



# Reduction and mitigation of fraud in construction and real estate through a forensic lens

Independent oversight of capital projects through integrity monitoring

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Part 2 of 3 in a series that focuses on how to mitigate business risks.

## Private sector capital projects need attention, too

Integrity monitoring is not just for public sector construction and real estate projects anymore. In the 1980s, a number of public capital projects faced intense scrutiny after incurring multimillion-dollar cost overruns due to corruption and fraud. The concept of integrity monitoring was born in response.

Integrity monitors are independent third parties brought in to watch over capital projects and report fraud, waste and abuse. In recent years, as private sector capital projects have become larger and are often managed globally, the need for – and interest in – integrity monitoring has grown in the private sector.

Project managers and project owners have reason to be concerned about the effective and efficient delivery and control of their construction projects. As we discussed in [Part 1](#) of this series, fraud, waste and abuse are big issues in construction and real estate. In fact, the median loss due to fraud is \$254,000 in the real estate industry and \$200,000 in the construction industry.<sup>1</sup> The consequences can be steep and go well beyond money, including clawbacks of funding, corporate and personal reputational damage, increased regulatory scrutiny and even jail time.

But project owners and managers often cannot provide enough oversight to all of a capital project's aspects, particularly if the project owners and managers are not on-site at the location of the capital project. Many companies do not have the resources to effectively monitor and supervise the various third parties needed to complete capital projects or the right controls in place to minimize fraud, waste and abuse.

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<sup>1</sup>Report to the Nations: 2020 Global Study on Occupational Fraud and Abuse, Association of Certified Fraud Examiners, Inc., 2020.



The use of third-party monitors in major construction projects sends a strong message that noncompliance and fraud will not be tolerated.

Dan Perry, Practice Group Leader of the Litigation & Arbitration Group at Milbank LLP

## What is integrity monitoring?

To safeguard capital projects, integrity monitoring uses a combination of human oversight and technology to look closely at processes around high-risk areas such as change orders, material purchases, payroll, third-party bid awards and union contract rates. These organizational processes often contain gaps that employees and third parties can exploit. Integrity monitoring can identify and help the business implement leading practices to mitigate potential issues.

Integrity monitors provide oversight for common fraud risk areas to quickly detect anomalies. These procedures can include integrity and compliance checks on third parties, monitoring the bid and award process, analyzing project metrics on an ongoing basis and on-site data analysis, observation and testing.

## Now, next and beyond: managing capital project risk

To understand whether a more specialized perspective is necessary to provide a second set of eyes on capital projects, it is important to evaluate your current practices, understand your risk appetite and determine what success looks like.

Start with this checklist of activities:

### **Now:** assess in the short term

- Risks of the capital project based on location, size and/or scope
- Components of the project that are most susceptible to fraud, waste and abuse
- If the control environment promotes transparency and honesty
- If specific controls are in place to monitor the integrity of the project across its entire life cycle based on the company's risk appetite

### **Next:** determine for the medium term

- How best to address instances of fraud, waste and abuse and their implications on your current control environment
- If there is adequate oversight for relevant third parties and employees for future capital projects
- If technology can be better leveraged to improve the efficiency of project monitoring activities

### **Beyond:** prepare for the future

- Measure the success of the capital project monitoring process
- Implement better controls and processes for future projects



**Key takeaway:** Many organizations do not have the time or resources to effectively assess and monitor all of their risks. If you find yourself among them, or find the scope and scale of activities to be overwhelming, it may be time to consider engaging a third-party integrity monitor.

Ernst & Young LLP  
Forensic & Integrity Services  
Real Estate, Hospitality & Construction

## Contact



**Brian Browne**  
Managing Director  
brian.browne@ey.com  
+1 212 773 7236

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