TOP RISKS IMPACTING FILM TAX INCENTIVE PROGRAMS

- **Related-party transactions**: Production companies own numerous entities that may be involved in the production process. Oftentimes, these same companies provide services, share employees, or move assets between them creating a risk that the transactions could be inflated above market value.

- **Source of funds**: Most productions require significant funding, which creates risks. Source-of-funds analyses can identify undisclosed related parties and circular transactions which may be used to inflate expenditures.

- **Fraudulent expenses**: A trusted employee or cunning third party can embezzle funds using various schemes (e.g., dummy vendors, ghost employees, fake invoices), which can inappropriately inflate qualified expenses.

- **Unpaid expenditures**: The financial strain of an underfunded or overbudget production creates incentives to misrepresent that expenditures were paid when in fact they were not paid.

WAYS TO ADDRESS THE RISKS

- **Provide Fraud Awareness Training** to increase understanding of potential schemes and to recognize red flags of fraud.

- **Setup a Program Hotline** for reporting unethical or suspicious activity.

- **Perform Unpredictable Procedures** after attest reports are received to help monitor and prevent fraud.

- **Perform Forensic Procedures** to target specific areas if red flags are identified.

A PRODUCTION WITH A $25 MILLION BUDGET COULD HAVE POTENTIAL FRAUDULENT EXPENDITURES OF OVER $1.25 MILLION, OR 5% OF EXPENDITURES, BASED ON MOST RECENT ACFE SURVEY.
THAT'S A WRAP

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