

DR. HOLLYWOOD AND MR. FRAUD



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.

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.

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



THAT'S A WRAP

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