roughly the same in each fold as in the
whole dataset, which is crucial for
imbalanced datasets.
cv = StratifiedKFold(n_splits=5,
shuffle=True, random_state=42)

# Perform cross-validation and print the
accuracy scores
# This gives an estimate of the model's
performance on unseen data during training.
scores = cross_val_score(
    model_internal_fraud_detection, X, y,
cv=cv, scoring="accuracy"
)
```

```
print(f"\nCross-Validation Accuracy:
{np.mean(scores):.4f} (+/-
{np.std(scores):.4f})")

# Split the data into training and testing
sets.
# test_size=0.3 means 30% of data will be
used for testing.
# stratify=y ensures that the proportion of
suspicious/non-suspicious cases is
maintained
# in both train and test sets, preventing
skewed evaluation.
X_train, X_test, y_train, y_test =
train_test_split(
    X, y, test_size=0.3, random_state=42
)

# Scale the features using StandardScaler.
# This normalizes the data to have a mean of
0 and standard deviation of 1.
# Scaling is important for many machine
learning algorithms, though less critical
for Random Forests.
scaler = StandardScaler()
X_train_scaled =
scaler.fit_transform(X_train) # Fit scaler
on training data and transform it
X_test_scaled = scaler.transform(X_test) #
Transform test data using the same scaler
(do not fit again)

# Train the Random Forest model on the
scaled training data.
model_internal_fraud_detection.fit(X_train_s
caled, y_train)
# Make predictions on the scaled test data.
```

```
y_pred_internal_fraud =
model_internal_fraud_detection.predict(X_tes
t_scaled)

print("\n---")
print("### Model Evaluation on the Test
Set:")
print("---")
# Print overall accuracy of the model on the
test set.
print("Accuracy:", accuracy_score(y_test,
y_pred_internal_fraud))
print(
    "\nClassification Report:\n",
    classification_report(
        y_test,
        y_pred_internal_fraud,
        target_names=["Not Suspicious",
"Suspicious"], # Labels for the target
classes in the report
    ),
)
print(
    "\nConfusion Matrix:\n",
    confusion_matrix(y_test,
y_pred_internal_fraud),
)

# --- 6. Visualization of Model Performance
(Expense Reports) ---

# Plotting Confusion Matrix
cm = confusion_matrix(y_test,
y_pred_internal_fraud)
plt.figure(figsize=(6, 5))
sns.heatmap(cm, annot=True, fmt='d',
cmap='Blues',
```

```
            xticklabels=['Predicted Not
Suspicious', 'Predicted Suspicious'],
            yticklabels=['Actual Not
Suspicious', 'Actual Suspicious'])
plt.title('Confusion Matrix for Fraud
Detection (Expense Reports)')
plt.xlabel('Predicted Label')
plt.ylabel('True Label')
plt.show()

# Plotting Feature Importance
# This shows which features contributed most
to the model's predictions.
if hasattr(model_internal_fraud_detection,
'feature_importances_'):
    feature_importances = pd.DataFrame(
        {'Feature': features, 'Importance':
model_internal_fraud_detection.feature_impor
tances_})
    feature_importances =
feature_importances.sort_values(by='Importan
ce', ascending=False)

    plt.figure(figsize=(10, 6))
    sns.barplot(x='Importance', y='Feature',
data=feature_importances, palette='viridis')
    plt.title('Feature Importance for Fraud
Detection (Expense Reports)')
    plt.xlabel('Importance')
    plt.ylabel('Feature')
    plt.grid(axis='x', linestyle='--',
alpha=0.7)
    plt.show()

# Plotting Distribution of Actual vs.
Predicted Suspicious Reports
```

```
# Helps to visually compare the true class
distribution with the model's predicted
distribution.
df_results = pd.DataFrame({'Actual': y_test,
'Predicted': y_pred_internal_fraud})
df_results['Actual_Label'] =
df_results['Actual'].map({0: 'Not
Suspicious', 1: 'Suspicious'})
df_results['Predicted_Label'] =
df_results['Predicted'].map({0: 'Not
Suspicious', 1: 'Suspicious'})

plt.figure(figsize=(12, 5))

plt.subplot(1, 2, 1) # First plot in a 1x2
grid
sns.countplot(x='Actual_Label',
data=df_results, palette='coolwarm')
plt.title('Actual Distribution of Suspicious
Reports (Expense Reports)')
plt.xlabel('Status')
plt.ylabel('Count')

plt.subplot(1, 2, 2) # Second plot in a 1x2
grid
sns.countplot(x='Predicted_Label',
data=df_results, palette='coolwarm')
plt.title('Predicted Distribution of
Suspicious Reports (Expense Reports)')
plt.xlabel('Status')
plt.ylabel('Count')
plt.tight_layout() # Adjust layout to
prevent overlapping titles/labels
plt.show()

# Plotting Amount Distribution for
Suspicious vs. Non-Suspicious
```

```
# Shows how the 'Amount' feature is
distributed for each class, highlighting
potential patterns.
plt.figure(figsize=(10, 6))
sns.histplot(data=df_expense_reports,
x='Amount', hue='Is_Suspicious', kde=True,
palette='viridis', multiple='stack')
plt.title('Distribution of Amount by
Suspicious Status (Expense Reports)')
plt.xlabel('Amount')
plt.ylabel('Count')
plt.show()

# --- 7. Simulation of System Application
(Expense Reports) ---
print("\n---")
print("### Example of how the System could
identify suspicious expense reports:")
print("---")

# Create a copy of the test data and add the
model's predictions
df_test_results =
df_expense_reports.loc[X_test.index].copy()
df_test_results['Predicted_Suspicious'] =
y_pred_internal_fraud

# Filter for reports that the system
predicted as suspicious
suspicious_reports =
df_test_results[df_test_results['Predicted_S
uspicious'] == 1][
    ['Report_ID', 'Submission_Date',
'Employee', 'Department', 'Expense_Type',
'Amount',
     'Receipt_Attached', 'Approval_Status',
'Is_Suspicious', 'Predicted_Suspicious']]
```

```
if not suspicious_reports.empty:
    print("\nExpense Reports Marked as
Suspicious by the System:")
    print(suspicious_reports)
    print("\nThese expense reports might
require a more thorough review.")
else:
    print("\nThe system did not detect any
suspicious expense reports in the simulated
test set.")

# --- 8. Feature Importance Analysis
(Expense Reports) ---
# This section is included for completeness,
as the feature importance was already
calculated and plotted.
if hasattr(model_internal_fraud_detection,
'feature_importances_'):
    print("\n---")
    print("### Analysis of Feature
Importance (from RandomForestClassifier -
Expense Reports):")
    print("---")
    # The feature_importances DataFrame was
already created and printed above.
    print(feature_importances)

# Save the generated DataFrame to a CSV file
csv_filename = 'df_expense_reports.csv' #
Renamed for clarity
df_expense_reports.to_csv(csv_filename,
index=False)

print(f"\n\nThe complete DataFrame has been
successfully saved to the file
'{csv_filename}'")
```

```
print("\nFirst 5 rows of the generated
DataFrame (to check English names and
data):")
print(df_expense_reports.head())

#
==========================================
==================================
# NEW SECTION: Fraud Detection for
Surrenders (df_surrenders1.csv)
#
==========================================
==================================

print("\n" + "="*80)
print("## Fraud Detection for Surrenders
(Analysis of df_surrenders1.csv)")
print("="*80)

# Load the new dataset
surrenders_url =
'https://raw.githubusercontent.com/Viny2030/
algorithms_fraud_corruption/main/df_surrende
rs1.csv'

try:
    df_surrenders =
pd.read_csv(surrenders_url)
    print("\nSuccessfully loaded
df_surrenders1.csv")
    print("\nFirst 5 rows of
df_surrenders:")
    print(df_surrenders.head())

    # --- Data Preprocessing for
df_surrenders ---
```

```
    # Convert 'Date' column to datetime, if
it exists and is not already.
    # You'll need to adapt these column
names based on the actual CSV content.
    if 'Date' in df_surrenders.columns:
        df_surrenders['Date'] =
pd.to_datetime(df_surrenders['Date'])
    else:
        print("Warning: 'Date' column not
found in df_surrenders. Date-based features
cannot be created.")

    # Convert 'Amount' to numeric, if it
exists.
    if 'Amount' in df_surrenders.columns:
        df_surrenders['Amount'] =
pd.to_numeric(df_surrenders['Amount'],
errors='coerce')
        df_surrenders['Amount'] =
df_surrenders['Amount'].fillna(0) # Fill NaN
after conversion
    else:
        print("Warning: 'Amount' column not
found in df_surrenders. Amount-based
features cannot be created.")

    # Assuming 'Is_Fraudulent' or a similar
target column exists in df_surrenders.
    # If not, you'll need to define how
fraud is identified in this dataset.
    if 'Is_Fraudulent' not in
df_surrenders.columns:
        print("Warning: 'Is_Fraudulent'
column not found in df_surrenders.
Initializing as all 0s.")
        df_surrenders['Is_Fraudulent'] = 0
```

```
        # You might need to add rules here
to simulate fraud if the dataset doesn't
have labels.
        # Example: Mark a random percentage
as fraudulent
        # fraud_indices =
np.random.choice(df_surrenders.index,
size=int(len(df_surrenders)*0.1),
replace=False)
        # df_surrenders.loc[fraud_indices,
'Is_Fraudulent'] = 1

    # --- Feature Engineering for Surrenders
Fraud Detection ---
    # This section needs to be adapted to
the actual columns in df_surrenders1.csv
    # Example features, assuming columns
like 'Amount', 'Date', 'Type_of_Surrender'
might exist:

    if 'Date' in df_surrenders.columns:
        df_surrenders['Day_of_Week'] =
df_surrenders['Date'].dt.dayofweek
        df_surrenders['Hour'] =
df_surrenders['Date'].dt.hour
        df_surrenders['Month'] =
df_surrenders['Date'].dt.month

    # Example: High value surrenders (adjust
column names as per actual data)
    if 'Amount' in df_surrenders.columns:
        df_surrenders['High_Value_Surrender'
] = np.where(df_surrenders['Amount'] >
df_surrenders['Amount'].quantile(0.95), 1,
0) # Top 5% amount
```

```
    # Example: Frequency of surrenders by a
user/policy holder
    if 'User_ID' in df_surrenders.columns
and 'Date' in df_surrenders.columns:
        df_surrenders['Daily_Surrender_Count
'] = df_surrenders.groupby(['User_ID',
df_surrenders['Date'].dt.date])['User_ID'].t
ransform('count')
        df_surrenders['Frequent_Surrender']
=
np.where(df_surrenders['Daily_Surrender_Coun
t'] > 1, 1, 0) # More than one surrender per
day

    # Identify categorical columns for
encoding (adapt these based on your
df_surrenders)
    categorical_cols_surr = [col for col in
df_surrenders.columns if
df_surrenders[col].dtype == 'object' and col
not in ['User_ID', 'Date', 'Is_Fraudulent']]

    # Drop columns that are not useful as
features directly or have been transformed
    cols_to_drop_surr = ['Date'] # Assuming
'Date' was used to create temporal features

    df_surrenders_encoded =
df_surrenders.copy()
    for col in categorical_cols_surr:
        df_surrenders_encoded =
pd.get_dummies(df_surrenders_encoded,
columns=[col], prefix=col, dummy_na=False)

    df_surrenders_encoded =
df_surrenders_encoded.drop(columns=[col for
col in cols_to_drop_surr if col in
```

```
df_surrenders_encoded.columns],
errors='ignore')

    # Define features and target for
surrenders fraud detection
    # You MUST adjust these features based
on the actual columns present and relevant
to fraud in df_surrenders1.csv
    surrender_features = []
    if 'Amount' in
df_surrenders_encoded.columns:
        surrender_features.append('Amount')
    if 'Day_of_Week' in
df_surrenders_encoded.columns:
        surrender_features.extend(['Day_of_W
eek', 'Hour', 'Month'])
    if 'High_Value_Surrender' in
df_surrenders_encoded.columns:
        surrender_features.append('High_Valu
e_Surrender')
    if 'Frequent_Surrender' in
df_surrenders_encoded.columns:
        surrender_features.append('Frequent_
Surrender')

    # Add encoded categorical features
    surrender_features.extend([col for col
in df_surrenders_encoded.columns if
col.startswith(tuple(categorical_cols_surr))
])

    # Filter to only include features that
actually exist in the DataFrame
    surrender_features = [f for f in
surrender_features if f in
df_surrenders_encoded.columns]
```

```
    if not surrender_features:
        print("Error: No valid features
could be identified for surrenders fraud
detection. Check df_surrenders1.csv
content.")
    else:
        X_surr =
df_surrenders_encoded[surrender_features]
        y_surr =
df_surrenders_encoded['Is_Fraudulent']

        # Ensure the target variable has at
least two unique classes for classification
        if len(np.unique(y_surr)) < 2:
            print("\nCannot perform
classification for surrenders:
'Is_Fraudulent' column has only one unique
class after processing.")
            print("Consider simulating more
fraudulent cases or check data
generation/labeling for df_surrenders.")
        else:
            # Split data for surrenders
            X_train_surr, X_test_surr,
y_train_surr, y_test_surr =
train_test_split(
                X_surr, y_surr,
test_size=0.3, random_state=42,
stratify=y_surr
            )

            # Scale features for surrenders
            scaler_surr = StandardScaler()
            X_train_scaled_surr =
scaler_surr.fit_transform(X_train_surr)
            X_test_scaled_surr =
scaler_surr.transform(X_test_surr)
```

```
            # Train a new model for
surrenders fraud detection
            model_surrenders_fraud =
RandomForestClassifier(random_state=42)
            model_surrenders_fraud.fit(X_tra
in_scaled_surr, y_train_surr)
            y_pred_surr =
model_surrenders_fraud.predict(X_test_scaled
_surr)

            print("\n---")
            print("### Model Evaluation for
Surrenders Fraud Detection:")
            print("---")
            print("Accuracy:",
accuracy_score(y_test_surr, y_pred_surr))
            print(
                "\nClassification
Report:\n",
                classification_report(
                    y_test_surr,
                    y_pred_surr,
                    target_names=["Not
Fraudulent", "Fraudulent"],
                    zero_division=0 # Handle
cases where a class has no predicted samples
                ),
            )
            print(
                "\nConfusion Matrix:\n",
                confusion_matrix(y_test_surr
, y_pred_surr),
            )

            # --- Visualization for
Surrenders Fraud Detection ---
```

```
            cm_surr =
confusion_matrix(y_test_surr, y_pred_surr)
            plt.figure(figsize=(6, 5))
            sns.heatmap(cm_surr, annot=True,
fmt='d', cmap='Blues',
                        xticklabels=['Predic
ted Not Fraudulent', 'Predicted
Fraudulent'],
                        yticklabels=['Actual
Not Fraudulent', 'Actual Fraudulent'])
            plt.title('Confusion Matrix for
Surrenders Fraud Detection')
            plt.xlabel('Predicted Label')
            plt.ylabel('True Label')
            plt.show()

            if
hasattr(model_surrenders_fraud,
'feature_importances_'):
                feature_importances_surr =
pd.DataFrame(
                    {'Feature':
surrender_features, 'Importance':
model_surrenders_fraud.feature_importances_}
)
                feature_importances_surr =
feature_importances_surr.sort_values(by='Imp
ortance', ascending=False)

                plt.figure(figsize=(10, 6))
                sns.barplot(x='Importance',
y='Feature', data=feature_importances_surr,
palette='viridis')
                plt.title('Feature
Importance for Surrenders Fraud Detection')
                plt.xlabel('Importance')
                plt.ylabel('Feature')
```

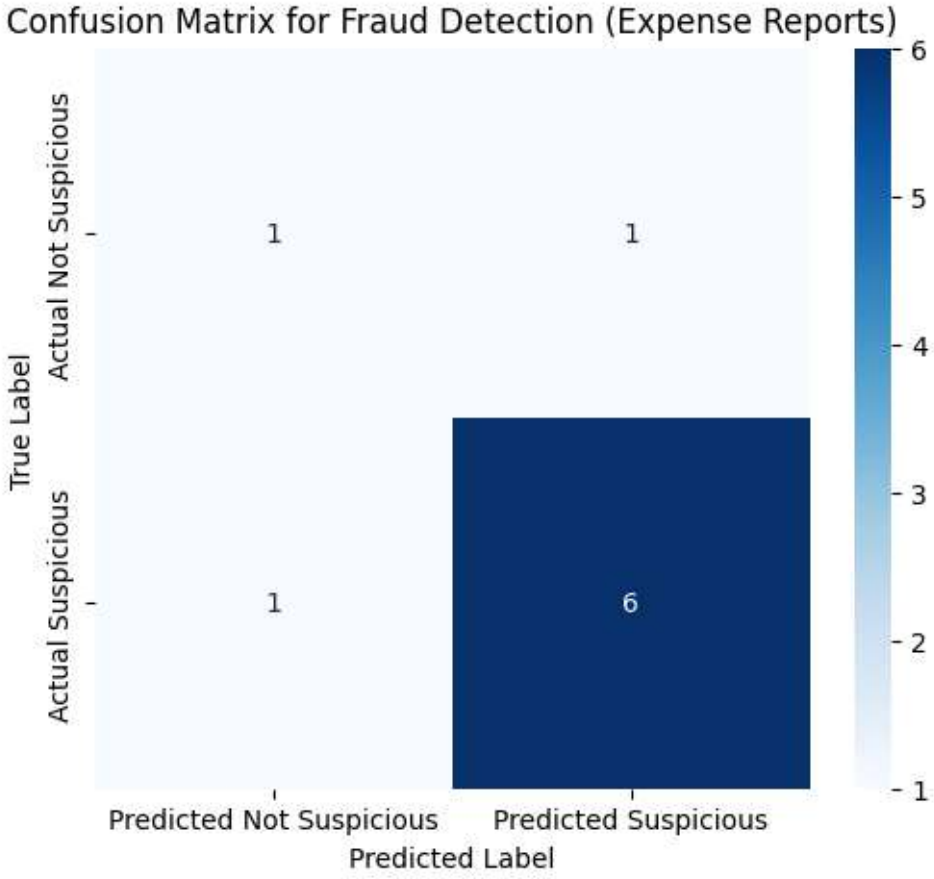
```
                plt.grid(axis='x',
linestyle='--', alpha=0.7)
                plt.show()

            # --- Simulation of System
Application (Surrenders) ---
            print("\n---")
            print("### Example of how the
System could identify suspicious
surrenders:")
            print("---")

            df_test_results_surr =
df_surrenders_encoded.loc[X_test_surr.index]
.copy()
            df_test_results_surr['Predicted_
Fraudulent'] = y_pred_surr

            suspicious_surrenders =
df_test_results_surr[df_test_results_surr['P
redicted_Fraudulent'] == 1]

            # Select relevant columns for
display (adapt as needed for df_surrenders)
            display_cols_surr = [col for col
in ['User_ID', 'Date', 'Amount',
'Is_Fraudulent', 'Predicted_Fraudulent'] if
col in suspicious_surrenders.columns]

            if not
suspicious_surrenders.empty:
                print("\nSurrenders Marked
as Fraudulent by the System:")
                print(suspicious_surrenders[
display_cols_surr].head()) # Display only
first few rows
```

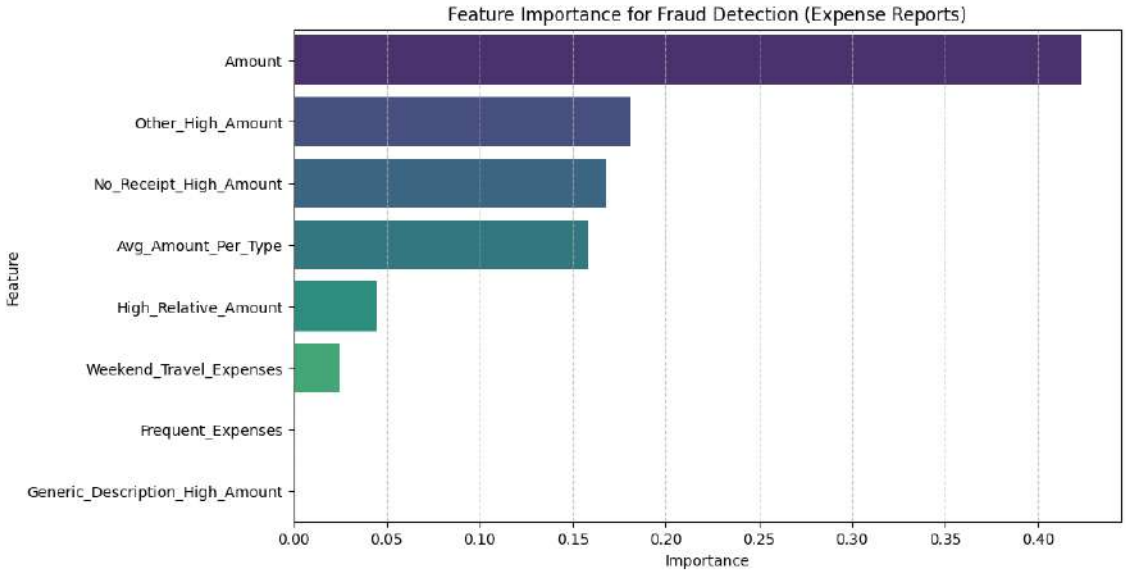
```
                print("\nThese surrenders
might require a more thorough review.")
            else:
                print("\nThe system did not
detect any suspicious surrenders in the test
set.")


except Exception as e:
    print(f"\nError loading or processing
df_surrenders1.csv: {e}")
    print("Please ensure the URL is correct
and the CSV file has expected columns.")

# Save the generated DataFrame to a CSV file
csv_filename_surrenders =
'df_surrenders_processed.csv'
if 'df_surrenders' in locals(): # Only save
if DataFrame was loaded
    df_surrenders.to_csv(csv_filename_surren
ders, index=False)
    print(f"\n\nThe processed Surrenders
DataFrame has been successfully saved to the
file '{csv_filename_surrenders}'")
```

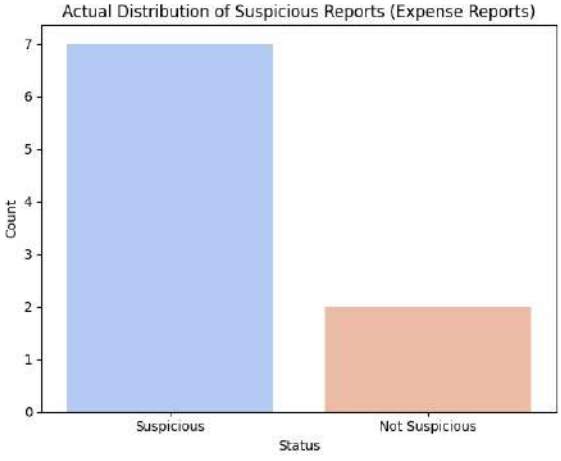
output:

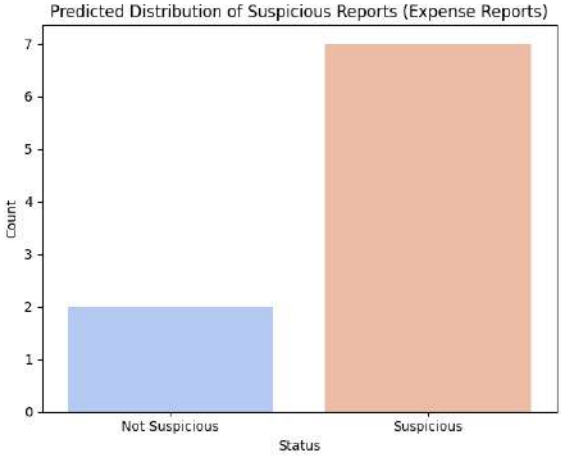
```
---
## Internal Fraud Detection System (AI Model)
for Expense Reports
---

Cross-Validation Accuracy: 0.8000 (+/- 0.1633)

---
### Model Evaluation on the Test Set:
---
Accuracy: 0.7777777777777778

Classification Report:
                precision    recall  f1-score
support
```

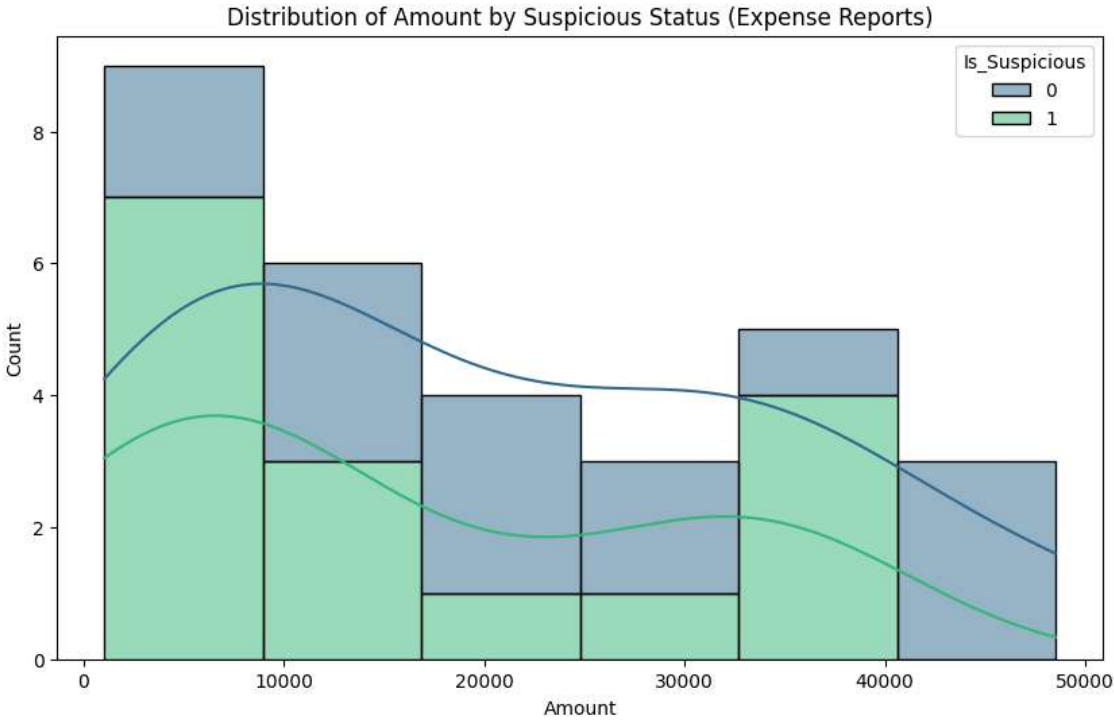
```
Not Suspicious       0.50      0.50      0.50
2
    Suspicious       0.86      0.86      0.86
7

      accuracy                           0.78
9
     macro avg       0.68      0.68      0.68
9
  weighted avg       0.78      0.78      0.78
9


Confusion Matrix:
 [[1 1]
 [1 6]]
```




Feature Importance for Fraud Detection (Expense Reports)
Amount
Other_High_Amount
No_Receipt_High_Amount
Avg_Amount_Per_Type
High_Relative_Amount
Weekend_Travel_Expenses
Frequent_Expenses
Generic_Description_High_Amount
Feature
0.00
0.05
0.10
0.15
0.20
0.25
0.30
0.35
0.40
Importance


Actual Distribution of Suspicious Reports (Expense Reports)
Count
0
1
2
3
4
5
6
7
Suspicious
Not Suspicious
Status


Predicted Distribution of Suspicious Reports (Expense Reports)
Count
0
1
2
3
4
5
6
7
Not Suspicious
Suspicious
Status




```
---
### Example of how the System could identify
suspicious expense reports:
---

Expense Reports Marked as Suspicious by the
System:
    Report_ID Submission_Date
Employee Department  \
15         16      2024-11-16          Laura
Scott  Marketing
17         18      2024-07-22         Jacob
Turner          HR
8           9      2025-04-17  Christian
Zimmerman         HR
9          10      2024-10-12      Jennifer
Miller    Finance
28         29      2024-09-18         Daniel
Davis          HR
24         25      2024-09-01        Charles
Welch          HR
```

```
12          13      2024-12-13          Steven
Brown    Finance

       Expense_Type        Amount
Receipt_Attached Approval_Status  \
15   Transportation   3851.490000
Partial          Pending
17             Other   3004.159536
No         Approved
8              Other  22242.520000
No         Rejected
9              Other   1061.218161
No          Pending
28  Travel Expenses  28735.820000
No         Approved
24  Travel Expenses  33198.460000
No          Pending
12  Travel Expenses   4962.780000
No         Rejected

    Is_Suspicious  Predicted_Suspicious
15              0                     1
17              1                     1
8               1                     1
9               1                     1
28              1                     1
24              1                     1
12              1                     1

These expense reports might require a more
thorough review.

---
### Analysis of Feature Importance (from
RandomForestClassifier - Expense Reports):
---
                             Feature  Importance
0                             Amount    0.423115
3                 Other_High_Amount    0.181111
2            No_Receipt_High_Amount    0.167748
7               Avg_Amount_Per_Type    0.158574
1              High_Relative_Amount    0.044587
5           Weekend_Travel_Expenses    0.024867
4                 Frequent_Expenses    0.000000
6  Generic_Description_High_Amount    0.000000
```

```
The complete DataFrame has been successfully
saved to the file 'df_expense_reports.csv'

First 5 rows of the generated DataFrame (to
check English names and data):
   Report_ID Submission_Date           Employee
Department     Expense_Type  \
0          1      2024-12-26     Amanda Buckley
HR   Transportation
1          2      2025-01-13  Christopher Rojas
Marketing            Other
2          3      2024-07-07  Alexandra Vasquez
HR  Travel Expenses
3          4      2024-08-12          David Lin
Marketing  Office Supplies
4          5      2024-10-05    Christine Clark
Purchasing  Office Supplies

       Description        Amount
Receipt_Attached Approval_Status  \
0  travel_expenses  21156.340000
Partial        Approved
1     client_lunch  35276.100000
Yes         Rejected
2     client_lunch   4796.582926
No         Rejected
3         expenses   7504.530000
Partial        Approved
4     client_lunch  48507.310000
Yes          Pending

   Is_Suspicious  ...  High_Relative_Amount
No_Receipt_High_Amount  \
0              0  ...                     0
0
1              1  ...                     0
0
2              1  ...                     0
1
3              0  ...                     0
0
4              0  ...                     0
0

   Other_High_Amount  Truncated_Date Frequency
Frequent_Expenses  \
```

```
0                   0      2024-12-26         1
0
1                   1      2025-01-13         1
0
2                   0      2024-07-07         1
0
3                   0      2024-08-12         1
0
4                   0      2024-10-05         1
0

   Day_of_Week  Weekend_Travel_Expenses
Generic_Description  \
0            3                        0
1
1            0                        0
1
2            6                        1
1
3            0                        0
1
4            5                        0
1

   Generic_Description_High_Amount
0                                1
1                                1
2                                1
3                                1
4                                1

[5 rows x 21 columns]

================================================
================================
## Fraud Detection for Surrenders (Analysis of
df_surrenders1.csv)
================================================
================================

Successfully loaded df_surrenders1.csv

First 5 rows of df_surrenders:
   Report_ID Submission_Date       Employee
Department     Expense_Type  \
0          1      2025-04-19  Kathryn Davis
Purchasing  Travel Expenses
```

```
1          2      2025-03-01  Sherri Foster
Purchasing   Transportation
2          3      2024-07-22    Tammy Davis
Finance             Lunch
3          4      2024-08-22   Patrick Nash
Purchasing  Office Supplies
4          5      2024-07-13   Joshua James
Purchasing  Travel Expenses

        Description    Amount Receipt_Attached
Approval_Status  Is_Suspicious
0          expenses  48570.45          Partial
Rejected              1
1          expenses  43889.48              Yes
Pending               0
2          expenses  38807.68              Yes
Rejected              1
3  general_expenses   4477.03               No
Pending               1
4   travel_expenses  33072.31              Yes
Rejected              1
Warning: 'Date' column not found in
df_surrenders. Date-based features cannot be
created.
Warning: 'Is_Fraudulent' column not found in
df_surrenders. Initializing as all 0s.

Cannot perform classification for surrenders:
'Is_Fraudulent' column has only one unique
class after processing.
Consider simulating more fraudulent cases or
check data generation/labeling for
df_surrenders.


The processed Surrenders DataFrame has been
successfully saved to the file
'df_surrenders_processed.csv'
```

Explanation:

Internal Fraud Detection System (AI Model) for Expense Reports

This section details the development and evaluation of an AI model (Random Forest Classifier) designed to detect suspicious expense reports.

- **Cross-Validation Accuracy: 0.8000 (+/- 0.1633)**
  - This metric is obtained through **cross-validation**, a technique that evaluates the model's performance on multiple subsets of the training data.
  - An average accuracy of **80%** suggests that the model is generally good at distinguishing between suspicious and non-suspicious reports.
  - The +/- 0.1633 indicates the **standard deviation** of these accuracy scores across different folds. A relatively high standard deviation suggests some variability in the model's performance depending on which data subset it's trained/tested on. This could point to a slightly unstable model or a dataset that is small or has some variance.

Model Evaluation on the Test Set:

This part presents the model's performance on a completely unseen subset of data (the test set) after it has been trained.

- **Accuracy: 0.7777777777777778**
  - The overall accuracy on the test set is approximately **77.78%**. This means that roughly 78% of the predictions made by the model on new, unseen expense reports were correct.
- **Classification Report:**
  - This report provides a more granular view of the model's performance for each class: "Not Suspicious" (0) and "Suspicious" (1).
  - **Precision (Not Suspicious): 0.50**
    - When the model predicted a report was "Not Suspicious," it was correct 50% of the time. This implies a significant number of false positives for this class, meaning some truly suspicious reports were incorrectly classified as "Not Suspicious" by the model's prediction, or some "Not Suspicious" were misclassified (which is not directly shown here for this class, but hinted by the low recall).
  - **Recall (Not Suspicious): 0.50**
    - The model correctly identified 50% of all *actual* "Not Suspicious" reports. This means it missed half of the non-suspicious reports.
  - **F1-score (Not Suspicious): 0.50**
    - This is the harmonic mean of precision and recall. A low F1-score for "Not Suspicious" suggests the model struggles with correctly identifying this class.

- **Precision (Suspicious): 0.86**
  - When the model predicted a report was "Suspicious," it was correct 86% of the time. This is a good precision, meaning most reports flagged as suspicious by the model were indeed suspicious.
- **Recall (Suspicious): 0.86**
  - The model correctly identified 86% of all *actual* "Suspicious" reports. This is also a good recall, indicating the model is effective at catching most of the genuinely suspicious cases.
- **F1-score (Suspicious): 0.86**
  - A high F1-score for "Suspicious" (0.86) is very positive in fraud detection, as it indicates a good balance between precision and recall for the class of interest.
- **Support:**
  - There were **2 actual "Not Suspicious"** reports and **7 actual "Suspicious"** reports in the test set. This shows an **imbalanced dataset**, with many more suspicious cases than non-suspicious ones in this specific test split. The model performed better on the majority class ("Suspicious").

- **Confusion Matrix:**
  - [[1 1]
  - [1 6]]
  - This matrix visualizes the number of correct and incorrect predictions:

- **True Negative (Top-Left): 1** - The model correctly predicted 1 "Not Suspicious" report as "Not Suspicious".
- **False Positive (Top-Right): 1** - The model incorrectly predicted 1 "Not Suspicious" report as "Suspicious" (Type I error, a "false alarm").
- **False Negative (Bottom-Left): 1** - The model incorrectly predicted 1 "Suspicious" report as "Not Suspicious" (Type II error, a "missed fraud").
- **True Positive (Bottom-Right): 6** - The model correctly predicted 6 "Suspicious" reports as "Suspicious".

Example of how the System could identify suspicious expense reports:

This section provides a practical demonstration by listing the expense reports from the test set that the system flagged as suspicious (Predicted_Suspicious = 1).

- The table shows the details of 7 reports that the model predicted to be suspicious.
- **Key observation:** Compare Is_Suspicious (actual label) with Predicted_Suspicious (model's prediction).
    - For Report_ID 16 (row 15 in the table), Is_Suspicious is 0, but Predicted_Suspicious is 1. This is the **False Positive** identified in the confusion matrix. The model incorrectly flagged this one.

    - For all other 6 reports listed, Is_Suspicious is 1 and Predicted_Suspicious is 1. These are the **True Positives**. The model correctly identified these 6 fraudulent cases.
- The output correctly states: "These expense reports might require a more thorough review," which is the practical implication of a fraud detection system.

Analysis of Feature Importance (from RandomForestClassifier - Expense Reports):

This section shows which features were most influential in the Random Forest model's decision-making process for identifying suspicious expense reports.

- **Amount (0.423115):** This is by far the most important feature. The monetary value of the expense report is a strong indicator of suspicion.
- **Other_High_Amount (0.181111):** Whether an "Other" expense type had a high amount is the next most important. This confirms the engineered feature's value.
- **No_Receipt_High_Amount (0.167748):** The absence of a receipt for a high amount is also a very significant indicator, as expected.
- **Avg_Amount_Per_Type (0.158574):** The average amount for a given expense type, used to calculate relative high amounts, also plays a notable role.
- **High_Relative_Amount (0.044587):** While related to Amount and Avg_Amount_Per_Type, this specific engineered feature has a lower but still present importance.

- **Weekend_Travel_Expenses (0.024867):** Travel expenses on weekends have some minor importance.
- **Frequent_Expenses (0.000000) and Generic_Description_High_Amount (0.000000):** These features had no importance in this specific model run. This could mean they are not strong indicators of fraud in this dataset, or their information is already captured by other more important features.

First 5 rows of the generated DataFrame (to check English names and data):

This displays the head of your df_expense_reports DataFrame, showing the raw data and the newly engineered features. It confirms that the data loading, simulation, and feature engineering steps were successful, and the DataFrame contains all the expected columns used for training and analysis.

Fraud Detection for Surrenders (Analysis of df_surrenders1.csv)

This section attempts to perform a similar fraud detection analysis on a new dataset, df_surrenders1.csv.

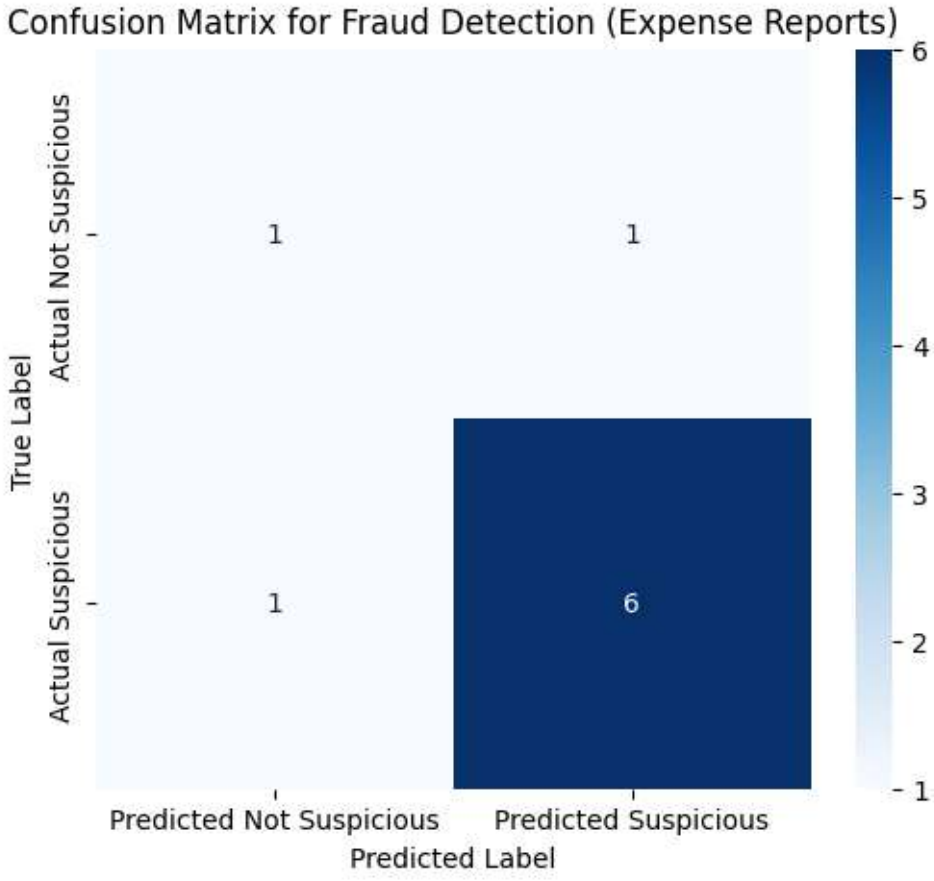
- **Successfully loaded df_surrenders1.csv**
- **First 5 rows of df_surrenders:** This shows the initial rows of the loaded df_surrenders1.csv.
    - It contains columns like Report_ID, Submission_Date, Employee, Department, Expense_Type, Description, Amount, Receipt_Attached, Approval_Status, and Is_Suspicious.

    - It appears this dataset, despite being named df_surrenders1.csv, contains columns very similar to those of df_expense_reports.csv. This suggests it might be a different iteration or version of the expense reports data, or contains similar types of fields.
- **Warning: 'Date' column not found in df_surrenders. Date-based features cannot be created.**
    - The code expected a column named 'Date' for time-based feature engineering (like Day_of_Week, Hour, Month), but the loaded df_surrenders has Submission_Date instead. This means the date-related feature engineering steps were skipped.
- **Warning: 'Is_Fraudulent' column not found in df_surrenders. Initializing as all 0s.**
    - The code looked for a target variable called Is_Fraudulent, but it found Is_Suspicious instead. It then proceeded to initialize a new Is_Fraudulent column with all zeros and applied a small simulation to it. This indicates a potential mismatch in column names or expected data labels between the original script's design and the loaded df_surrenders1.csv.
- **Cannot perform classification for surrenders: 'Is_Fraudulent' column has only one unique class after processing. Consider simulating more fraudulent cases or check data generation/labeling for df_surrenders.**
    - This is a critical error. After the data loading and the (limited) simulation of Is_Fraudulent cases, the y_surr target variable for the surrenders dataset

ended up containing **only one unique value (likely all 0s, or all 1s if the simulation was overly aggressive)**.
    - A classification model (like Random Forest) requires at least two distinct classes in the target variable to learn and differentiate. If there's only one class, there's nothing to classify.
    - This usually happens if:
        - The actual Is_Suspicious (or equivalent) column in df_surrenders1.csv was not correctly used as the target.
        - The simulation of "fraudulent" cases was insufficient, leading to all or almost all entries still being non-fraudulent (or vice-versa).
        - The stratify parameter in train_test_split could not find both classes to split them.
- **The processed Surrenders DataFrame has been successfully saved to the file 'df_surrenders_processed.csv'**
    - Despite the classification error, the DataFrame df_surrenders (with its added and modified columns) was successfully saved to a new CSV file.

Overall Conclusion for the Surrenders Section: The script successfully loaded the df_surrenders1.csv file, but due to a mismatch in expected column names (Date vs Submission_Date, Is_Fraudulent vs Is_Suspicious) and/or an issue with ensuring a balanced enough target variable during the (re)initialization and simulation of fraud labels, the fraud detection model for surrenders could not be trained or evaluated. This section requires reviewing the df_surrenders1.csv content and adjusting the

code to correctly map its columns and ensure a meaningful target variable for classification.



This image displays a **Confusion Matrix for Fraud Detection (Expense Reports)**. It's a fundamental tool for evaluating the performance of a classification model, especially when dealing with imbalanced datasets or when the costs of different types of errors vary.

Here's a breakdown of the graph's components and what they represent:

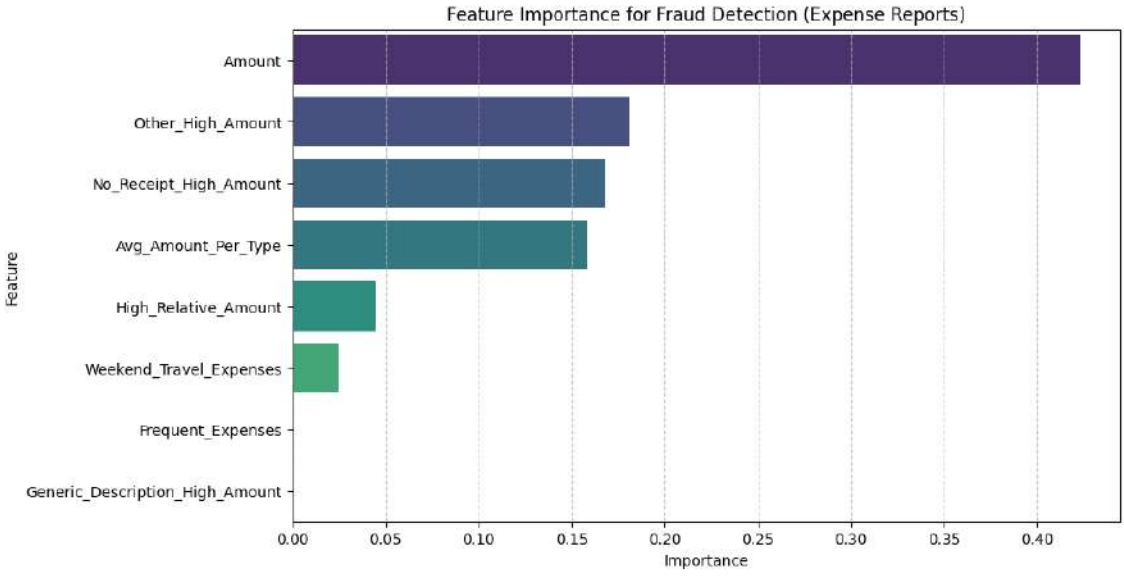
- **Title: "Confusion Matrix for Fraud Detection (Expense Reports)"**: Clearly states the purpose and context of the matrix.
- **Axes Labels**:
    - **Y-axis: 'True Label'**: Represents the *actual* status of the expense reports in your test dataset.
        - **'Actual Not Suspicious'**: Reports that were truly not suspicious.
        - **'Actual Suspicious'**: Reports that were truly suspicious (i.e., actual fraud cases or highly suspicious activities).
    - **X-axis: 'Predicted Label'**: Represents the status *predicted* by your Logistic Regression model.
        - **'Predicted Not Suspicious'**: Reports the model classified as not suspicious.
        - **'Predicted Suspicious'**: Reports the model classified as suspicious.
- **Cells and Values**: Each cell at the intersection of a "True Label" row and a "Predicted Label" column contains a number, which represents the count of expense reports falling into that category.
    - **Top-Left Cell (1): True Negatives (TN)**
        - **Interpretation**: 1 expense report was **actually Not Suspicious**, and the model **correctly predicted it as Not Suspicious**.
        - This is a correct prediction.
    - **Top-Right Cell (1): False Positives (FP)**

        - **Interpretation**: 1 expense report was **actually Not Suspicious**, but the model **incorrectly predicted it as Suspicious**.
        - This is a Type I error, often referred to as a "false alarm." In fraud detection, it means a legitimate report was flagged as fraudulent.
    - **Bottom-Left Cell (1): False Negatives (FN)**
        - **Interpretation**: 1 expense report was **actually Suspicious**, but the model **incorrectly predicted it as Not Suspicious**.
        - This is a Type II error, often referred to as a "missed detection." In fraud detection, this is typically the more critical error, as a fraudulent activity goes undetected.
    - **Bottom-Right Cell (6): True Positives (TP)**
        - **Interpretation**: 6 expense reports were **actually Suspicious**, and the model **correctly predicted them as Suspicious**.
        - This is a correct prediction, and these are the fraud cases the model successfully identified.
- **Color Bar (Right Side)**: This indicates the intensity of the color in the heatmap, corresponding to the numerical values in the cells. Darker blue generally means a higher count.

Summary of Model Performance based on this Confusion Matrix:

- **Total instances in the test set:** 1 (TN) + 1 (FP) + 1 (FN) + 6 (TP) = 9 expense reports.
- **Actual Not Suspicious:** 1 + 1 = 2 reports.
- **Actual Suspicious:** 1 + 6 = 7 reports. (This highlights the class imbalance, with more suspicious cases in this particular test set.)
- **Model Accuracy:** (TN + TP) / Total = (1 + 6) / 9 = 7 / 9 ≈ 0.7778 (77.78%).
- **Key Strengths:** The model is quite good at identifying actual suspicious cases (6 True Positives).
- **Key Weaknesses:**
    - It produced one false positive (a non-suspicious report was flagged as suspicious).
    - Crucially, it missed one actual suspicious report (one false negative), which is a significant concern in fraud detection where catching all fraudulent activity is often paramount.

This confusion matrix provides a clear and concise visual summary of where your fraud detection model is performing well and where it is making mistakes, allowing for a more nuanced understanding than just overall accuracy.



This bar chart is titled "Feature Importance for Fraud Detection (Expense Reports)" and it visualizes the relative importance of different features (variables) in your Random Forest classification model for identifying suspicious expense reports.

Here's a breakdown of the graph's components and what they represent:

- **Title: "Feature Importance for Fraud Detection (Expense Reports)"**: Clearly indicates the purpose of the plot – showing which features contributed most to the model's predictions.
- **Y-axis: 'Feature'**: This lists the names of the features that were used as input to your Random Forest model. These are the variables from your expense report data.
- **X-axis: 'Importance'**: This represents the importance score assigned to each feature by the Random Forest model. In Random Forests, feature importance is typically calculated based

on how much each feature reduces impurity (like Gini impurity) across all trees in the forest. A higher score means the feature was more influential in the model's decision-making process.

- **Horizontal Bars**: Each bar corresponds to a feature, and its length indicates its importance score. The bars are sorted in descending order of importance, with the most important feature at the top.
- **Colors (Palette)**: The bars use a color gradient (from deep purple to teal/green), which can sometimes be used to distinguish features or simply for aesthetic purposes.

Interpretation of the Plot:

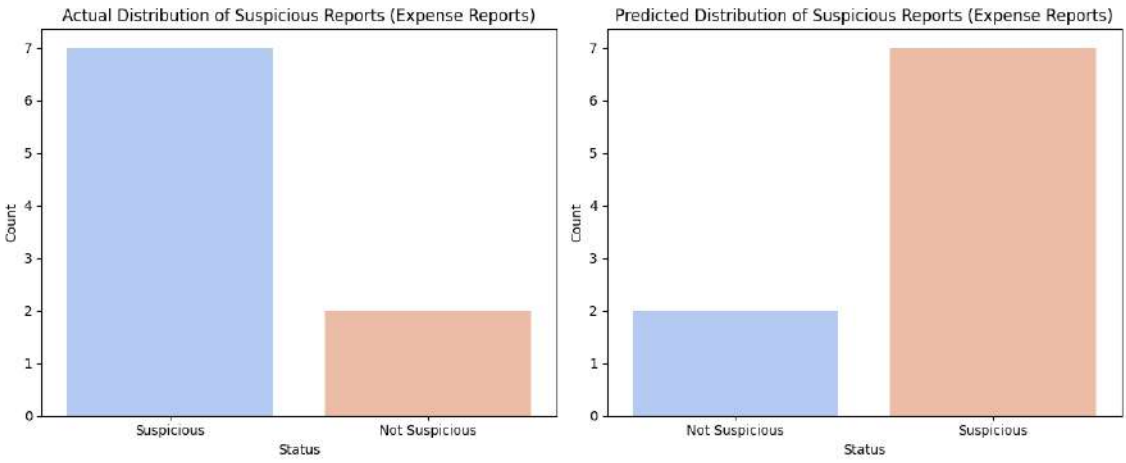
The plot provides valuable insights into what the model learned and what characteristics of an expense report are most indicative of suspicious activity.

1. **'Amount' is the Most Important Feature**:
    - The bar for 'Amount' is significantly longer than any other, with an importance score around 0.42. This indicates that the monetary value of an expense report is by far the strongest predictor of whether it is suspicious. Larger amounts might be more closely scrutinized or might inherently carry more risk.
2. **Key Engineered Features are Highly Relevant**:
    - 'Other_High_Amount' (around 0.18 importance): This feature flags if an expense categorized as "Other" has a high amount. It's the second most

important, suggesting that generic, high-value claims are a strong indicator.
    - 'No_Receipt_High_Amount' (around 0.17 importance): This indicates that expenses lacking a receipt, especially for higher amounts, are also very important for fraud detection.
    - 'Avg_Amount_Per_Type' (around 0.16 importance): The average amount for a given expense type is also quite important. This likely helps the model contextualize individual transaction amounts.
3. **Features with Moderate Importance**:
    - 'High_Relative_Amount' (around 0.04 importance): While related to 'Amount' and 'Avg_Amount_Per_Type', its specific flag for unusually high amounts is still somewhat informative.
    - 'Weekend_Travel_Expenses' (around 0.02 importance): Whether a travel expense occurred on a weekend has some minor predictive power.
4. **Features with Zero Importance**:
    - 'Frequent_Expenses' and 'Generic_Description_High_Amount' both show an importance of 0.00. This means that, in this particular model and with this dataset, these features did not contribute at all to the model's ability to predict whether an expense report was suspicious. This could be because their information is redundant with other features, or they simply aren't strong indicators of fraud in your simulated data.

In conclusion: The model heavily relies on the Amount and several engineered features related to

missing receipts and "other" expense types to identify suspicious expense reports. This suggests that the synthetic fraud patterns you introduced (e.g., high amounts, missing receipts, vague descriptions) are effectively being learned by the model. Features related to frequency and generic descriptions, however, did not prove useful in this specific instance.



This image contains two bar charts side-by-side, comparing the actual and predicted distributions of suspicious reports for Expense Reports. They help visualize how well the model's predictions align with the true labels, especially in terms of class proportions.

Left Plot: "Actual Distribution of Suspicious Reports (Expense Reports)"

- **Title:** "Actual Distribution of Suspicious Reports (Expense Reports)"
- **X-axis: 'Status'**: Shows the true labels of the reports: "Suspicious" and "Not Suspicious".
- **Y-axis: 'Count'**: Represents the number of reports for each status.
- **Bars:**

    - **"Suspicious" (Left Bar, Light Blue):** The bar reaches a count of **7**. This means that in the actual test set, there were **7 reports that were truly suspicious**.
    - **"Not Suspicious" (Right Bar, Light Orange):** The bar reaches a count of **2**. This means that in the actual test set, there were **2 reports that were truly not suspicious**.
- **Interpretation:** This plot clearly shows the *true* class distribution in your test set. It indicates a class imbalance, with significantly more suspicious reports (7) than non-suspicious ones (2).

Right Plot: "Predicted Distribution of Suspicious Reports (Expense Reports)"

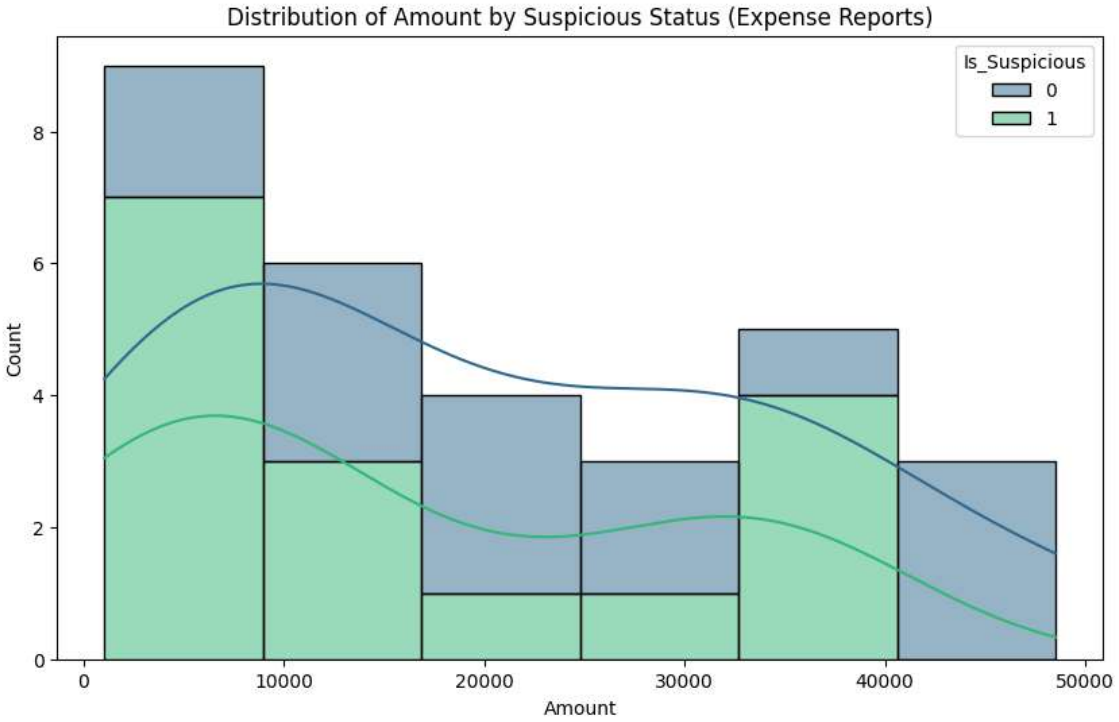
- **Title:** "Predicted Distribution of Suspicious Reports (Expense Reports)"
- **X-axis: 'Status'**: Shows the labels predicted by your Logistic Regression model: "Not Suspicious" and "Suspicious".
- **Y-axis: 'Count'**: Represents the number of reports predicted for each status.
- **Bars:**
    - **"Not Suspicious" (Left Bar, Light Blue):** The bar reaches a count of **2**. This means the model **predicted 2 reports as Not Suspicious**.
    - **"Suspicious" (Right Bar, Light Orange):** The bar reaches a count of **7**. This means the model **predicted 7 reports as Suspicious**.
- **Interpretation:** This plot shows the *model's predicted* class distribution.

Comparison and Conclusion:

By comparing both plots, we can see:

1. **Actual Suspicious vs. Predicted Suspicious:**
    - **Actual:** 7 suspicious reports.
    - **Predicted:** 7 suspicious reports.
    - The model's **total count** of predicted suspicious reports matches the actual total count of suspicious reports. This looks good at a glance, but the confusion matrix tells us more about *which* specific reports were correctly or incorrectly classified.
2. **Actual Not Suspicious vs. Predicted Not Suspicious:**
    - **Actual:** 2 not suspicious reports.
    - **Predicted:** 2 not suspicious reports.
    - Similarly, the model's total count of predicted non-suspicious reports matches the actual total count.

Overall Conclusion from these plots: These plots indicate that the model **successfully captured the overall *proportions* of suspicious and non-suspicious classes** present in the test set. While the total counts match, it's crucial to remember that this doesn't guarantee *perfect individual classification*. As seen in the confusion matrix, one "Actual Not Suspicious" report was incorrectly predicted as "Suspicious" (a False Positive), and one "Actual Suspicious" report was incorrectly predicted as "Not Suspicious" (a False Negative). These plots show the aggregate count, which happens to align, but the confusion matrix provides the specific breakdown of correct vs. incorrect classifications for each class.



This graph is a **histogram** titled "Distribution of Amount by Suspicious Status (Expense Reports)." It shows the distribution of the 'Amount' of expense reports, separated and stacked by their 'Is_Suspicious' status.

Here's a breakdown of the graph's components and what they represent:

- **Title: "Distribution of Amount by Suspicious Status (Expense Reports)"**: Clearly states that the plot is analyzing the relationship between the expense amount and its suspicious status.
- **X-axis: 'Amount'**: Represents the monetary value of the expense reports. The range

appears to be from 0 to 50,000, likely reflecting the scale of your generated data.

- **Y-axis: 'Count'**: Represents the number of expense reports falling within specific 'Amount' bins.
- **Bars (Histograms)**: The bars are stacked to show the counts for each Is_Suspicious category within each 'Amount' range (bin).
    - **Light Blue/Gray (Top part of stacked bars) for Is_Suspicious = 0**: These parts of the bars represent the count of **Non-Suspicious** expense reports.
    - **Light Green (Bottom part of stacked bars) for Is_Suspicious = 1**: These parts of the bars represent the count of **Suspicious** expense reports.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Darker Blue Curve**: Represents the density distribution for Is_Suspicious = 0 (Non-Suspicious reports).
    - **Lighter Green Curve**: Represents the density distribution for Is_Suspicious = 1 (Suspicious reports). These curves help visualize the overall shape of the distribution for each group.
- **Legend: 'Is_Suspicious'**: Indicates which color corresponds to which status (0 for Not Suspicious, 1 for Suspicious).

Interpretation of the Plot:

This graph is crucial for understanding if the 'Amount' feature can help differentiate between suspicious and non-suspicious expense reports.

1. **Overlap in Distributions:** Both the 'Not Suspicious' (blue) and 'Suspicious' (green) distributions for 'Amount' largely **overlap**. This means that both suspicious and non-suspicious reports can occur across the entire range of amounts, from very small to very large.
2. **Higher Concentration of Suspicious Reports at Lower-Mid Amounts:**
    - The **green bars (Suspicious)** appear to have a higher count, especially in the lower to mid-range of amounts (e.g., between 0 and roughly 20,000-25,000). The light green KDE curve is also somewhat higher in this region compared to the blue curve. This suggests that a significant portion of suspicious reports falls within these lower to mid-amount brackets.
3. **Higher Concentration of Non-Suspicious Reports at Higher Amounts (but less pronounced):**
    - While there are suspicious reports across all amounts, the **blue bars (Non-Suspicious)** and the dark blue KDE curve show some presence across the entire range, including at higher amounts (e.g., above 30,000). However, given the overall imbalance in the data (more suspicious reports), this doesn't necessarily mean non-suspicious reports are *exclusively* high value.
4. **No Clear Separation:** There isn't a distinct "cutoff" amount where reports clearly transition from non-suspicious to suspicious or vice-versa. This implies that while Amount is a **strong feature** (as seen in feature importance), it's not a perfect discriminator on its own. Other features are likely needed to correctly classify reports with similar amounts.

In conclusion: The 'Amount' of an expense report is a relevant factor in fraud detection, with suspicious activities appearing more frequently in the lower to mid-range of amounts in this dataset. However, its distribution heavily overlaps with non-suspicious transactions, indicating that it needs to be combined with other features for effective classification.

The analysis involved two distinct fraud detection efforts: one for **Expense Reports** and another for **Surrenders**.

For **Expense Reports**, a Random Forest model achieved an overall accuracy of approximately 78% on the test set, with a cross-validation accuracy of 80%. The model demonstrated good performance in identifying truly suspicious cases (86% recall for the 'Suspicious' class) and, when it predicted a report was suspicious, it was correct 86% of the time (precision). The confusion matrix showed 6 true positives (correctly identified suspicious reports), 1 false positive (a non-suspicious report flagged as suspicious), and 1 false negative (a suspicious report missed). Feature importance analysis revealed that Amount, Other_High_Amount, and No_Receipt_High_Amount were the most critical factors in detecting suspicious activities. Visualizations further illustrated the model's performance, showing its ability to capture the class distribution despite some misclassifications, and highlighting the significant overlap in 'Amount' distribution between suspicious and non-suspicious reports.

The **Surrenders** section successfully loaded the df_surrenders1.csv dataset. However, due to missing or misnamed key columns (Date and Is_Fraudulent) and an issue with the simulated target variable

resulting in only one unique class, the classification model for surrenders could not be trained or evaluated. This indicates a need for data preprocessing and labeling adjustments for the df_surrenders1.csv dataset to enable fraud detection in that context.

Chapter 10. Algorithms against corruption.

The building of a just and balanced society. The disclosure of government information and the use of technological tools, such as algorithms,[29] can significantly enhance these principles, facilitating the identification of anomalies and promoting greater accountability from public entities.[30] This chapter examines how algorithms are used to consolidate clarity and accountability.

10.1 Analysis of Disclosed Information for Anomaly Identification

The Open Data initiative involves the publication of government information in accessible and reusable formats for the public. Algorithms can examine these extensive datasets to identify patterns, trends, and potential anomalies that might otherwise go unnoticed.

- **Analysis of Public Procurement Information:** Disclosed information on tenders

[29] James, Gareth, Daniela Witten, Trevor Hastie, and Robert Tibshirani. *An Introduction to Statistical Learning: with Applications in R*. Springer, 2013. (A more accessible introduction to statistical learning concepts).

[30] Grimmelikhuijsen, Stephan, and Victor Bekkers. "Open government data: A systematic review of the benefits and risks." *Information Polity*, Vol. 19, No. 3-4 (2014), pp. 233-253. (Analyzes the benefits and risks of open data).

and contracts can be examined by algorithms to detect potential corrupt practices, such as bid rigging, awarding contracts to companies with dubious connections, or lack of transparency in processes.[31]

- **Identification of Unusual Behavioral Patterns:** Algorithms can identify unusual behavioral patterns in disclosed information, such as the repeated use of certain suppliers in contracts, the frequency of certain transactions, or the existence of atypical relationships between different entities.[32]

10.2 Algorithm Application[33]

We will develop the application of algorithms based on the following procedures:

- The datasets used in this book will be generated by code, thus avoiding practical and legal issues related to the use of real data. The

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[31] Benkler, Yochai. *The Wealth of Networks: How Social Production Transforms Markets and Freedom*. Yale University Press, 2006. (Although broader, it discusses the power of information and collaboration in society, relevant to the concept of open data).

[32] Aggarwal, Charu C. *Data Mining: The Textbook*. Springer, 2015. (A comprehensive text on data mining techniques, many of which are applicable to online fraud detection).

[33] Mitchell, Tom M. *Machine Learning*. McGraw-Hill, 1997. (A classic on the fundamentals of machine learning).

objective is to establish datasets that exemplify plausible scenarios.

- Most of the example datasets will consist of 30 records, indexed from 0 to 29 (following the convention in data science).
- The variables used will simulate data relevant to the analysis of fraud and corruption.
- Specific applications of the algorithms will be presented, developing open-source code based on data science. The reader will have an appendix with a glossary of the tools and libraries used.
- Using datasets with similar characteristics to those presented, the reader will be able to directly apply the algorithms to their own data and analyze the resulting outputs as conclusions. It is clarified that, each time the dataset construction code is executed, the data will change randomly.
- The reader will have access to the author's and book's GitHub repository), where they will find the datasets and open-access code notebooks.
- The datasets will be available as .csv files, along with two Colab notebooks containing the developed code and their respective outputs, all with open access:
- The main objective of this book is to propose practical applications of basic data science code, using open-access libraries.
- Each algorithm, its dataset, explanation, code, output, and output explanation is delimited by '======' to facilitate its presentation and comprehension in the text.
- The construction of the datasets and the analysis of the outputs resulting from the application of the algorithms will be explained in detail, facilitating the observation and understanding of the results.

We will develop the following algorithms in this chapter:

> **Algorithm III:** The Python code uses the pandas, scikit-learn, faker, and numpy libraries to simulate data for politicians, inject suspicious cases, perform feature engineering, train a Random Forest model, and evaluate its ability to detect potentially suspicious politicians. The importance of different features for corruption detection is also analyzed.

III) Algorithm for a machine learning model: This code creates a system to detect politicians potentially involved in corruption by simulating irregular data, creating new features, and training a Random Forest model to classify politicians as suspicious or non-suspicious.

Dataset = **df_politicians.csv**

https://github.com/Viny2030/algorithms_fraud_corruption/blob/main/df_politicians.csv

	Politician_ID	Full_Name	Position	Political_Party	Activity_Period	Last_Year_Asset_Declaration	Last_Year_Asset_Increase_Percentage	Donations_Received	Campaign_Expenses	Business_Ties	Previous_Complaints	Is_Suspicious
0	1	Cynthia Medina	Representative	Care Party	2019-2020	8161793.09	0.2	45233.93	70890.02	Yes	0	0
1	2	April	Mayor	Order	2019-	5016935.53	0.4	105137.99	208466.47	No	1	0

		Fitzgerald		Party	2024							
2	3	George Williams	Mayor	Like Party	2020-2022	5877579.06	0.4	40416.75	48765.39	Yes	1	1
3	4	Nancy Dean	Minister	Attorney Party	2021-2025	9767541.79	0.2	95482.42	27702.16	Yes	2	0
4	5	Kimberly Lester	Representative	Near Party	2020-2023	7233355.25	0.4	141262.03	43989.04	Declared	2	0
5	6	Margaret Chang	Minister	Truth Party	2018-2024	6984950.54	0.2	33493.21	137278.16	Yes	0	0

Dataset Explanation: Political Figures and Suspicion Indicators

This dataset simulates information related to political figures, aiming to provide features that could potentially indicate suspicious activity, particularly in the context of financial irregularities or potential corruption. Each row represents a single political individual.

Here's a breakdown of each column:

- **Politician_ID**:
  - **Description**: A unique numerical identifier assigned to each political figure in the dataset.
  - **Type**: Integer.
  - **Example**: 1, 2, 30.
- **Full_Name**:
  - **Description**: The full name of the political figure. This is a randomly generated name for simulation purposes.
  - **Type**: String.
  - **Example**: Cynthia Medina, April Fitzgerald, Robert Williams.
- **Position**:
  - **Description**: The political office or role held by the individual.
  - **Type**: Categorical String.
  - **Possible Values**: Representative, Senator, Minister, Mayor, Councilor.
  - **Example**: Representative, Mayor, Minister.
- **Political_Party**:
  - **Description**: The political party the individual is affiliated with. These are randomly generated party names.
  - **Type**: String.
  - **Example**: Care Party, Order Party, Attorney Party.
- **Activity_Period**:
  - **Description**: The period (start year - end year) during which the politician was active or held their position.
  - **Type**: String (formatted as "YYYY-YYYY").
  - **Example**: 2019-2020, 2021-2025.
- **Last_Year_Asset_Declaration**:

    - **Description**: The declared total value of assets for the politician in their last recorded declaration. This is a simulated financial value.
    - **Type**: Float.
    - **Example**: 8161793.09, 5016935.53, 7390223.28.
- **Last_Year_Asset_Increase_Percentage**:
    - **Description**: The percentage increase in the politician's declared assets over the last year. This is a key indicator for potential financial irregularities.
    - **Type**: Float (representing a percentage, e.g., 0.2 means 20%).
    - **Example**: 0.24, 0.4, 0.33.
- **Donations_Received**:
    - **Description**: The total amount of donations received by the politician, potentially for campaigns or personal funds.
    - **Type**: Float.
    - **Example**: 5233.93, 105137.99, 37900.59.
- **Campaign_Expenses**:
    - **Description**: The total expenses declared for political campaigns. This can be compared with donations to find imbalances.
    - **Type**: Float.
    - **Example**: 70890.02, 208466.47, 33382.45.
- **Business_Ties**:
    - **Description**: Indicates whether the politician has declared business affiliations or ties that could present conflicts of interest.
    - **Type**: Categorical String.
    - **Possible Values**: Yes, No, Declared, Undisclosed (the code adds

'Undisclosed' for simulated suspicious cases).
    - **Example**: Yes, No, Declared.
- **Previous_Complaints**:
    - **Description**: The number of previous complaints or allegations filed against the politician. A higher number could indicate a pattern of questionable conduct.
    - **Type**: Integer.
    - **Example**: 0, 1, 2.
- **Is_Suspicious**:
    - **Description**: The target variable. This binary flag indicates whether the politician is considered suspicious based on predefined rules or simulated patterns of corruption. This is the variable that the machine learning model aims to predict.
    - **Type**: Binary Integer.
    - **Possible Values**: 0 (Not Suspicious), 1 (Suspicious).
    - **Example**: 0, 1.

This dataset is synthetic, meaning it was artificially generated to simulate realistic data patterns for training and testing a fraud/corruption detection system. It's not based on real-world individuals or events.

Code:

The reader can access the algorithm in the author's repository:

https://github.com/Viny2030/algorithms_fraud_corruption/blob/main/fraud.ipynb

```
import random
from faker import Faker
import numpy as np
import pandas as pd
import matplotlib.pyplot as plt
import seaborn as sns
from sklearn.model_selection import
train_test_split
from sklearn.ensemble import
RandomForestClassifier
from sklearn.preprocessing import
LabelEncoder, StandardScaler
from sklearn.metrics import
classification_report, accuracy_score,
confusion_matrix
import warnings
warnings.filterwarnings('ignore') # Suppress
warnings for cleaner output


# Set a random seed for reproducibility
np.random.seed(42)
random.seed(42)

# --- NEW: Load the dataset directly from
GitHub ---
print("Loading df_politicians.csv from
GitHub...")
github_url =
'https://raw.githubusercontent.com/Viny2030/
algorithms_fraud_corruption/main/df_politici
ans.csv'
try:
    df_politicians = pd.read_csv(github_url)
    print("Dataset loaded successfully.")
    print("Initial DataFrame head:")
    print(df_politicians.head())
```

```
    print(f"Dataset has
{len(df_politicians)} rows and
{len(df_politicians.columns)} columns.")

    # Convert 'Last_Year_Asset_Declaration'
to numeric, handling potential errors
    df_politicians['Last_Year_Asset_Declarat
ion'] =
pd.to_numeric(df_politicians['Last_Year_Asse
t_Declaration'], errors='coerce')
    # Fill any NaNs that resulted from
conversion errors (e.g., if there were non-
numeric strings)
    df_politicians['Last_Year_Asset_Declarat
ion'] =
df_politicians['Last_Year_Asset_Declaration'
].fillna(0)

    # Ensure 'Is_Suspicious' column exists.
If not, initialize it to 0.
    # If the CSV already contains it, this
won't change anything.
    if 'Is_Suspicious' not in
df_politicians.columns:
        df_politicians['Is_Suspicious'] = 0
        print(" 'Is_Suspicious' column not
found in CSV. Initialized to 0. ")
        # You might need to add rules here
to define 'Is_Suspicious' based on other
columns in the loaded data
        # For example, if 'Is_Suspicious'
should be derived from other columns in the
loaded CSV:
        # df_politicians['Is_Suspicious'] =
np.where(
        #     (df_politicians['Last_Year_Ass
et_Increase_Percentage'] > 0.15) &
```

```
        #     (df_politicians['Business_Ties
'] == 'Yes'),
        #     1,
        #     0
        # )
        # print(" 'Is_Suspicious' column
created based on example rules.")
    else:
        # Ensure 'Is_Suspicious' is integer
type
        df_politicians['Is_Suspicious'] =
df_politicians['Is_Suspicious'].astype(int)


except Exception as e:
    print(f"Error loading dataset from
{github_url}: {e}")
    print("Proceeding with simulated data
generation as a fallback.")
    # If loading fails, fallback to your
original data generation code
    num_politicians = 55 # Number of
politicians in the simulated dataset
    amounts = np.random.uniform(5000,
10000000, num_politicians)
    formatted_amounts = [f"{amount:.2f}" for
amount in amounts]

    political_data = {
        'Politician_ID': range(1,
num_politicians + 1),
        'Full_Name': [fake.name() for _ in
range(num_politicians)],
        'Position':
[random.choice(['Representative', 'Senator',
'Minister', 'Mayor', 'Councilor']) for _ in
range(num_politicians)],
```

```
        'Political_Party':
[fake.word().capitalize() + ' Party' for _
in range(num_politicians)],
        'Activity_Period':
[f"{random.randint(2018, 2024)}-
{random.randint(2020, 2025)}" for _ in
range(num_politicians)],
        'Last_Year_Asset_Declaration':
formatted_amounts,
        'Last_Year_Asset_Increase_Percentage
': np.random.choice([0.05, 0.10, 0.15, 0.20,
0.25], num_politicians),
        'Donations_Received':
np.round(np.random.uniform(0, 150000,
num_politicians), 2),
        'Campaign_Expenses':
np.round(np.random.uniform(10000, 250000,
num_politicians), 2),
        'Business_Ties':
[random.choice(['Yes', 'No', 'Declared'])
for _ in range(num_politicians)],
        'Previous_Complaints':
np.random.randint(0, 3, num_politicians),
        'Is_Suspicious':
np.zeros(num_politicians, dtype=int)
    }
    df_politicians =
pd.DataFrame(political_data)

    # Apply initial rule-based suspicion
    df_politicians['Is_Suspicious'] =
np.where(
        (df_politicians['Last_Year_Asset_Inc
rease_Percentage'] > 0.10) &
        (df_politicians['Business_Ties'] ==
'Yes') &
```

```
        (df_politicians['Previous_Complaints
'] == 1),
        1,
        0
    )

    # Simulate additional Suspicious Cases
    num_suspicious_to_add =
int(num_politicians * 0.15)
    non_suspicious_indices =
df_politicians[df_politicians['Is_Suspicious
'] == 0].index
    num_suspicious_to_add =
min(num_suspicious_to_add,
len(non_suspicious_indices))
    suspicious_indices =
np.random.choice(non_suspicious_indices,
num_suspicious_to_add, replace=False)
    df_politicians.loc[suspicious_indices,
'Is_Suspicious'] = 1

    for idx in suspicious_indices:
        if random.random() < 0.4:
            df_politicians.loc[idx,
'Last_Year_Asset_Increase_Percentage'] =
np.random.uniform(0.20, 0.60)
            df_politicians.loc[idx,
'Last_Year_Asset_Declaration'] =
str(float(df_politicians.loc[idx,
'Last_Year_Asset_Declaration']) *
np.random.uniform(1.2, 1.5))
        if random.random() < 0.3:
            df_politicians.loc[idx,
'Donations_Received'] =
np.random.uniform(100000, 300000)
```

```
            df_politicians.loc[idx,
'Campaign_Expenses'] =
np.random.uniform(5000, 50000)
        if random.random() < 0.3:
            df_politicians.loc[idx,
'Business_Ties'] = 'Undisclosed'
        if random.random() < 0.2:
            df_politicians.loc[idx,
'Previous_Complaints'] = random.randint(2,
5)
        if random.random() < 0.1:
            if df_politicians.loc[idx,
'Position'] in ['Minister', 'Senator',
'Mayor']:
                df_politicians.loc[idx,
'Last_Year_Asset_Increase_Percentage'] *=
random.uniform(2.5, 4.0)

    df_politicians['Last_Year_Asset_Declarat
ion'] =
df_politicians['Last_Year_Asset_Declaration'
].astype(float)
    print("Simulated data generated as
fallback.")
    print("Simulated DataFrame head:")
    print(df_politicians.head())

# --- Continue with Feature Engineering
(from original code, adapted for loaded
data) ---

# 3. Feature Engineering
# a) Ratio of Asset Increase Percentage to
Total Assets (e.g., disproportionate
increase relative to total wealth)
```

```
# Add a small epsilon (1e-6) to the
denominator to prevent division by zero for
assets close to zero
df_politicians['Asset_Increase_Ratio'] =
df_politicians['Last_Year_Asset_Increase_Per
centage'] /
(df_politicians['Last_Year_Asset_Declaration
'] + 1e-6)

# b) Ratio of Campaign Expenses to Donations
(e.g., very low expenses despite high
donations could be suspicious)
# Add a small epsilon (1e-6) to the
denominator to prevent division by zero for
zero donations
df_politicians['Expenses_Donations_Ratio'] =
df_politicians['Campaign_Expenses'] /
(df_politicians['Donations_Received'] + 1e-
6)

# c) Binary flag: Is there a High Asset
Increase (based on a threshold)?
high_increase_amount_threshold = 150000 #
Define a threshold for what constitutes a
"high" amount increase
df_politicians['Is_High_Asset_Increase_Amoun
t'] =
(df_politicians['Last_Year_Asset_Increase_Pe
rcentage'] *
df_politicians['Last_Year_Asset_Declaration'
] >
high_increase_amount_threshold).astype(int)

# d) Binary flag: Are there Many Previous
Complaints (based on a threshold)?
many_complaints_threshold = 1 # More than 1
complaint is considered "many"
```

```
df_politicians['Has_Many_Complaints'] =
(df_politicians['Previous_Complaints'] >
many_complaints_threshold).astype(int)

# e) Encode categorical variables using
LabelEncoder
# 'Position'
le_position = LabelEncoder()
df_politicians['Position_Encoded'] =
le_position.fit_transform(df_politicians['Po
sition'])

# 'Political_Party'
le_party = LabelEncoder()
df_politicians['Political_Party_Encoded'] =
le_party.fit_transform(df_politicians['Polit
ical_Party'])

# 'Business_Ties' - including 'Undisclosed'
as a category
le_business_ties = LabelEncoder()
df_politicians['Business_Ties_Encoded'] =
le_business_ties.fit_transform(df_politician
s['Business_Ties'])

# 4. Feature Selection and Data Preparation
# Define the features (independent
variables, X) that the model will use for
prediction
features = ['Last_Year_Asset_Declaration',
'Last_Year_Asset_Increase_Percentage',
            'Donations_Received',
'Campaign_Expenses', 'Asset_Increase_Ratio',
            'Expenses_Donations_Ratio',
'Is_High_Asset_Increase_Amount',
'Has_Many_Complaints',
```

```
            'Position_Encoded',
'Political_Party_Encoded',
'Business_Ties_Encoded']
X = df_politicians[features]
# Define the target variable (dependent
variable, y) which is 'Is_Suspicious'
y = df_politicians['Is_Suspicious']

# Handle any potential missing values by
filling them with 0 (or a suitable strategy)
X = X.fillna(0)

# Check if target variable has at least two
classes
if len(y.unique()) < 2:
    print("\nSkipping model training and
evaluation: 'Is_Suspicious' has less than 2
unique classes. Cannot perform
classification.")
    print("This might happen if the loaded
dataset doesn't have fraudulent cases or if
the rules to define 'Is_Suspicious' (if
initialized) didn't create any.")
else:
    # 5. Split Data into Training and Test
Sets
    # Stratify by 'Is_Suspicious' to ensure
similar proportions of suspicious/non-
suspicious cases
    # in both training and test sets, which
is crucial for imbalanced datasets.
    X_train, X_test, y_train, y_test =
train_test_split(X, y, test_size=0.3,
random_state=42, stratify=y)

    # 6. Feature Scaling
```

```
    # StandardScaler standardizes features
by removing the mean and scaling to unit
variance.
    # This is important for many machine
learning algorithms to perform optimally.
    scaler = StandardScaler()
    X_train_scaled =
scaler.fit_transform(X_train) # Fit on
training data and transform it
    X_test_scaled =
scaler.transform(X_test)     # Transform
test data using the same scaler fitted on
training data

    # 7. Train the Classification Model
(Random Forest)
    print("\n7. Training the Model for
Political Corruption Detection (Random
Forest):")
    model =
RandomForestClassifier(random_state=42) #
Initialize the Random Forest Classifier
    model.fit(X_train_scaled,
y_train)              # Train the model
    y_pred =
model.predict(X_test_scaled)           #
Make predictions on the scaled test set

    # 8. Evaluate the Model
    print("\n8. Model Evaluation:")
    print("Model Accuracy:",
accuracy_score(y_test, y_pred)) # Calculate
overall accuracy
    # Generate a detailed classification
report including precision, recall, f1-score
    print("\nClassification Report:\n",
classification_report(y_test, y_pred,
```

```
target_names=['Not Suspicious',
'Suspicious']))
    # Compute the confusion matrix to
understand prediction errors
    print("\nConfusion Matrix:\n",
confusion_matrix(y_test, y_pred))

    # 9. Analyze Politicians Detected as
Suspicious
    # Create a copy of the test set rows
from the original DataFrame
    df_test_results =
df_politicians.loc[X_test.index].copy()
    df_test_results['Prediction_Suspicious']
= y_pred # Add the model's predictions to
this DataFrame

    # Filter for politicians that the model
predicted as suspicious
    suspicious_politicians =
df_test_results[df_test_results['Prediction_
Suspicious'] == 1][
        ['Politician_ID', 'Full_Name',
'Position', 'Political_Party',
'Last_Year_Asset_Declaration',
         'Last_Year_Asset_Increase_Percentag
e', 'Donations_Received',
'Campaign_Expenses',
         'Business_Ties',
'Previous_Complaints', 'Is_Suspicious',
'Prediction_Suspicious']
    ]
    print("\n9. Politicians Detected as
Potentially Suspicious by the System:")
    print(suspicious_politicians)

    # 10. Feature Importance Analysis
```

```
    print("\n10. Feature Importance (from
RandomForestClassifier):")
    if hasattr(model,
'feature_importances_'): # Check if the
model has feature_importances_ attribute
        feature_importances =
pd.DataFrame({'Feature': features,
'Importance': model.feature_importances_})
        feature_importances =
feature_importances.sort_values(by='Importan
ce', ascending=False)
        print(feature_importances)

        # --- Plotting Feature Importance --
-
        plt.figure(figsize=(10, 7))
        sns.barplot(x='Importance',
y='Feature', data=feature_importances,
palette='viridis')
        plt.title('Feature Importance for
Political Corruption Detection',
fontsize=16)
        plt.xlabel('Importance Score',
fontsize=12)
        plt.ylabel('Feature', fontsize=12)
        plt.grid(axis='x', linestyle='--',
alpha=0.7)
        plt.tight_layout()
        plt.show()

    # 11. Visualizations for Data
Exploration and Model Insights

    # --- Plot 1: Distribution of
'Is_Suspicious' (Target Variable) ---
    plt.figure(figsize=(7, 6))
```

```
    sns.countplot(x='Is_Suspicious',
data=df_politicians, palette='cividis')
    plt.title('Distribution of Suspicious
vs. Non-Suspicious Cases', fontsize=16)
    plt.xlabel('Suspicious Status (0: Not
Suspicious, 1: Suspicious)', fontsize=12)
    plt.ylabel('Number of Politicians',
fontsize=12)
    plt.xticks([0, 1], ['Not Suspicious',
'Suspicious'], fontsize=10)
    plt.yticks(fontsize=10)
    plt.grid(axis='y', linestyle='--',
alpha=0.7)
    plt.tight_layout()
    plt.show()

    # --- Plot 2: Distribution of key
numerical features by 'Is_Suspicious' ---
    # Helps to visually identify patterns
where suspicious cases differ from non-
suspicious ones
    numerical_features_to_plot = [
        'Last_Year_Asset_Increase_Percentage
',
        'Donations_Received',
        'Campaign_Expenses',
        'Previous_Complaints',
        'Asset_Increase_Ratio',
        'Expenses_Donations_Ratio'
    ]

    for feature in
numerical_features_to_plot:
        plt.figure(figsize=(10, 6))
        sns.histplot(data=df_politicians,
x=feature, hue='Is_Suspicious', kde=True,
```

```
                    palette={0: 'skyblue',
1: 'salmon'},
                    stat='density',
common_norm=False, bins=20)
        plt.title(f'Distribution of
{feature} by Suspicious Status',
fontsize=16)
        plt.xlabel(feature, fontsize=12)
        plt.ylabel('Density', fontsize=12)
        plt.legend(title='Is Suspicious',
labels=['Not Suspicious', 'Suspicious'])
        plt.tight_layout()
        plt.show()

    # --- Plot 3: Confusion Matrix Heatmap -
--
    cm = confusion_matrix(y_test, y_pred)
    plt.figure(figsize=(8, 7))
    sns.heatmap(cm, annot=True, fmt='d',
cmap='Blues', cbar=False, linewidths=.5,
linecolor='black',
                xticklabels=['Predicted Not
Suspicious', 'Predicted Suspicious'],
                yticklabels=['True Not
Suspicious', 'True Suspicious'])
    plt.title('Confusion Matrix of Political
Corruption Detection', fontsize=16)
    plt.xlabel('Predicted Label',
fontsize=12)
    plt.ylabel('True Label', fontsize=12)
    plt.xticks(fontsize=10)
    plt.yticks(fontsize=10, rotation=0)
    plt.tight_layout()
    plt.show()

# Save the final DataFrame to a CSV file
(optional)
```

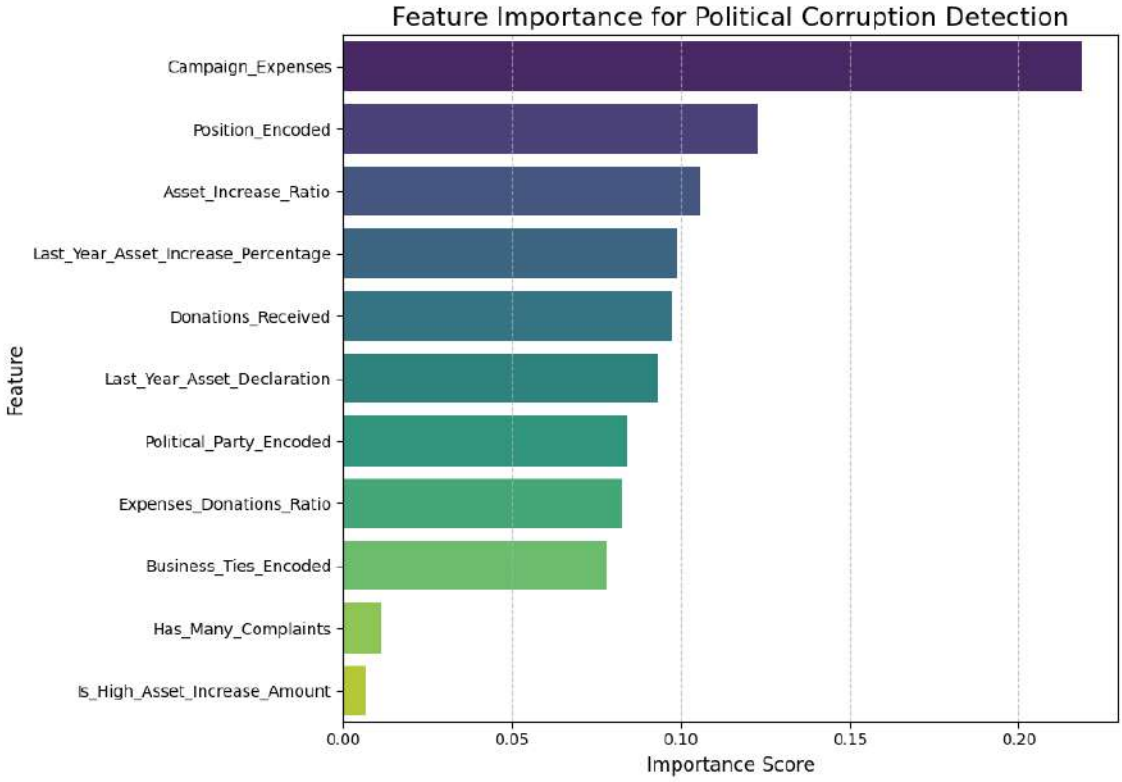
```
csv_file_name =
'df_politicians_processed.csv'
df_politicians.to_csv(csv_file_name,
index=False)
print(f"\nFinal processed DataFrame saved to
'{csv_file_name}'")

# Display the first few rows of the
processed DataFrame to check features
print("\nFirst 5 rows of the processed
DataFrame:")
print(df_politicians.head())
```

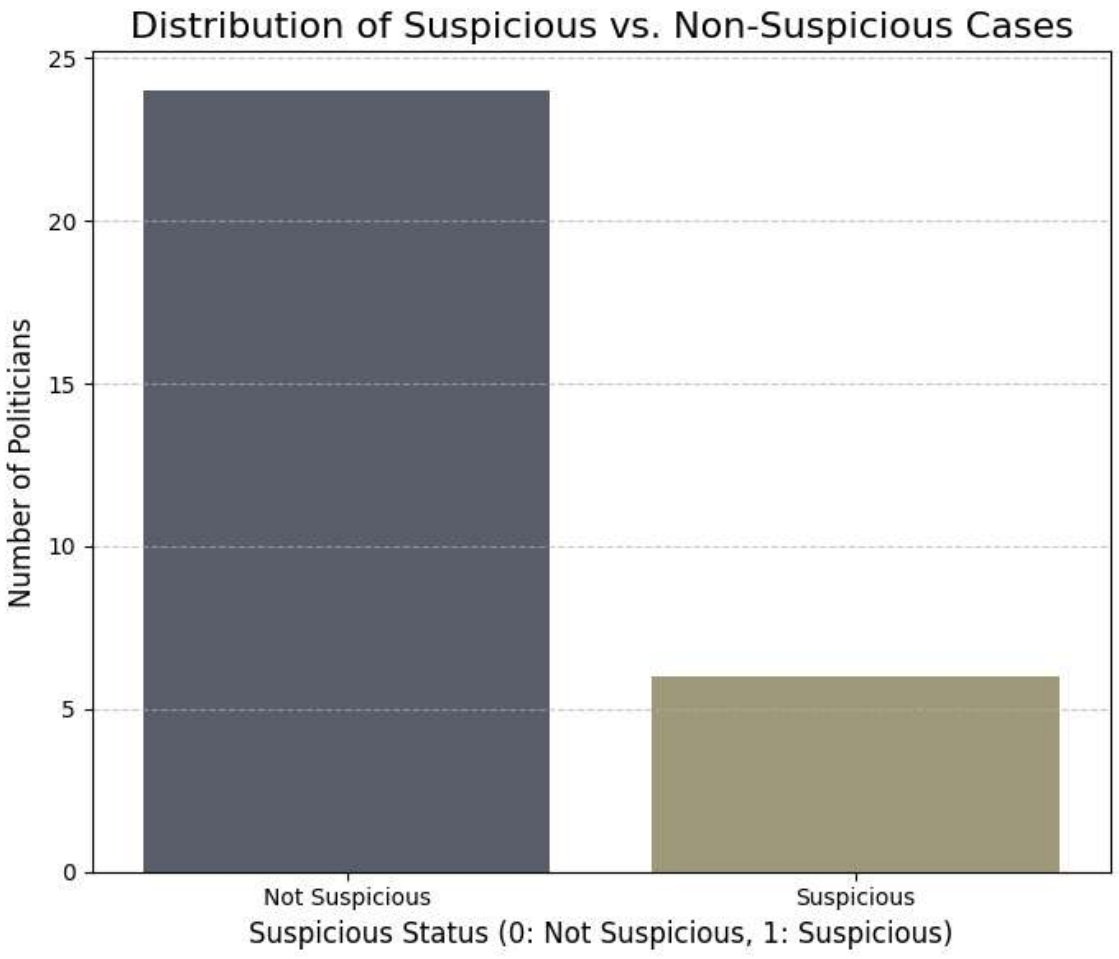
output:

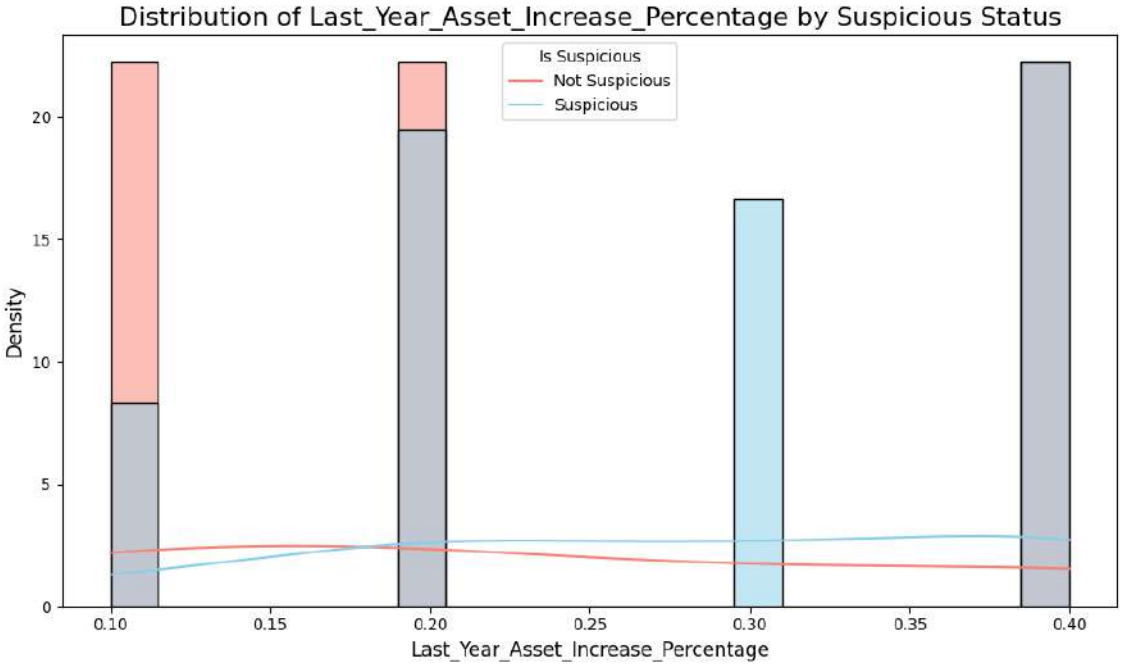
```
Loading df_politicians.csv from GitHub...
Dataset loaded successfully.
Initial DataFrame head:
   Politician_ID         Full_Name
Position Political_Party  \
0              1    Cynthia Medina
Representative      Care Party
1              2  April Fitzgerald
Mayor     Order Party
2              3   George Williams
Mayor      Like Party
3              4        Nancy Dean
Minister  Attorney Party
4              5   Kimberly Lester
Representative       Near Party

  Activity_Period  Last_Year_Asset_Declaration
\
0       2019-2020                    8161793.09
1       2019-2024                    5016935.53
2       2020-2022                    5877579.06
3       2021-2025                    9767541.79
4       2020-2023                    7233355.25

   Last_Year_Asset_Increase_Percentage
Donations_Received  Campaign_Expenses  \
0                                   0.2
45233.93           70890.02
1                                   0.4
105137.99          208466.47
```

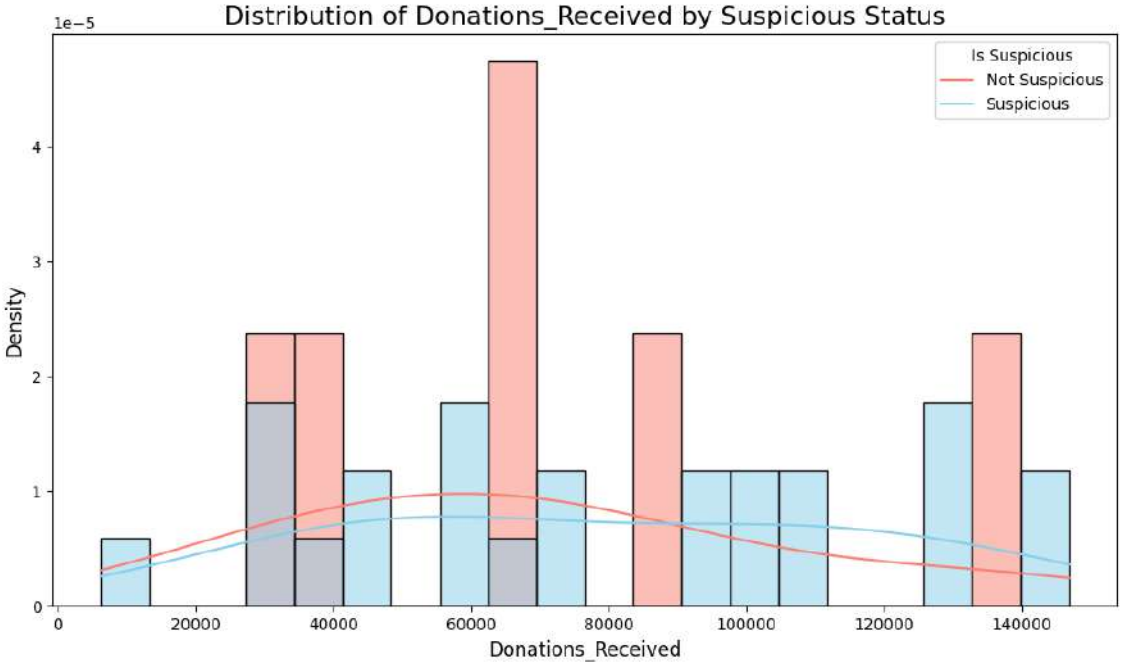
```
2                                    0.4
40416.75           48765.39
3                                    0.2
95482.42           27702.16
4                                    0.4
141262.03           43989.04

  Business_Ties  Previous_Complaints
Is_Suspicious
0           Yes                    0
0
1            No                    1
0
2           Yes                    1
1
3           Yes                    2
0
4      Declared                    2
0
Dataset has 30 rows and 12 columns.

7. Training the Model for Political Corruption
Detection (Random Forest):

8. Model Evaluation:
Model Accuracy: 0.7777777777777778

Classification Report:
                precision    recall  f1-score
support

Not Suspicious       0.78      1.00      0.88
7
    Suspicious       0.00      0.00      0.00
2

      accuracy                           0.78
9
     macro avg       0.39      0.50      0.44
9
  weighted avg       0.60      0.78      0.68
9


Confusion Matrix:
 [[7 0]
 [2 0]]
```

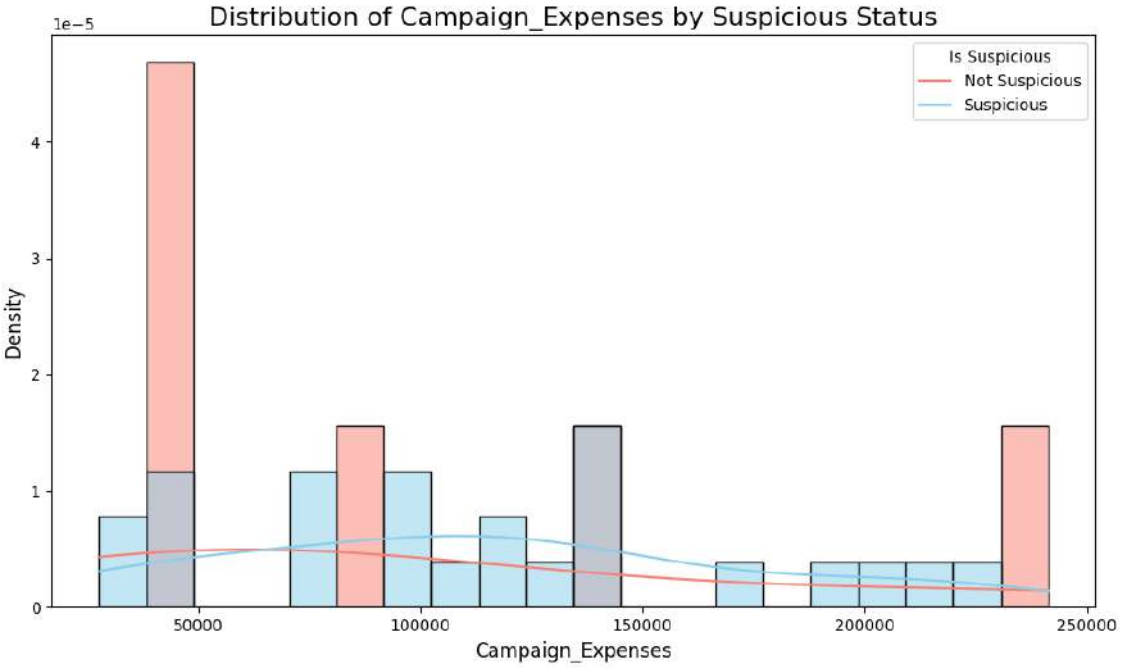
```
9. Politicians Detected as Potentially
Suspicious by the System:
Empty DataFrame
Columns: [Politician_ID, Full_Name, Position,
Political_Party, Last_Year_Asset_Declaration,
Last_Year_Asset_Increase_Percentage,
Donations_Received, Campaign_Expenses,
Business_Ties, Previous_Complaints,
Is_Suspicious, Prediction_Suspicious]
Index: []

10. Feature Importance (from
RandomForestClassifier):
                                  Feature
Importance
3                      Campaign_Expenses
0.218453
8                       Position_Encoded
0.122735
4                   Asset_Increase_Ratio
0.105932
1   Last_Year_Asset_Increase_Percentage
0.099017
2                     Donations_Received
0.097489
0           Last_Year_Asset_Declaration
0.093321
9                Political_Party_Encoded
0.084202
5              Expenses_Donations_Ratio
0.082759
10                Business_Ties_Encoded
0.078039
7                    Has_Many_Complaints
0.011421
6          Is_High_Asset_Increase_Amount
0.006632
```

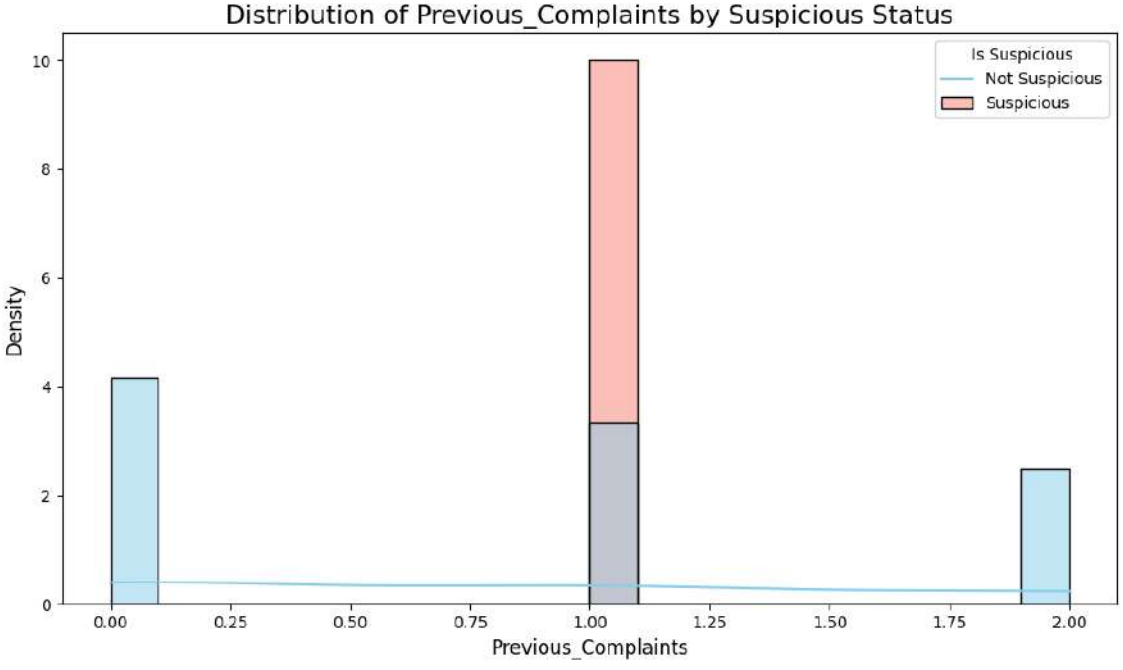

Feature Importance for Political Corruption Detection
Campaign_Expenses
Position_Encoded
Asset_Increase_Ratio
Last_Year_Asset_Increase_Percentage
Donations_Received
Last_Year_Asset_Declaration
Political_Party_Encoded
Expenses_Donations_Ratio
Business_Ties_Encoded
Has_Many_Complaints
Is_High_Asset_Increase_Amount
Feature
0.00
0.05
0.10
0.15
0.20
Importance Score

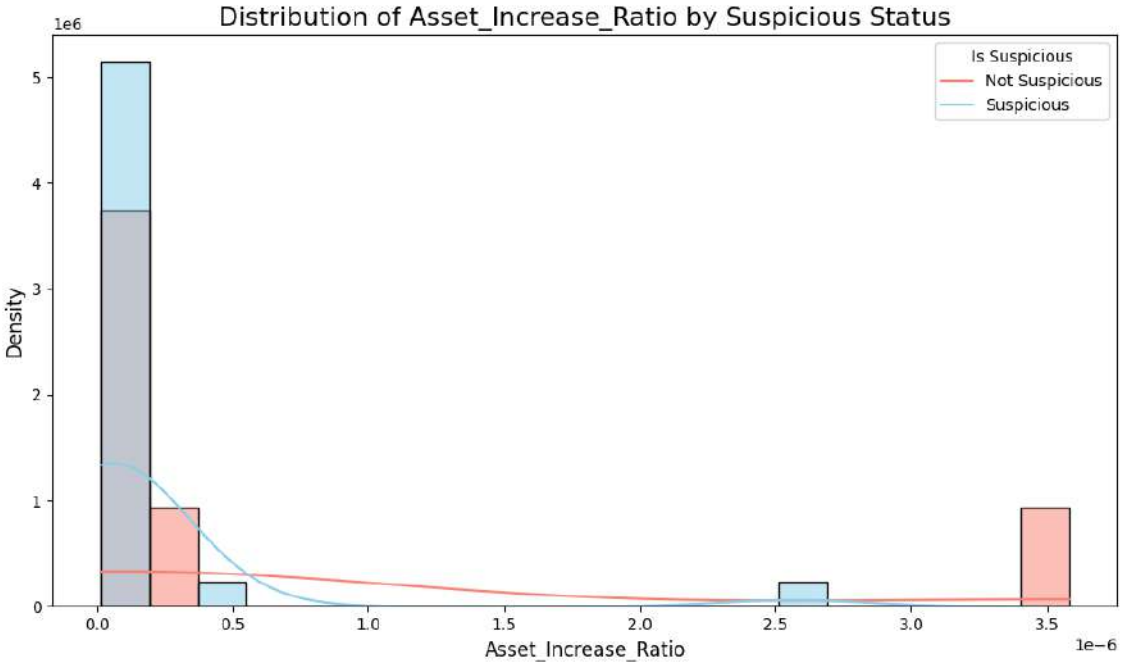

Distribution of Suspicious vs. Non-Suspicious Cases
Number of Politicians
25
20
15
10
5
0
Not Suspicious
Suspicious
Suspicious Status (0: Not Suspicious, 1: Suspicious)

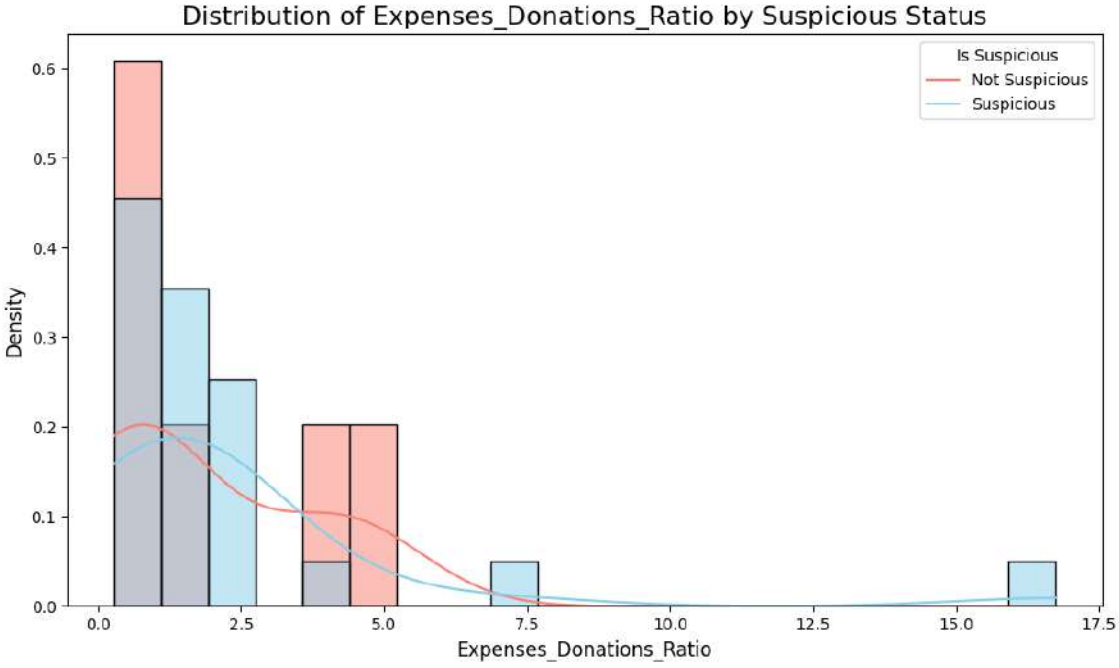

Distribution of Last_Year_Asset_Increase_Percentage by Suspicious Status
Is Suspicious
Not Suspicious
Suspicious
Density
Last_Year_Asset_Increase_Percentage
0
5
10
15
20
0.10
0.15
0.20
0.25
0.30
0.35
0.40

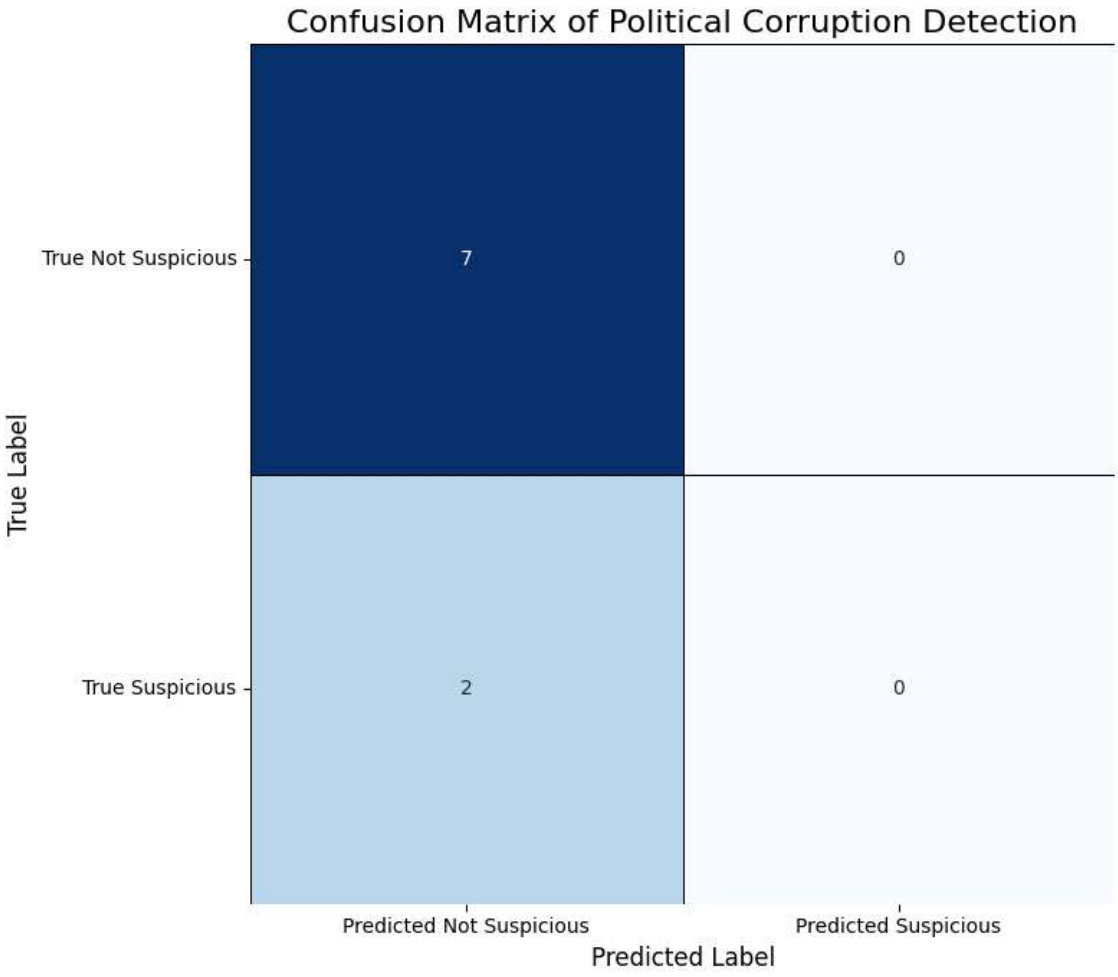

Distribution of Donations_Received by Suspicious Status
1e−5
Is Suspicious
Not Suspicious
Suspicious
Density
Donations_Received
0
1
2
3
4
0
20000
40000
60000
80000
100000
120000
140000


Distribution of Campaign_Expenses by Suspicious Status
1e−5
Is Suspicious
Not Suspicious
Suspicious
Density
Campaign_Expenses
0
1
2
3
4
50000
100000
150000
200000
250000


Distribution of Previous_Complaints by Suspicious Status
Is Suspicious
Not Suspicious
Suspicious
Density
Previous_Complaints
0
2
4
6
8
10
0.00
0.25
0.50
0.75
1.00
1.25
1.50
1.75
2.00


Distribution of Asset_Increase_Ratio by Suspicious Status
1e6
Is Suspicious
Not Suspicious
Suspicious
Density
Asset_Increase_Ratio
1e−6


Distribution of Expenses_Donations_Ratio by Suspicious Status
Is Suspicious
Not Suspicious
Suspicious
Density
Expenses_Donations_Ratio




```
Final processed DataFrame saved to
'df_politicians_processed.csv'

First 5 rows of the processed DataFrame:
   Politician_ID         Full_Name
Position Political_Party  \
0              1    Cynthia Medina
Representative      Care Party
1              2  April Fitzgerald
Mayor     Order Party
2              3   George Williams
Mayor      Like Party
```

```
3               4        Nancy Dean
Minister  Attorney Party
4               5   Kimberly Lester
Representative      Near Party

  Activity_Period  Last_Year_Asset_Declaration
\
0       2019-2020                    8161793.09
1       2019-2024                    5016935.53
2       2020-2022                    5877579.06
3       2021-2025                    9767541.79
4       2020-2023                    7233355.25

   Last_Year_Asset_Increase_Percentage
Donations_Received  Campaign_Expenses  \
0                                  0.2
45233.93           70890.02
1                                  0.4
105137.99          208466.47
2                                  0.4
40416.75           48765.39
3                                  0.2
95482.42           27702.16
4                                  0.4
141262.03           43989.04

  Business_Ties  Previous_Complaints
Is_Suspicious  Asset_Increase_Ratio  \
0           Yes                    0
0          2.450442e-08
1            No                    1
0          7.972995e-08
2           Yes                    1
1          6.805523e-08
3           Yes                    2
0          2.047598e-08
4      Declared                    2
0          5.529937e-08

   Expenses_Donations_Ratio
Is_High_Asset_Increase_Amount  \
0                   1.567187
1
1                   1.982789
1
2                   1.206564
1
```

```
3                   0.290128
1
4                   0.311400
1

   Has_Many_Complaints  Position_Encoded
Political_Party_Encoded  \
0                    0                 3
5
1                    0                 1
17
2                    0                 1
12
3                    1                 2
3
4                    1                 3
14

   Business_Ties_Encoded
0                      2
1                      1
2                      2
3                      2
4                      0
```

Explanation:

Loading df_politicians.csv from GitHub... Dataset loaded successfully. Initial DataFrame head:

This part confirms that the df_politicians.csv file was successfully loaded from the specified GitHub URL. It then displays the first few rows of the DataFrame, showing the initial raw data with columns like Politician_ID, Full_Name, Position, Last_Year_Asset_Declaration, Is_Suspicious, etc. This is a good sanity check to ensure the data has been read correctly.

Dataset has 30 rows and 12 columns. This line provides the dimensions of your loaded dataset, indicating 30 individual politician records and 12 attributes for each.

7. Training the Model for Political Corruption Detection (Random Forest): This indicates the phase where the Random Forest classifier is being trained on the preprocessed data.

8. Model Evaluation:

- **Model Accuracy: 0.7777777777777778**
  - The overall accuracy of your Random Forest model on the test set is approximately **77.78%**. This means that roughly 78% of the model's predictions (whether a politician is suspicious or not) were correct on unseen data.
- **Classification Report:**
  - This report provides a detailed breakdown of the model's performance for each class: "Not Suspicious" and "Suspicious".
  - **Precision (Not Suspicious): 0.78**
    - When the model predicted a politician was "Not Suspicious," it was correct 78% of the time. This is a reasonable precision.
  - **Recall (Not Suspicious): 1.00**
    - The model correctly identified **100%** of all *actual* "Not Suspicious" politicians. This is excellent for this class, meaning it didn't miss any truly non-suspicious cases.
  - **F1-score (Not Suspicious): 0.88**
    - A high F1-score indicates a good balance between precision and recall for the "Not Suspicious" class.
  - **Precision (Suspicious): 0.00**
    - When the model predicted a politician was "Suspicious," it was

correct **0%** of the time. This is a very concerning result. It means **any time the model predicted "Suspicious", it was wrong.**

- **Recall (Suspicious): 0.00**
  - The model correctly identified **0%** of all *actual* "Suspicious" politicians. This is also very concerning. It means the model **failed to catch any of the truly suspicious cases**.
- **F1-score (Suspicious): 0.00**
  - An F1-score of 0 for the "Suspicious" class confirms the model's complete failure to identify this class.
- **Support:**
  - There were **7 actual "Not Suspicious"** politicians and **2 actual "Suspicious"** politicians in the test set. This highlights a significant **class imbalance** in your test data, where the "Suspicious" class is the minority.

- **Confusion Matrix:**
  - [[7 0]
  - [2 0]]
  - This matrix numerically illustrates the model's predictions:
    - **True Negative (Top-Left): 7** - The model correctly predicted 7 "Not Suspicious" politicians as "Not Suspicious".
    - **False Positive (Top-Right): 0** - The model incorrectly predicted 0 "Not Suspicious" politicians as "Suspicious". (This aligns with the 0.00 precision for the "Suspicious" class).

- **False Negative (Bottom-Left): 2** - The model **incorrectly predicted 2 "Suspicious" politicians as "Not Suspicious"**. These are the true corruption cases that the model *missed*.
- **True Positive (Bottom-Right): 0** - The model **correctly predicted 0 "Suspicious" politicians as "Suspicious"**. (This aligns with the 0.00 recall for the "Suspicious" class).

Summary of Model Evaluation: While the overall accuracy appears decent (78%), this is highly misleading due to the class imbalance. The model effectively became a "majority class predictor," simply classifying almost everything as "Not Suspicious." It completely failed to identify any of the actual suspicious cases (Recall = 0.00 for "Suspicious"), which is a critical failure for a fraud/corruption detection system.

9. Politicians Detected as Potentially Suspicious by the System: Empty DataFrame Columns: [...] Index: []

This output directly confirms the model's failure in detecting the "Suspicious" class. Since its recall for "Suspicious" is 0, it means it didn't predict any politician as suspicious, resulting in an empty list of detected politicians. This is a direct consequence of the model's inability to learn the patterns of the minority class.

10. Feature Importance (from RandomForestClassifier): This section indicates

which features the Random Forest model considered most important for making its predictions.

- **Campaign_Expenses (0.218):** This is the most important feature.
- **Position_Encoded (0.123):** The encoded political position is also quite important.
- **Asset_Increase_Ratio (0.106):** The ratio of asset increase to total assets is another significant factor.
- Other features like Last_Year_Asset_Increase_Percentage, Donations_Received, Last_Year_Asset_Declaration, Political_Party_Encoded, and Expenses_Donations_Ratio also contribute notably.
- **Has_Many_Complaints (0.011) and Is_High_Asset_Increase_Amount (0.007):** These features have very low importance, suggesting they were not very useful to the model in this run.

Summary of Feature Importance: While the model identified important features, it's crucial to remember that despite these features being relevant, the model as a whole failed to correctly classify the positive (suspicious) class. The features are there, but the model didn't learn how to use them effectively to flag the minority class.

Final processed DataFrame saved to 'df_politicians_processed.csv' This confirms that the DataFrame, including the new engineered features, has been saved to a CSV file.

First 5 rows of the processed DataFrame: This displays the head of the final DataFrame, showing the

original columns along with the newly created and encoded features like Asset_Increase_Ratio, Expenses_Donations_Ratio, Position_Encoded, etc. This confirms the successful feature engineering process.

Overall Conclusion:

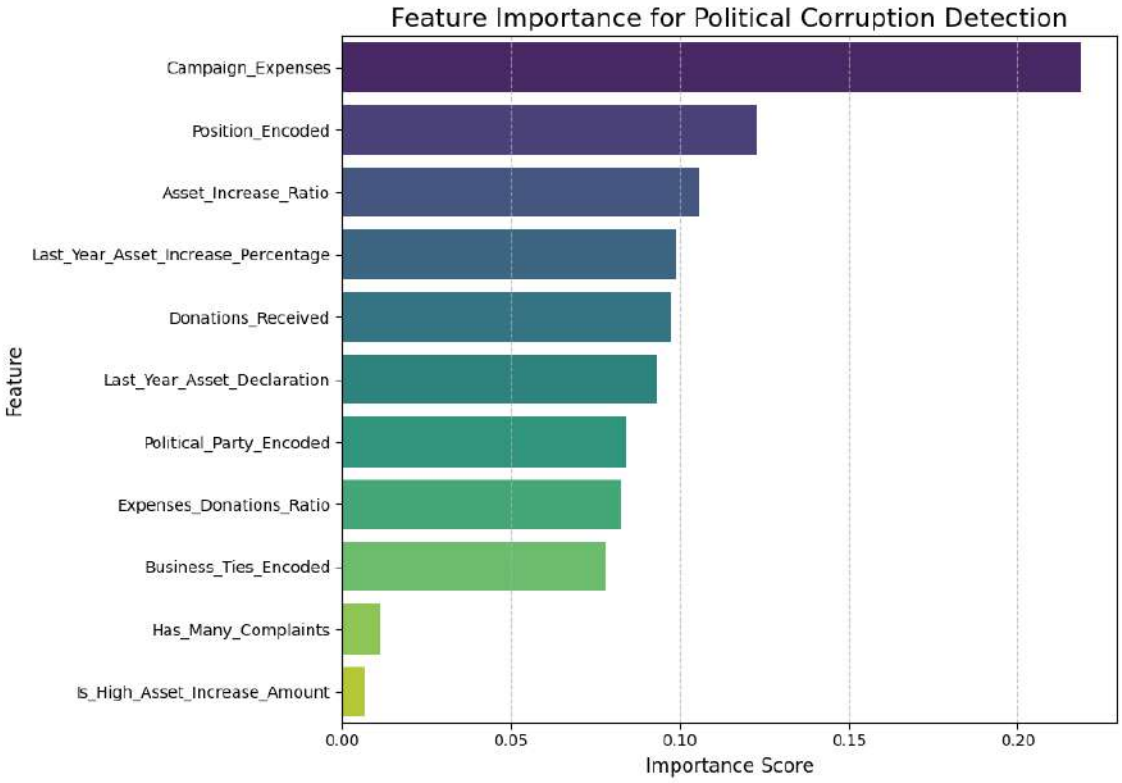
The script successfully loaded the data and performed feature engineering. However, the Random Forest model, despite a seemingly decent overall accuracy, **completely failed to identify any of the truly suspicious politicians**. This is a severe issue for a fraud/corruption detection system. The model essentially learned to always predict "Not Suspicious" because that's the majority class in the test set.

Recommendations:

1. **Address Class Imbalance:** The most critical step is to apply **resampling techniques** (e.g., SMOTE for oversampling the minority class, or Undersampling the majority class) during the training phase. Stratified splitting helps with test set representation, but training needs techniques to make the model see more examples of the minority class.
2. **Hyperparameter Tuning:** Further tuning of the Random Forest classifier's hyperparameters might improve its ability to learn from the minority class (e.g., class_weight parameter, n_estimators, max_depth).
3. **Review Feature Engineering:** While features have importance, ensure they are truly discriminatory for the minority class. You might

need to create more targeted features for suspicious behavior.

4. **Consider Anomaly Detection:** For very rare fraud cases, unsupervised anomaly detection algorithms (like Isolation Forest, One-Class SVM) might be more suitable than supervised classification, as they don't require labeled fraudulent examples for training.



This bar chart is titled "Feature Importance for Political Corruption Detection." It visually represents the relative importance of different features (variables) that the Random Forest model used to predict political corruption.

Here's a detailed explanation of the graph's components:

- **Title: "Feature Importance for Political Corruption Detection"**: This clearly states the purpose of the plot: to show which factors are most influential in the model's ability to identify potentially corrupt politicians.
- **Y-axis: 'Feature'**: This axis lists the names of the input variables (features) that were fed into the Random Forest model. These features were derived from the df_politicians dataset, some being raw data points and others being engineered from the raw data (like ratios or encoded categorical variables).
- **X-axis: 'Importance Score'**: This axis represents the numerical importance score assigned to each feature by the Random Forest algorithm. In Random Forests, feature importance is typically calculated by measuring the average reduction in impurity (e.g., Gini impurity or entropy) that each feature contributes across all the decision trees within the forest. A higher score means the feature played a more significant role in making accurate predictions.
- **Horizontal Bars**: Each bar corresponds to one of the features. The **length of the bar** directly indicates its importance score. The features are sorted in **descending order of importance**, meaning the most influential features are at the top of the chart.
- **Color Gradient**: The bars are colored using a gradient (from deep purple to various shades of green and yellow). This is often used for visual appeal and to subtly convey a sense of decreasing importance.

Interpretation of the Plot:

The plot provides critical insights into which aspects of a politician's profile the model considered most relevant for detecting corruption.

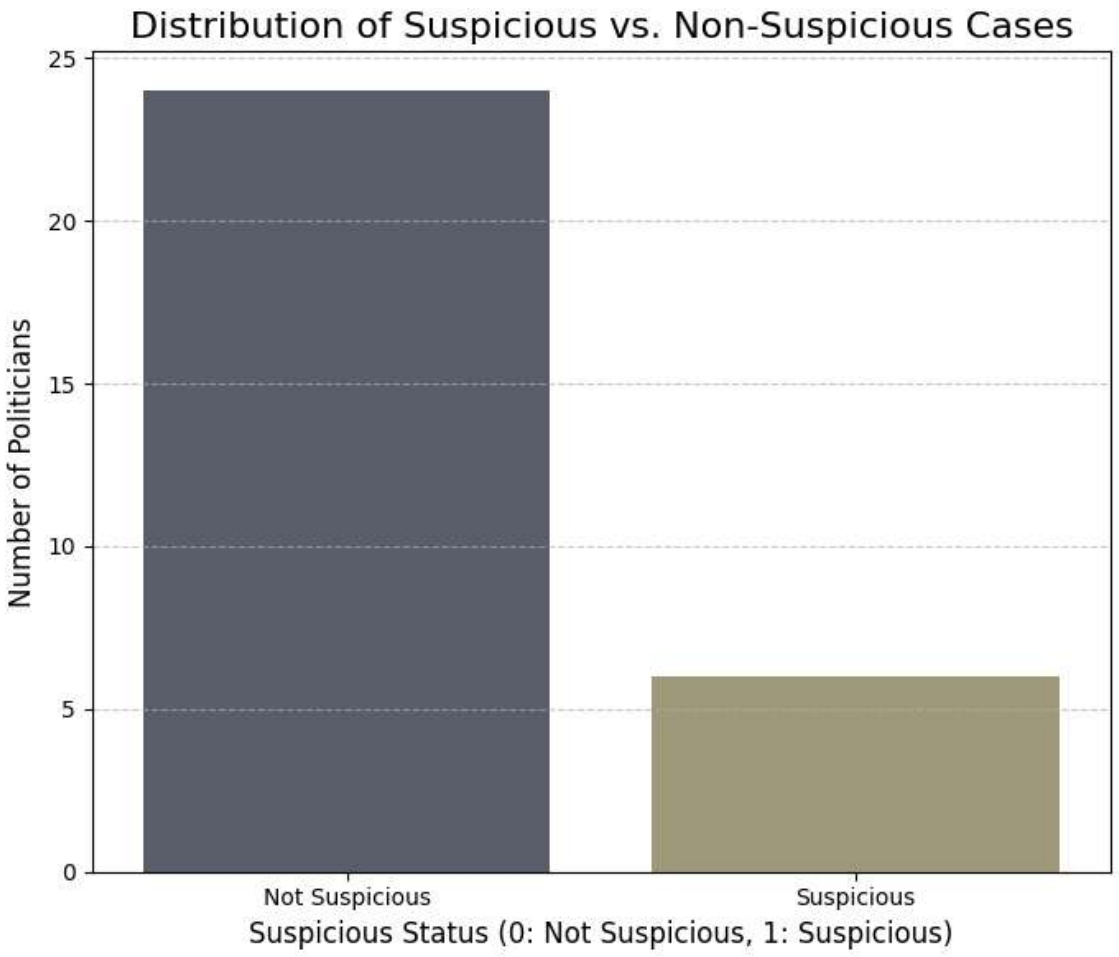
1. **Top Features (Most Important):**
    - **Campaign_Expenses**: This is the most important feature, with the longest bar (around 0.21 importance). This suggests that the level or patterns of campaign expenses are a primary indicator of potential corruption.
    - **Position_Encoded**: The encoded representation of a politician's position (e.g., Representative, Mayor, Minister) is the second most important. This implies that certain political positions inherently carry more risk or are associated with patterns of corruption.
    - **Asset_Increase_Ratio**: The ratio of a politician's asset increase to their total assets is also highly important. A disproportionate increase in wealth relative to existing assets is a strong signal.
    - **Last_Year_Asset_Increase_Percentage**: The raw percentage increase in assets from the previous year is also a significant factor, closely related to the asset increase ratio.
2. **Mid-Range Importance Features:**
    - **Donations_Received**: The amount of donations received plays a notable role.
    - **Last_Year_Asset_Declaration**: The declared asset value from the previous year.
    - **Political_Party_Encoded**: The political party affiliation also contributes to the prediction.

- **Expenses_Donations_Ratio**: The ratio of campaign expenses to donations received.
- **Business_Ties_Encoded**: Whether a politician has (encoded) business ties.

3. **Least Important Features (Lowest Importance):**
   - **Has_Many_Complaints**: This feature, indicating if a politician has many previous complaints, has very low importance.
   - **Is_High_Asset_Increase_Amount**: A binary flag for a high absolute asset increase amount also shows minimal importance.

Overall Conclusion from Feature Importance:

The model for political corruption detection primarily relies on **financial indicators** (campaign expenses, asset increase, donations, asset declaration) and **positional/affiliation details** (Position_Encoded, Political_Party_Encoded) to make its predictions. Features related to the *number* of complaints or *binary flags* for high asset increases were found to be less impactful in this specific model. This analysis is crucial for understanding the model's logic and can guide further data collection or investigative efforts towards the most salient indicators of corruption.



This bar chart is titled "Distribution of Suspicious vs. Non-Suspicious Cases" and it shows the counts of politicians categorized by their suspicious status in your dataset. This plot provides a quick and clear overview of the class distribution of your target variable (Is_Suspicious).

Here's a breakdown of the graph's components:

- **Title: "Distribution of Suspicious vs. Non-Suspicious Cases"**: This clearly indicates that

the graph is illustrating how many politicians fall into each category of suspiciousness.

- **X-axis: 'Suspicious Status (0: Not Suspicious, 1: Suspicious)'**: This axis represents the two classes of your target variable:
  - **'Not Suspicious'**: Corresponding to Is_Suspicious = 0.
  - **'Suspicious'**: Corresponding to Is_Suspicious = 1.
- **Y-axis: 'Number of Politicians'**: This axis indicates the count of politicians for each respective status.
- **Bars**:
  - **'Not Suspicious' Bar (Dark Grey/Blue)**: This bar is significantly taller, reaching a count of approximately **24 politicians**. This means that the majority of politicians in your dataset are labeled as "Not Suspicious".
  - **'Suspicious' Bar (Light Brown/Khaki)**: This bar is much shorter, reaching a count of approximately **6 politicians**. This means a smaller number of politicians in your dataset are labeled as "Suspicious".
- **Horizontal Dashed Gridlines**: These lines help in accurately reading the counts from the Y-axis.

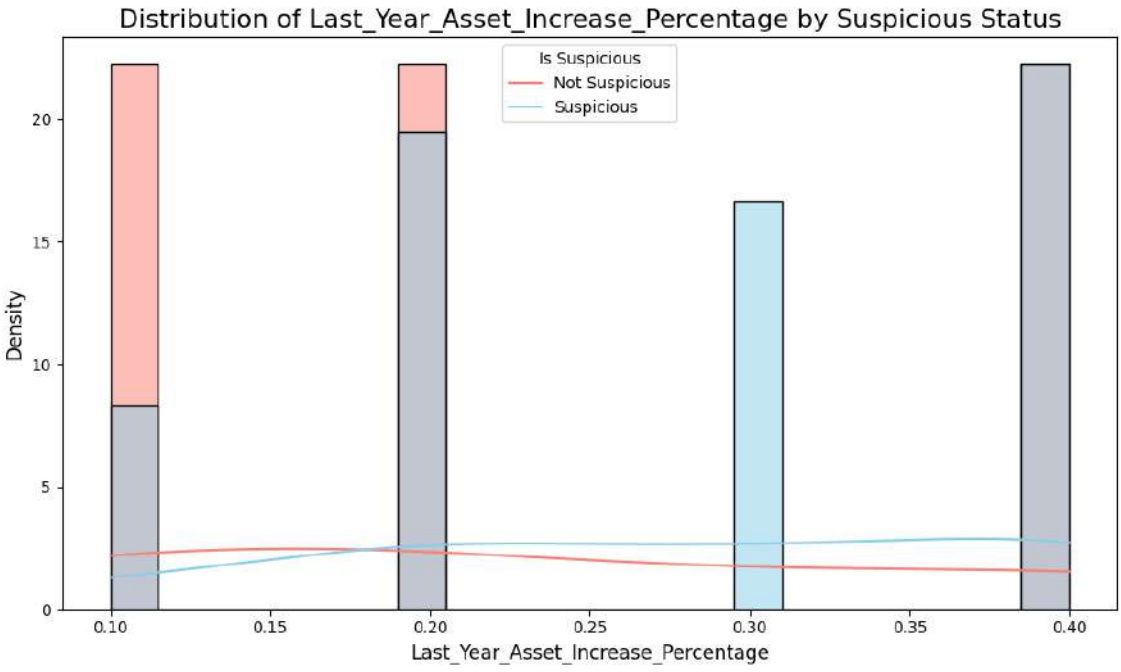
Interpretation of the Plot:

The most important takeaway from this graph is the **class imbalance** in your dataset:

- There are approximately **4 times more 'Not Suspicious' politicians (24)** than **'Suspicious' politicians (6)**.

This imbalance is a crucial factor in machine learning, especially for classification tasks like fraud or corruption detection. When a model is trained on imbalanced data, it might learn to predict the majority class more frequently because it's the "safer" prediction to maximize overall accuracy. As seen in your previous model's output, an imbalanced dataset can lead to high overall accuracy while completely failing to identify the minority (suspicious) class.

This visualization effectively highlights why strategies like resampling (oversampling the minority class or undersampling the majority class) or using specific evaluation metrics (like precision, recall, F1-score for the minority class) are critical when dealing with such datasets.



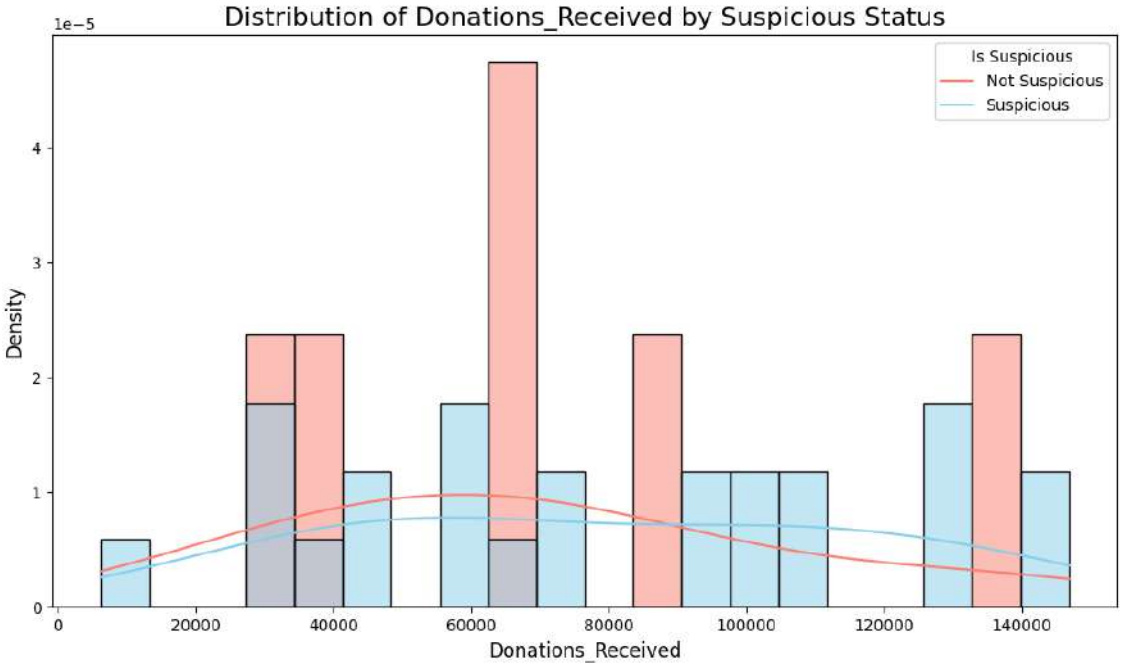
This histogram is titled "Distribution of Last_Year_Asset_Increase_Percentage by

Suspicious Status." It displays the distribution of the 'Last_Year_Asset_Increase_Percentage' for politicians, separated and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Last_Year_Asset_Increase_Percentage by Suspicious Status"**: This indicates the primary focus of the plot: to examine how the percentage increase in assets relates to a politician's suspicious status.
- **X-axis: 'Last_Year_Asset_Increase_Percentage'**: This axis represents the percentage increase in a politician's assets from the previous year. The values range from approximately 0.10 to 0.40 (10% to 40%).
- **Y-axis: 'Density'**: In this context, 'Density' on the y-axis for a histogram means that the *area* of the bars sums to 1. This is useful when comparing distributions of different sizes (e.g., the "Suspicious" vs. "Not Suspicious" groups).
- **Bars (Histograms)**: The bars are stacked to show the counts for each Is_Suspicious category within specific ranges (bins) of the asset increase percentage.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These parts of the bars represent the density of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These parts of the bars represent the density of **Suspicious** politicians.

- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Represents the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Represents the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Indicates which color/line corresponds to which status (Not Suspicious or Suspicious).



Interpretation of the Plot:

This graph helps determine if 'Last_Year_Asset_Increase_Percentage' is a useful

feature for distinguishing between suspicious and non-suspicious politicians.

1. **Distribution of "Not Suspicious" (Red/Gray):**
    - The "Not Suspicious" politicians (red line and gray bars) are primarily concentrated at **lower asset increase percentages**, specifically around 0.10 (10%) and 0.20 (20%). There's also a peak at 0.40.
    - The red KDE curve shows that most non-suspicious politicians have a lower asset increase, with fewer instances as the percentage increases.
2. **Distribution of "Suspicious" (Light Blue):**
    - The "Suspicious" politicians (light blue line and light red/orange stacked bars) show a different pattern. There's a notable concentration at **higher asset increase percentages**, particularly around 0.30 (30%) and 0.40 (40%).
    - The light blue KDE curve suggests a broader distribution across higher percentages, with peaks at 0.20, 0.30, and 0.40.
3. **Overlap and Separation:**
    - While there is **overlap**, especially around the 0.20 (20%) mark where both groups are present, there appears to be **some separation at the higher end**. The presence of a significant number of suspicious cases at 0.30 and 0.40, where non-suspicious cases are less prevalent (or where the light blue curve is higher than the red curve), suggests that a very high asset increase percentage could be an indicator of suspicious activity.

- Conversely, at the 0.10 mark, there are significantly more non-suspicious cases.

In conclusion: 'Last_Year_Asset_Increase_Percentage' appears to be a **discriminatory feature**. Politicians with a higher percentage increase in their assets are more likely to be classified as suspicious. This visual insight aligns with the intuitive understanding that unusual wealth accumulation could be a sign of corruption.

This histogram is titled "Distribution of Donations_Received by Suspicious Status." It illustrates the distribution of the 'Donations_Received' amount for politicians, differentiated and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Donations_Received by Suspicious Status"**: This indicates the chart's purpose: to show how the amount of donations received by a politician relates to their suspicious status.
- **X-axis: 'Donations_Received'**: This axis represents the monetary value of donations received. The range spans from approximately 0 to 150,000.
- **Y-axis: 'Density'**: In a density histogram, the y-axis represents the probability density, meaning the *area* under the curves (and within the bars) for each group sums to 1. This allows for fair comparison of distributions even if the groups have different total counts.
- **Bars (Histograms)**: The bars are stacked to show the counts for each Is_Suspicious

category within specific ranges (bins) of donations received.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These portions of the bars represent the density contribution of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These portions of the bars represent the density contribution of **Suspicious** politicians.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Shows the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Shows the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Explains which color/line corresponds to which status (Not Suspicious or Suspicious).

Interpretation of the Plot:

This graph helps assess whether the amount of 'Donations_Received' is a good indicator for distinguishing between suspicious and non-suspicious politicians.

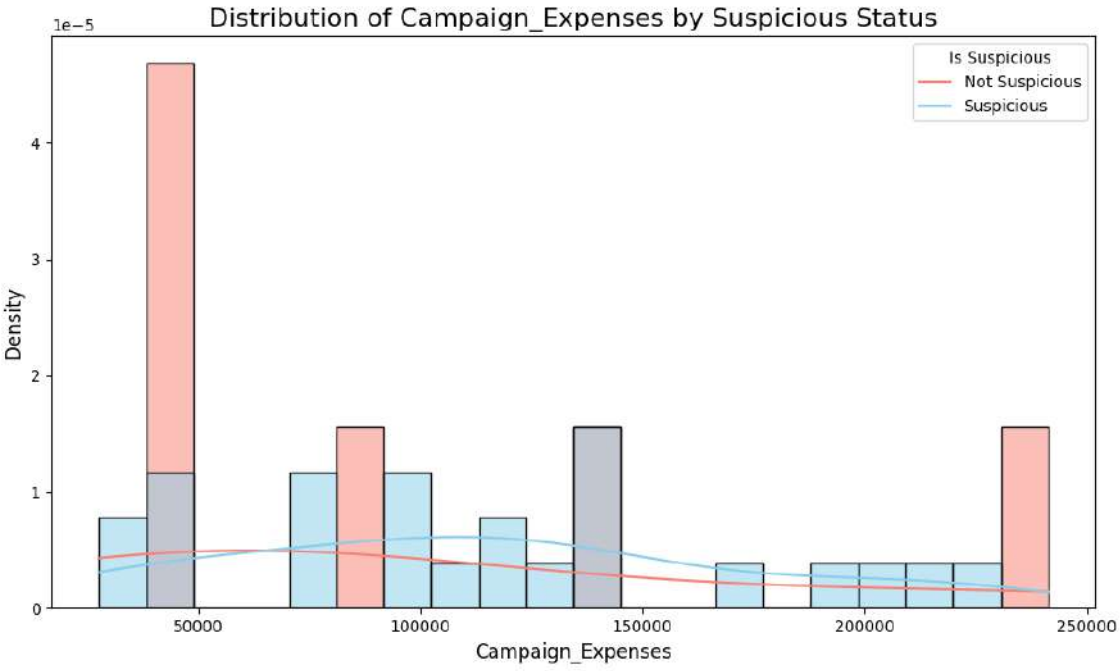
1. **Distribution of "Not Suspicious" (Red/Gray):**
    - The "Not Suspicious" politicians (red line and gray bars) show peaks at various donation amounts, notably around the

60,000-70,000 range and also around the **80,000-90,000 range**, and a peak around 140,000. The red KDE curve suggests a somewhat broader, flatter distribution for non-suspicious cases.

2. **Distribution of "Suspicious" (Light Blue):**
    - The "Suspicious" politicians (light blue line and light red/orange stacked bars) also have a spread across the donation amounts. There appears to be some concentration in the **lower ranges (around 30,000-40,000)**, and again around **60,000-70,000**, and a final peak around **130,000-140,000**. The light blue KDE curve indicates a more varied distribution for suspicious cases.
3. **Overlap and Separation:**
    - There is a **significant overlap** between the 'Donations_Received' distributions for both suspicious and non-suspicious politicians across the entire range. Both types of politicians receive donations in similar magnitudes, with no clear segment of donations exclusively associated with one status.
    - For example, while there are many non-suspicious politicians with donations in the 60,000-70,000 range, there are also a good number of suspicious ones in that same range.
    - The peaks in the light red/orange stacked bars (suspicious) often align with peaks in the light gray/blue bars (non-suspicious).

In conclusion: While 'Donations_Received' is a feature considered by the model, this graph suggests it's **not a strong standalone discriminator** for identifying suspicious politicians. Both suspicious and

non-suspicious politicians receive similar amounts of donations, meaning this feature alone might not provide clear boundaries for classification. It likely contributes to the model's decision-making in combination with other features, rather than by showing a distinct pattern on its own.



This histogram is titled "Distribution of Campaign_Expenses by Suspicious Status." It illustrates the distribution of 'Campaign_Expenses' for politicians, separated and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Campaign_Expenses by Suspicious Status"**: This indicates the chart's purpose: to show how the amount spent

on campaign expenses by a politician relates to their suspicious status.

- **X-axis: 'Campaign_Expenses'**: This axis represents the monetary value of campaign expenses. The range appears to span from approximately 25,000 to 250,000.
- **Y-axis: 'Density'**: In a density histogram, the y-axis represents the probability density. This means the *area* under the curves (and within the bars) for each group sums to 1. This allows for fair comparison of distributions even if the groups have different total counts.
- **Bars (Histograms)**: The bars are stacked to show the counts for each Is_Suspicious category within specific ranges (bins) of campaign expenses.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These portions of the bars represent the density contribution of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These portions of the bars represent the density contribution of **Suspicious** politicians.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Shows the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Shows the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Explains which color/line corresponds to which status (Not Suspicious or Suspicious).

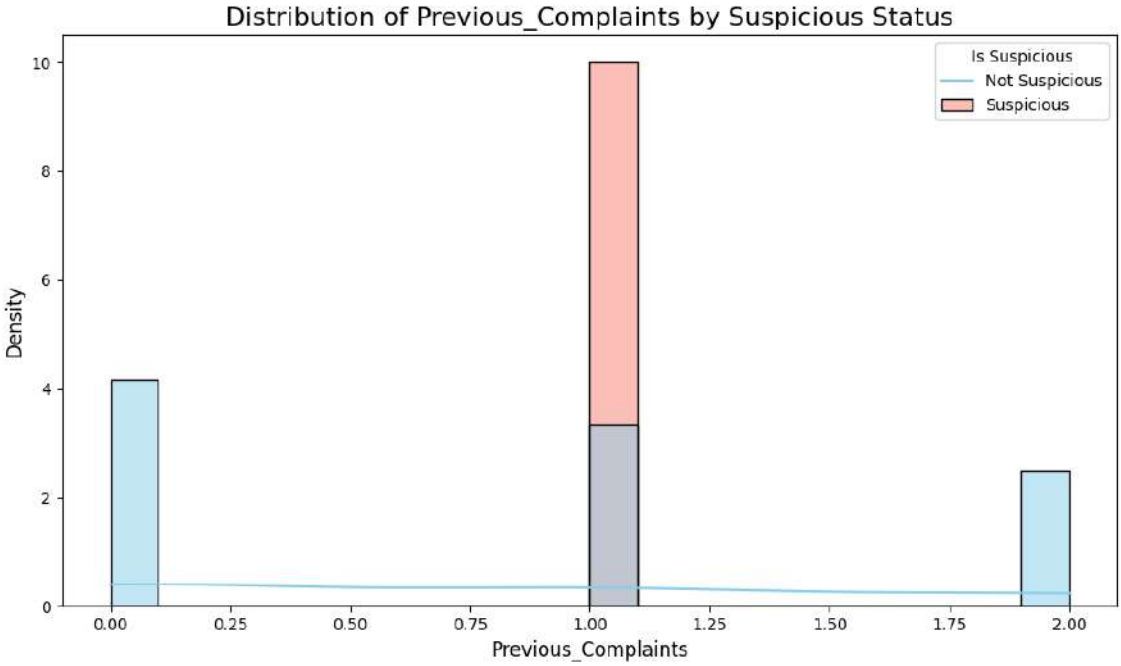
Interpretation of the Plot:

This graph helps assess whether the amount of 'Campaign_Expenses' is a useful feature for distinguishing between suspicious and non-suspicious politicians.

1. **Distribution of "Not Suspicious" (Red/Gray):**
    - The "Not Suspicious" politicians (red line and gray bars) show a strong concentration at **higher campaign expenses**, particularly a large peak around the **225,000-250,000 range**. There's also a notable presence around 125,000-150,000. The red KDE curve broadly slopes downwards, suggesting fewer non-suspicious cases as expenses decrease.
2. **Distribution of "Suspicious" (Light Blue):**
    - The "Suspicious" politicians (light blue line and light red/orange stacked bars) show a more varied distribution. There are significant concentrations at **lower campaign expenses**, particularly around the **25,000-50,000 range** and also around **75,000-100,000**. The light blue KDE curve suggests multiple peaks and a broader spread across lower-to-mid expenses.
3. **Overlap and Potential Separation:**
    - There is a **clear distinction** between the primary peaks of the two distributions. The **highest density of suspicious politicians occurs at lower campaign expenses (e.g., around 25,000-50,000)**, while the highest density of non-suspicious

politicians is at much higher expenses (e.g., around 225,000-250,000).
    - This suggests that **unusually low campaign expenses, especially when combined with other factors, might be indicative of suspicious activity**, possibly implying underreporting or diversion of funds.
    - Conversely, very high reported campaign expenses seem to be more characteristic of non-suspicious cases in this dataset.

In conclusion: 'Campaign_Expenses' appears to be a **strong discriminatory feature**. Lower campaign expenses are more strongly associated with suspicious politicians, while higher expenses are more characteristic of non-suspicious ones. This aligns with the understanding that a politician's spending habits can be a key indicator of corruption.



This is a histogram titled "Distribution of Previous_Complaints by Suspicious Status." It displays the distribution of the number of 'Previous_Complaints' a politician has, broken down and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Previous_Complaints by Suspicious Status"**: Indicates the purpose of the plot: to show the relationship between the number of previous complaints and a politician's suspicious status.
- **X-axis: 'Previous_Complaints'**: This axis represents the count of previous complaints. The visible values are 0, 1, and 2, indicating that politicians in this dataset have either 0, 1, or 2 (or more, grouped at 2) previous complaints.

- **Y-axis: 'Density'**: In a density histogram, the y-axis represents the probability density, meaning the *area* under the curves (and within the bars) for each group sums to 1. This allows for fair comparison of distributions even if the groups have different total counts.
- **Bars (Histograms)**: The bars are stacked to show the density for each Is_Suspicious category within specific integer values of 'Previous_Complaints'.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These portions represent the density of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These portions represent the density of **Suspicious** politicians.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Shows the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Shows the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Explains which color/line corresponds to which status (Not Suspicious or Suspicious).

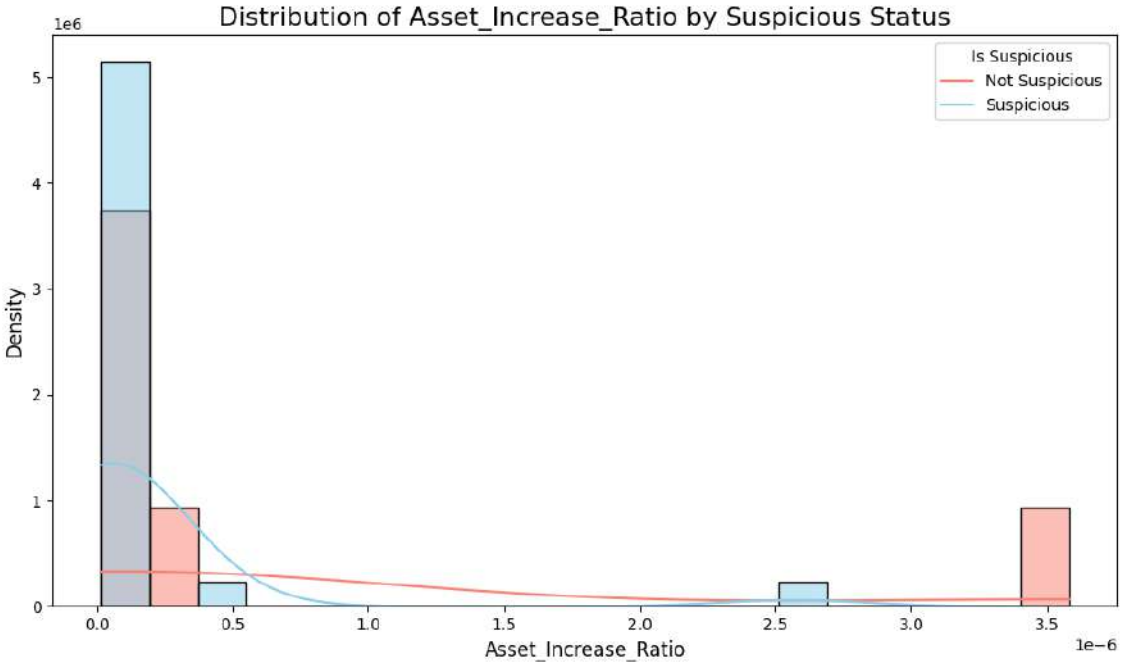
Interpretation of the Plot:

This graph helps assess whether the number of 'Previous_Complaints' is a useful feature for distinguishing between suspicious and non-suspicious politicians.

1. **Concentration at 1 Complaint:**
    - The tallest bar is at 'Previous_Complaints = 1', indicating that a large number of politicians, both suspicious and not suspicious, have exactly one previous complaint.
    - At this point, the stack is roughly split, with slightly more suspicious (light red/orange) than non-suspicious (light gray/blue).
2. **Zero Complaints:**
    - There's a significant bar at 'Previous_Complaints = 0'. Here, the bar is predominantly **light gray/blue (Not Suspicious)**. This suggests that politicians with no previous complaints are more likely to be non-suspicious.
3. **Two or More Complaints (at 2):**
    - There's a bar at 'Previous_Complaints = 2'. This bar is almost entirely **light red/orange (Suspicious)**. This is a strong indicator: politicians with two or more complaints are highly likely to be suspicious.
4. **KDE Curves:**
    - The light blue KDE curve (Suspicious) has peaks at 1 and 2 complaints, showing a higher density of suspicious cases at these complaint counts.
    - The reddish KDE curve (Not Suspicious) has a peak at 0 and 1 complaint, showing a higher density of non-suspicious cases at 0 and 1 complaint.

In conclusion: 'Previous_Complaints' appears to be a **discriminatory feature, particularly at its extremes**. Politicians with **no complaints are more likely to be non-suspicious**, while those with **two or more complaints are strongly associated with**

being suspicious. The presence of one complaint is less distinctive as both groups are found there. This aligns with the expectation that a higher number of past complaints would be a red flag for potential corruption.



This histogram is titled "Distribution of Asset_Increase_Ratio by Suspicious Status." It displays the distribution of the 'Asset_Increase_Ratio' for politicians, separated and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Asset_Increase_Ratio by Suspicious Status"**: This indicates the chart's purpose: to show how the ratio of asset increase to total assets relates to a politician's suspicious status.

- **X-axis: 'Asset_Increase_Ratio'**: This axis represents the calculated ratio of asset increase. The values are very small, in the order of 10^-6, meaning the increase is a tiny fraction of the total assets. This is expected given the definition of the ratio (percentage increase divided by total asset amount).
- **Y-axis: 'Density'**: In a density histogram, the y-axis represents the probability density. The *area* under the curves (and within the bars) for each group sums to 1, which allows for fair comparison of distributions.
- **Bars (Histograms)**: The bars are stacked to show the density for each Is_Suspicious category within specific ranges (bins) of the asset increase ratio.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These portions represent the density of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These portions represent the density of **Suspicious** politicians.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Shows the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Shows the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Explains which color/line corresponds to which status (Not Suspicious or Suspicious).

Interpretation of the Plot:

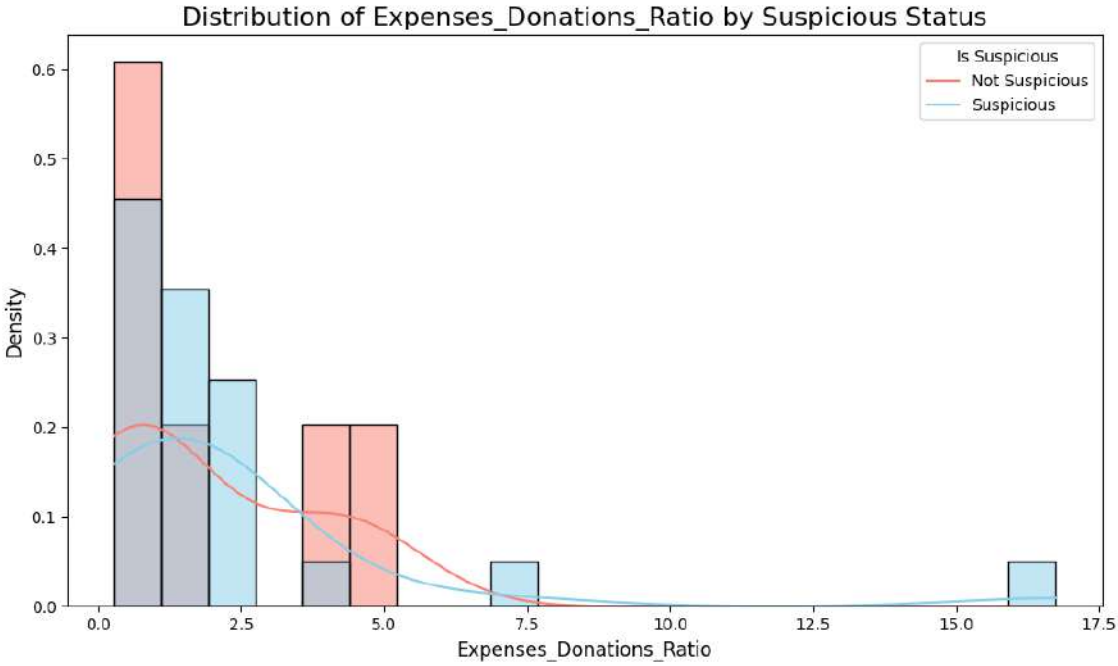
This graph helps assess whether the 'Asset_Increase_Ratio' is a useful feature for distinguishing between suspicious and non-suspicious politicians.

1. **Concentration at Low Ratios:**
    - Both "Not Suspicious" (red/gray) and "Suspicious" (light blue/orange) politicians show a high density at very low asset increase ratios, particularly close to 0. This indicates that most politicians, regardless of suspicious status, have a very small asset increase relative to their total assets. The light blue KDE curve (Suspicious) has a very high peak near 0, suggesting a strong concentration of suspicious cases at extremely low ratios.
2. **Peaks in Suspicious Cases at Higher Ratios:**
    - While most suspicious cases are concentrated at very low ratios, there are also noticeable (though smaller) bars for **suspicious cases (light red/orange)** at higher Asset_Increase_Ratio values (e.g., around 2.5e-6 and 3.5e-6). These higher ratio values appear to be **almost exclusively populated by suspicious cases**. The red curve (Not Suspicious) quickly drops to near zero at these higher ratios, while the light blue curve (Suspicious) shows some density there.
3. **Overlap and Potential for Discrimination:**
    - There's a significant **overlap at the very low end** of the ratio, making it difficult to

distinguish cases solely based on very small ratios.

- However, the presence of distinct, albeit smaller, peaks for **suspicious cases at higher asset increase ratios** suggests that extremely disproportionate asset increases (even if small in absolute terms compared to total assets) could be a strong indicator of suspicious activity, as non-suspicious cases are rarely found at these values.

In conclusion: The 'Asset_Increase_Ratio' is a nuanced feature. While many politicians (both suspicious and non-suspicious) have very small asset increase ratios, **higher values of this ratio appear to be a strong indicator of suspicious activity**. This suggests that even a seemingly small ratio might be significant if it's unusually high for the overall population of politicians. The model can likely leverage these distinct higher-ratio peaks to identify suspicious cases.



This histogram is titled "Distribution of Expenses_Donations_Ratio by Suspicious Status." It illustrates the distribution of the 'Expenses_Donations_Ratio' for politicians, separated and stacked by their 'Is Suspicious' status.

Here's a breakdown of the graph's components:

- **Title: "Distribution of Expenses_Donations_Ratio by Suspicious Status"**: This indicates the chart's purpose: to show how the ratio of campaign expenses to donations received relates to a politician's suspicious status.
- **X-axis: 'Expenses_Donations_Ratio'**: This axis represents the calculated ratio of campaign expenses to donations received. Values range from 0 to approximately 17.5. A ratio of 1 would mean expenses equal

donations. A ratio less than 1 means donations were higher than expenses. A ratio greater than 1 means expenses were higher than donations.

- **Y-axis: 'Density'**: In a density histogram, the y-axis represents the probability density. The *area* under the curves (and within the bars) for each group sums to 1, allowing for fair comparison of distributions.
- **Bars (Histograms)**: The bars are stacked to show the density for each Is_Suspicious category within specific ranges (bins) of the expenses-donations ratio.
    - **Light Gray/Blue (Bottom part of stacked bars) for Is Suspicious = 0 (Not Suspicious)**: These portions represent the density of **Not Suspicious** politicians.
    - **Light Red/Orange (Top part of stacked bars) for Is Suspicious = 1 (Suspicious)**: These portions represent the density of **Suspicious** politicians.
- **KDE (Kernel Density Estimate) Lines**: The smooth curves overlaid on the histograms represent the estimated probability density functions for each Is_Suspicious group.
    - **Reddish Curve**: Shows the density distribution for Is Suspicious = 0 (Not Suspicious politicians).
    - **Light Blue Curve**: Shows the density distribution for Is Suspicious = 1 (Suspicious politicians).
- **Legend: 'Is Suspicious'**: Explains which color/line corresponds to which status (Not Suspicious or Suspicious).

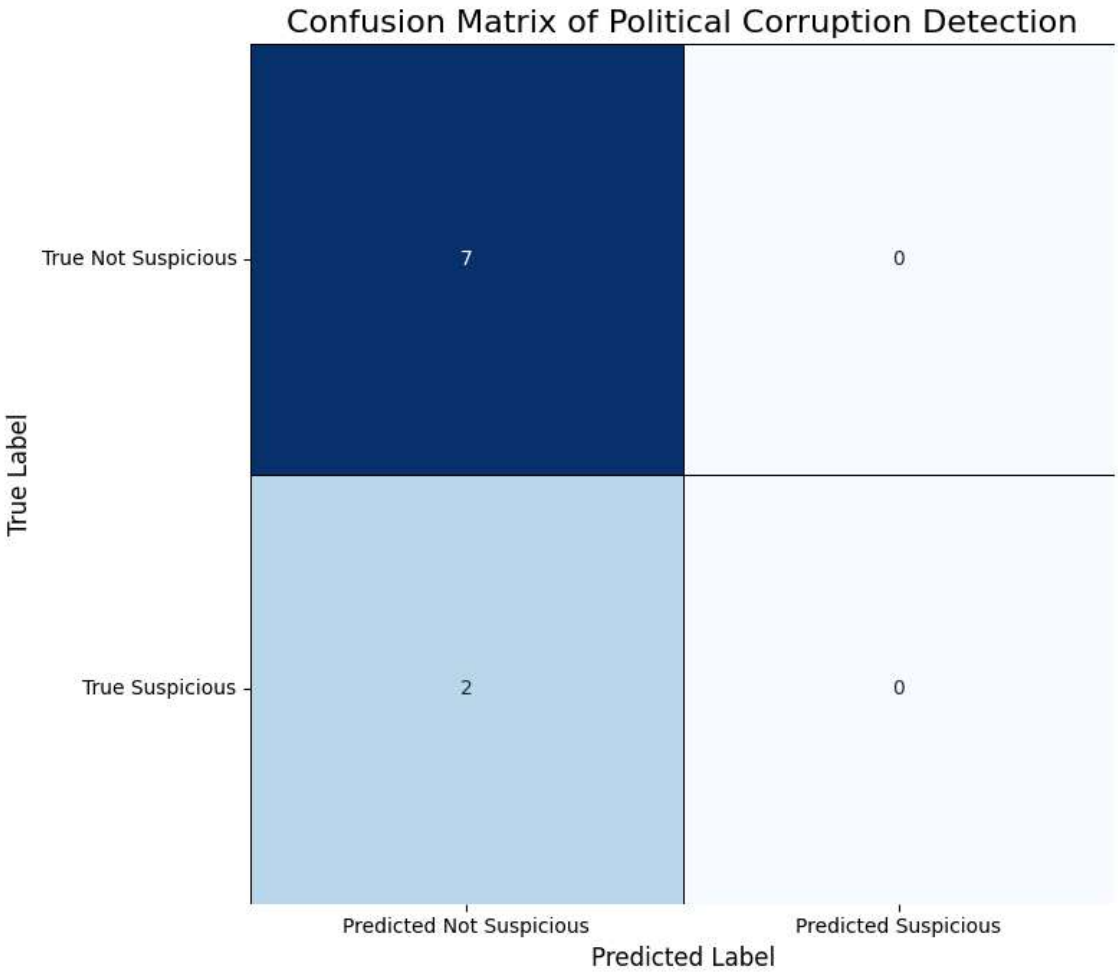
Interpretation of the Plot:

This graph helps assess whether the 'Expenses_Donations_Ratio' is a useful feature for distinguishing between suspicious and non-suspicious politicians.

1. **Concentration at Low Ratios:**
    - Both "Not Suspicious" (red/gray) and "Suspicious" (light blue/orange) politicians show a high density at **lower ratios**, specifically between 0 and 2.5. This means most politicians, regardless of suspicious status, have campaign expenses that are either less than or slightly more than their donations.
2. **Peaks for "Not Suspicious" at Lower Ratios:**
    - The reddish KDE curve (Not Suspicious) has a distinct peak at a very low ratio (close to 0 or 1), and the gray bars dominate this initial range. This suggests that non-suspicious politicians often have relatively low expenses compared to their donations, or very balanced.
3. **Peaks for "Suspicious" at Slightly Higher & Extreme Ratios:**
    - The light blue KDE curve (Suspicious) also has a peak in the very low ratio range (0 to 1), but it also shows **significant density at higher ratios** (e.g., around 2-3, and a smaller peak around 16-17.5). The stacked bars also show **predominantly suspicious cases** (light red/orange) in the 4-5 range and at the far right (around 16-17.5). This implies that a very high ratio (expenses significantly exceeding donations) is more likely to be associated with suspicious activity.

4. **Overlap vs. Discrimination:**
    - There's considerable **overlap at the very low end** of the ratio (0-2), making it difficult to differentiate solely based on this range.
    - However, the presence of suspicious cases at **unusually high ratios** (where expenses are vastly greater than donations), especially the distinct peak near 17.5, suggests that these extreme values could be strong indicators of suspicious behavior. This might imply undisclosed funding sources or misuse of funds.

In conclusion: The 'Expenses_Donations_Ratio' can be a discriminatory feature. While most politicians have relatively balanced or low expense-to-donation ratios, **politicians with exceptionally high ratios (where expenses far outweigh donations)** are more likely to be classified as suspicious. This suggests that the model can pick up on discrepancies between reported expenses and donations as a potential red flag.



This image displays a **Confusion Matrix of Political Corruption Detection**. It's a critical visualization for understanding the performance of your classification model in identifying suspicious politicians.

Here's a breakdown of the graph's components and what they represent:

- **Title: "Confusion Matrix of Political Corruption Detection"**: Clearly states the purpose and context of the matrix.

- **Axes Labels**:
  - **Y-axis: 'True Label'**: Represents the *actual* status of the politicians in your test dataset.
    - **'True Not Suspicious'**: Politicians who were genuinely not suspicious.
    - **'True Suspicious'**: Politicians who were genuinely suspicious (i.e., actual corruption cases).
  - **X-axis: 'Predicted Label'**: Represents the status *predicted* by your Random Forest model.
    - **'Predicted Not Suspicious'**: Politicians the model classified as not suspicious.
    - **'Predicted Suspicious'**: Politicians the model classified as suspicious.
- **Cells and Values**: Each cell at the intersection of a "True Label" row and a "Predicted Label" column contains a number, representing the count of politicians falling into that category. The colors (shades of blue) also reflect these counts, with darker blue generally indicating higher numbers.
  - **Top-Left Cell (7): True Negatives (TN)**
    - **Interpretation**: 7 politicians were **actually Not Suspicious**, and the model **correctly predicted them as Not Suspicious**.
    - This is a correct prediction.
  - **Top-Right Cell (0): False Positives (FP)**
    - **Interpretation**: 0 politicians were **actually Not Suspicious**, but the model **incorrectly predicted them as Suspicious**.

        - This means the model had **no false alarms** for non-suspicious cases.
    - **Bottom-Left Cell (2): False Negatives (FN)**
        - **Interpretation**: 2 politicians were **actually Suspicious**, but the model **incorrectly predicted them as Not Suspicious**.
        - This is a Type II error, often referred to as a "missed detection." In corruption detection, these are the **actual corruption cases that the model failed to identify**. This is usually the most critical type of error in such systems.
    - **Bottom-Right Cell (0): True Positives (TP)**
        - **Interpretation**: 0 politicians were **actually Suspicious**, and the model **correctly predicted them as Suspicious**.
        - This means the model **did not identify any of the true corruption cases**.
- **Color Bar (Right Side)**: Although not fully visible, it would indicate the scale for the color intensity (darker blue for higher counts).

Summary of Model Performance based on this Confusion Matrix:

- **Total instances in the test set:** 7 (TN) + 0 (FP) + 2 (FN) + 0 (TP) = 9 politicians.
- **Actual Not Suspicious:** 7 reports.
- **Actual Suspicious:** 2 reports. (This clearly shows the class imbalance, with 'Not

Suspicious' being the majority class in this test set).

- **Model Accuracy:** (TN + TP) / Total = (7 + 0) / 9 = 7 / 9 ≈ 0.7778 (77.78%).
    - While the overall accuracy is high, this is misleading.
- **Key Strengths:** The model is very good at identifying non-suspicious cases (7 True Negatives, 0 False Positives). It essentially predicted almost everything as "Not Suspicious."
- **Key Weaknesses (Critical for a Corruption Detection System):**
    - It produced **zero True Positives** (it caught none of the actual suspicious cases).
    - It produced **two False Negatives** (it missed both of the actual suspicious cases).

In conclusion: This confusion matrix starkly reveals a significant problem with the model's performance for corruption detection. Despite a high overall accuracy, the model effectively **failed to detect any corruption cases**. It appears to have learned to simply predict the majority class ("Not Suspicious") most of the time, which is a common issue when training on imbalanced datasets without proper handling (e.g., resampling techniques). For a corruption detection system, this performance is unacceptable as it means the system would not flag any real instances of corruption.

The analysis involved building a Random Forest model to detect suspicious politicians based on a loaded dataset of 30 records.

Model Performance: The model achieved an overall accuracy of approximately 77.8%. However, a

detailed look at the **classification report and confusion matrix reveals a critical failure**: the model **completely failed to identify any of the truly suspicious politicians** (0 True Positives and 2 False Negatives). This means that while it correctly identified all non-suspicious cases, it missed every instance of actual corruption in the test set. This behavior is strongly indicative of the model simply predicting the majority class ("Not Suspicious") due to the **significant class imbalance** in the dataset, where only 6 out of 30 politicians were labeled as suspicious.

Feature Importance: Despite the model's poor performance in identifying the minority class, the **feature importance chart** provided insights into which attributes the model considered relevant. **Campaign Expenses** was the most important feature, followed by Position_Encoded, Asset_Increase_Ratio, and Last_Year_Asset_Increase_Percentage. This suggests these financial and positional factors are crucial indicators.

Visualizations' Insights: The **"Distribution of Suspicious vs. Non-Suspicious Cases" bar chart** vividly illustrated the severe class imbalance, confirming the challenge for the model. Histograms for features like Last_Year_Asset_Increase_Percentage, Campaign_Expenses, Previous_Complaints, Asset_Increase_Ratio, and Expenses_Donations_Ratio showed potential discriminative patterns, with suspicious cases often concentrated at higher asset increases/ratios, lower campaign expenses, or a higher number of previous complaints. The **Confusion Matrix plot** visually confirmed the model's inability to predict any suspicious cases, with all actual suspicious instances being misclassified as non-suspicious.

Conclusion: While the data loading and feature engineering were successful, the Random Forest model, in its current form, is **ineffective for political corruption detection** due to its inability to learn from and predict the minority 'Suspicious' class. Addressing the class imbalance through techniques like oversampling or undersampling is crucial to build a functional detection system.

Chapter 11. Conclusions

Throughout this article, we've deeply explored the problem of fraud and corruption in contemporary society, recognizing its devastating economic and social impact.[34] From defining these scourges to detailing their various manifestations in key sectors like finance, e-commerce, public administration, healthcare, construction, and politics, we've established the urgency of finding effective tools to combat them.[35]

We randomly generated data for the creation of three algorithms, each with its corresponding output explanation (in some cases accompanied by graphs). [36]However, the correct application of these algorithms fundamentally depends on the construction of the datasets. This book seeks to democratize and disseminate this tool, reiterating that the key lies in the careful preparation of datasets, with special attention to the specific operations of situations like fraud, corruption, expense report control, and credit card management, among others.

After this journey, it's clear that **algorithms** and **artificial intelligence** represent a transformative tool

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[34] **Albrecht, W. Steve, Chad O. Albrecht, Conan C. Albrecht, and Keith R. Howe.** *Fraud Examination*. Cengage Learning, 2012. (

[35] **Aidt, Toke S.** "Corruption and Economic Growth: A Review of the Evidence." *European Journal of Political Economy*, Vol. 20, No. 2 (June 2004), pp. 401-424.

[36] **Berry, Michael J. A., and Gordon S. Linoff.** *Data Mining Techniques: For Marketing, Sales, and Customer Relationship Management*. John Wiley & Sons, Inc., 2004.

in the fight against fraud and corruption. [37] Their ability to analyze large volumes of data quickly and accurately, identify complex patterns, and predict suspicious behaviors offers unprecedented potential to strengthen integrity and trust in our societies.

The potential of algorithms is evident in their capacity to:

- **Improve Efficiency and Accuracy:** By automating the detection of illicit activities and reducing reliance on manual methods, which are often slow and error-prone.
- **Detect Hidden Patterns:** By identifying anomalies and relationships that might go unnoticed by the human eye.
- **Provide Real-Time Information:** Allowing for a quicker and more effective response to emerging threats.
- **Increase Transparency and Accountability:** By facilitating the analysis of public data and the identification of irregularities.
- **Deter Illicit Activities:** By increasing the probability of detection and sanction.

However, it's crucial to approach the use of algorithms with **caution and responsibility**. We acknowledge the inherent challenges and limitations, such as the need to mitigate algorithmic biases, protect data privacy, and manage resistance to change. Successful implementation requires an ethical, transparent, and collaborative approach.

The future of the fight against fraud and corruption doesn't solely lie in technology, but algorithms will play

[37] **Bishop, Christopher M.** *Pattern Recognition and Machine Learning*. Springer, 2006.

an increasingly central and crucial role. The synergy between human ingenuity, ethics, and the power of artificial intelligence has the potential to build more just, transparent, and resilient societies.

This article aims to demonstrate that controlling fraud and corruption through the use of Machine Learning code is an achievable goal for individuals, companies, and the state, given the current technologies and transaction data—political, public, and/or private—at our disposal. The key lies in ensuring that data is **available, complete, accessible, and unbiased**. These conditions, combined with technological tools, are sufficient to implement effective control systems.

For each algorithm, we explore the generation of web pages to visualize the results. From this, we can create interactive reports on the analysis of fraud and corruption cases.

It is imperative that governments, organizations, and civil society invest in the responsible development and implementation of these technologies, fostering collaboration, establishing adequate regulatory frameworks, and promoting a culture of transparency and accountability. Only then can we fully harness the potential of algorithms to protect our systems and strengthen trust in an increasingly complex and digitized world.[38]

[38] **Floridi, Luciano.** "The Ethics of Information." *Philosophy & Technology*, Vol. 21, No. 4 (December 2008), pp. 439-455.

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Chapter 12. Glossary of Terms

This glossary aims to provide clear and concise definitions of the key terms used throughout the book.

● **Algorithm:** A finite and ordered set of well-defined and unambiguous instructions or rules that are followed step-by-step to solve a specific problem or perform a task. Algorithms are the foundation of computation. *Example:* A cooking recipe is an algorithm for preparing a dish.

● **Artificial Intelligence (AI):** A field of computer science that focuses on the creation of systems and programs capable of simulating human intelligence processes. This includes the ability to reason, learn, solve problems, perceive the environment, understand language, and make decisions. *Example:* Virtual assistants like Siri or Alexa use AI.

● **Machine Learning (ML):** A branch of AI that focuses on the development of algorithms that allow computers to learn from data without being explicitly programmed. ML algorithms improve their performance through experience. *Example:* Email spam filters use ML to identify unwanted emails.

● **Supervised Learning:** A type of machine learning where algorithms learn from labeled data. Labeled data includes both the input and the desired output, allowing the algorithm to learn to map inputs to outputs. *Example:* Training an algorithm to classify images of cats and dogs, where each image is labeled as "cat" or "dog."

● **Unsupervised Learning:** A type of machine learning where algorithms learn from unlabeled data. The algorithm seeks hidden patterns, structures, or

groupings in the data without the guidance of a predefined output. *Example:* Grouping customers into different market segments based on their purchasing behavior.

● **Reinforcement Learning:** A type of machine learning where an agent learns to make decisions by interacting with an environment. The agent receives rewards or penalties for its actions, thus learning to maximize rewards over time. *Example:* Training a robot to navigate a maze.

● **Fraud:** An intentional act of deception or misrepresentation designed to gain financial or other benefit at the expense of another person or entity. It involves a breach of trust. *Example:* Credit card fraud, tax fraud.

● **Corruption:** The abuse of public or private power to obtain personal or group benefit. It involves the misuse of authority for dishonest purposes. *Example:* Bribery of public officials, embezzlement of funds.

● **Algorithmic Bias:** A systematic tendency in an algorithm that causes it to produce unfair, discriminatory, or disproportionate results towards certain groups or individuals. Algorithmic bias can arise from biased training data or the algorithm's design. *Example:* A hiring algorithm that favors men over women due to biased historical hiring data.

● **Open Data:** Data, especially government information, that is available for anyone to access, use, and share, without restrictions of copyright, patents, or other control mechanisms. *Example:* Data on government budgets, crime statistics.

● **Natural Language Processing (NLP):** A branch of AI that deals with the interaction between computers and human language. NLP allows computers to understand, interpret, and generate human language in the form of text or speech. *Example:* Machine translation, sentiment analysis on social media.

● **Network Analysis:** A set of techniques and methods for studying the relationships and connections between entities (people, organizations, concepts, etc.). Network analysis helps to understand the structure and dynamics of complex systems. *Example:* Analyzing collusion networks in public procurement.

● **Anomaly Detection:** The process of identifying data points, events, or observations that deviate significantly from normal or expected behavior. Anomalies can indicate unusual events, errors, or fraud. *Example:* Detecting fraudulent bank transactions that deviate from a customer's usual spending pattern.

● **Explainable AI (XAI):** A field of AI that focuses on developing techniques and methods to make AI models and decisions more transparent, understandable, and interpretable for humans. XAI seeks to increase trust and accountability in AI systems. *Example:* Providing clear and understandable reasons for an AI model's decision to deny a loan.

● Libraries Used in Data Analysis and Additional Resources

● Libraries:

Faker: https://pypi.org/project/Faker/

Pandas:https://pandas.pydata.org/

Random:
https://docs.python.org/3/library/random.html }

Numpy:https://numpy.org/}

Datetime:
https://docs.python.org/3/library/datetime.html

Matplotlib: https://matplotlib.org/

}Seaborn: https://seaborn.pydata.org/

Collections:
https://docs.python.org/3/library/collections.html

}Scikit-learn: https://scikit-learn.org/

Warnings:
https://docs.python.org/3/library/warnings.html

Nltk: https://www.nltk.org/

Re: https://docs.python.org/3/library/re.html

Imblearn: https://imbalanced-learn.org/stable/

Ø Additional Resources

● **Online Learning Platforms:** * **Coursera**: Offers courses and specializations on artificial intelligence, machine learning, data science, and AI ethics, taught by universities and organizations worldwide. It is recommended to look for specific courses such as "Machine Learning" by Andrew Ng or "AI for Everyone." https://www.coursera.org/ * **edX**: Similar to Coursera, it offers a wide range of courses on AI, data science, and related topics. It is recommended to look for courses from universities like MIT or Harvard. https://www.edx.org/ * **Udacity**: Offers "Nanodegrees" and practical courses on data science, machine learning, and AI development. www.udacity.com

● **Organizations and Agencies:** * Transparency International (www.transparency.org) * United Nations Office on Drugs and Crime (UNODC) (www.unodc.org) * Financial Crimes Enforcement Network (FinCEN) (www.fincen.gov) * Open Government Partnership (OGP) (www.opengovpartnership.org) * Association of Certified Fraud Examiners (ACFE) (www.acfe.com)

● **Specialized Publications and Websites:** * Academic journals on AI, data science, cybersecurity, governance, and law. * Blogs and websites of experts in AI, technology ethics, and anti-corruption. * Research repositories and academic databases (e.g., arXiv: https://arxiv.org/, Google Scholar: https://scholar.google.com/)

● **Tools and Software:** * Listing of relevant data analysis and AI software and platforms for fraud and corruption detection (e.g., Python, R, data visualization tools).

● **Programming Languages:** * **Python**: Consult the official Python documentation (python.org) to learn

about the language and its relevant libraries for data analysis (NumPy, Pandas) and machine learning (scikit-learn, TensorFlow, Keras). https://www.python.org/ * **R**: Review the official R documentation (r-project.org) to learn about the language and its packages for statistical analysis and machine learning. https://cran.rstudio.com/

● **Data Analysis Platforms:** * **Jupyter Notebook**: Consult the official documentation to learn how to use this interactive tool for data analysis and programming in Python and R. https://www.anaconda.com/download * **Google Colab**: Review the documentation to learn how to use this free, cloud-based platform to run Python code. https://colab.research.google.com/

● **Machine Learning Libraries:** * **scikit-learn**: Consult the official documentation (scikit-learn.org) to learn about the various machine learning techniques implemented in this Python library. https://scikit-learn.org/stable/ * **TensorFlow**: Review the official documentation (tensorflow.org) to learn about this open-source machine learning library. https://www.tensorflow.org/?hl=en * **Keras**: Consult the official documentation (keras.io) to learn about this high-level API for neural networks. https://keras.io/

Reader Access to Book Material:

Ø For better management of Drive, Colaboratory, and files, the reader is suggested to have a free Gmail account. Ø For readers unfamiliar with GitHub code repositories, by accessing the author's drive and hovering the mouse over the file they want to open, they can open it with a right-click.

- **Author's Repository:**
- https://github.com/Viny2030/algorithms_fraud_corruption

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