

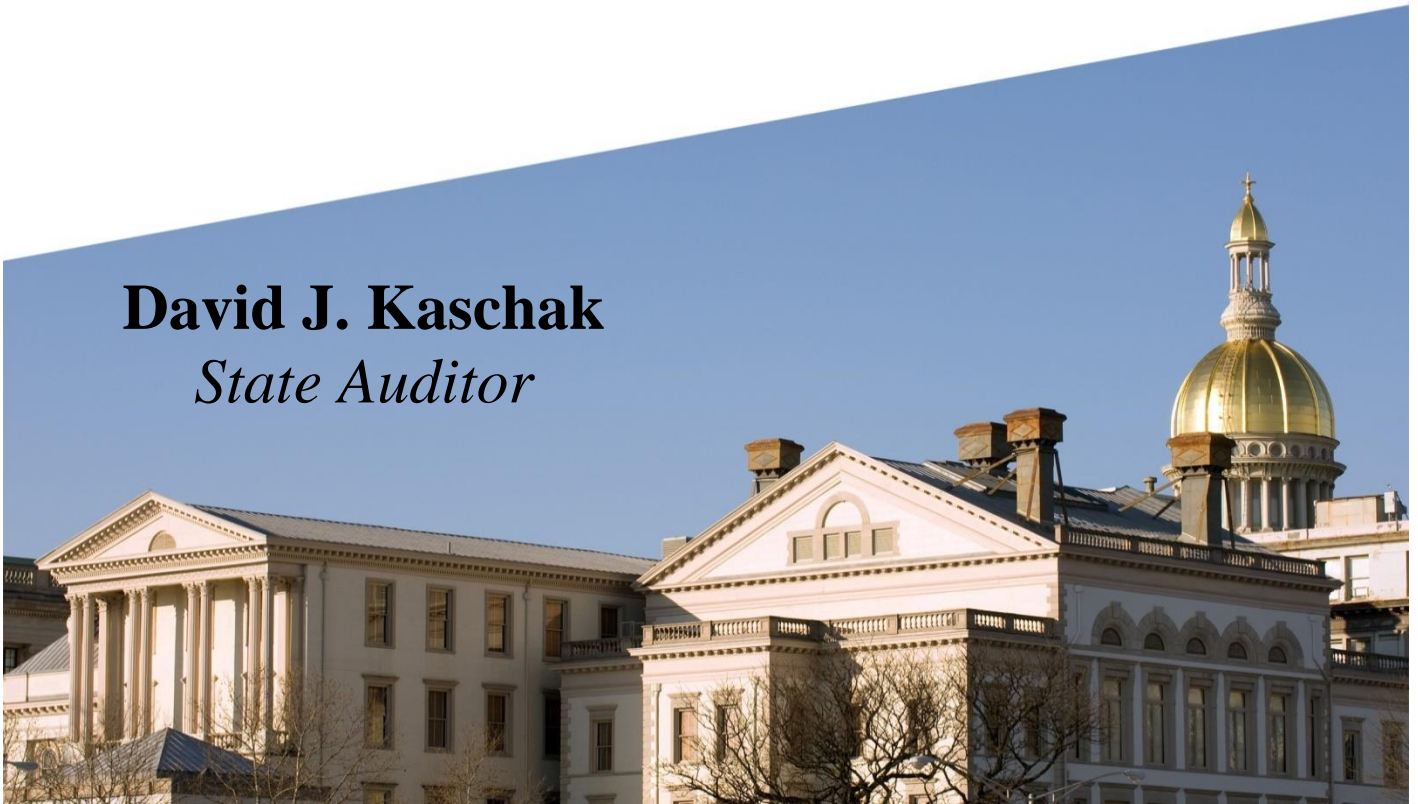


New Jersey Legislature
★ *Office of* LEGISLATIVE SERVICES ★
OFFICE OF THE STATE AUDITOR

New Jersey Economic Development Authority
Film and Digital Media Tax Credit Program

July 1, 2020 to December 31, 2023

David J. Kaschak
State Auditor



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President of the Senate

The Honorable Craig J. Coughlin
Speaker of the General Assembly

Ms. Maureen McMahon
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the New Jersey Economic Development Authority, Film and Digital Media Tax Credit Program for the period of July 1, 2020 to December 31, 2023. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink that reads "David J. Kaschak".

David J. Kaschak
State Auditor
August 29, 2024

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Scope

We have completed an audit of the New Jersey Economic Development Authority (NJEDA or authority), Film and Digital Media Tax Credit Program (program) for the period July 1, 2020 to December 31, 2023. Our review included program eligibility for approved film and digital media projects and non-salary qualified film production expenses (qualified expenses) for certified film tax credits.

The program's goal is to incentivize production companies to film and create digital media content in the state. This is accomplished by providing a transferable credit against the corporation business tax and the gross income tax for qualified expenses incurred for the production of certain film and digital media content in New Jersey. Since the program was reestablished in July 2018, the authority has approved 151 film and digital media projects with estimated tax credits totaling \$704.9 million. Of this amount, the authority has certified \$147.2 million in film tax credits for 41 projects. The authority awarded its only studio partner designation in fiscal year 2023 and has yet to award a film-lease production company designation.

Objectives

The objective of our audit was to determine whether the NJEDA had adequate controls in place to approve eligible projects, monitor the program, and certify tax credits in compliance with internal requirements, applicable program criteria, and the laws governing the program.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In preparation for our testing, we studied legislation, the administrative code, NJEDA policies related to the program, and audits of similar programs in other states. Provisions we considered significant were documented, and compliance with those requirements was verified by interview, observation, and through our testing. We also reviewed financial trends of the program and interviewed authority personnel to obtain an understanding of the program and the internal controls. In order to achieve our objectives, we performed various tests and analyses, as we determined necessary. Annual allocations for film, digital media, studio partners, and film-lease production companies were reviewed, summarized, and projected according to current laws for informational purposes. Additional detail regarding our methodology and work performed can be

found in the Appendix, as well as in the finding section when testing resulted in a reportable condition.

A nonstatistical sampling approach was used. Our samples were designed to provide conclusions on our audit objectives, as well as internal controls and compliance. Sample populations were sorted, and transactions were judgmentally and randomly selected for testing. Because we used a nonstatistical sampling approach for our tests, we cannot project the results to the respective populations.

Data Reliability

We assessed the reliability of the NJEDA's Dynamics 365 customer relationship management data by performing electronic testing, reviewing existing information about the data and the system that produced them, analyzing the data, and interviewing authority officials knowledgeable about the data. We also reviewed certain general information system controls, including security management, change management, contingency planning, logical access security, and physical security and environmental controls. We determined that the data were sufficiently reliable for the purposes of this report.

Certain other data in our report were used to provide background information. Data used for this purpose were obtained from the best available sources. *Government Auditing Standards* does not require us to complete a data reliability assessment for data used for this purpose.

Conclusions

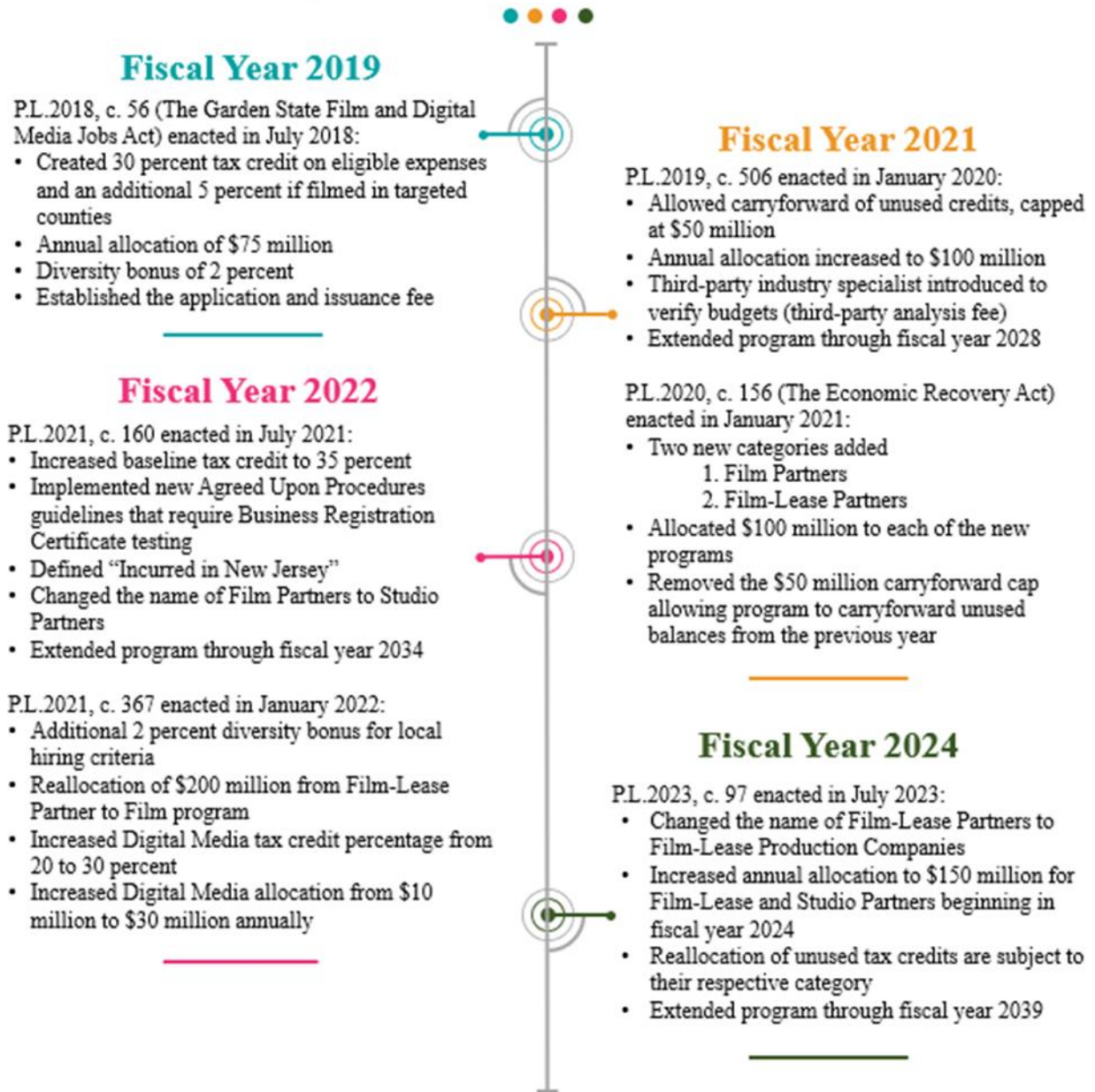
We found the NJEDA had adequate controls in place to approve eligible projects, monitor the program, and certify tax credits in compliance with internal requirements, applicable program criteria, and the laws governing the program. In making these determinations, we observed that legislation may be needed to increase the economic benefit the program provides the state. We also noted weaknesses relating to the expenditure certification process and fees collected to cover the program's administrative costs meriting management's attention.

Background

The New Jersey film tax credit program was first created in 2005 by P.L.2005, c. 345 and was ultimately reestablished by The Garden State Film and Digital Media Jobs Act (P.L.2018, c. 56), enacted in July 2018. The NJEDA administers the program, which provides a transferable credit against the corporation business tax and the gross income tax for qualified expenses incurred for the production of certain films and digital media content in the state. The goal of the program is to incentivize production companies to film and create digital media content in New Jersey. The program was significantly amended by the New Jersey Economic Recovery Act, P.L.2020, c. 156 and additional laws as follows:

Film and Digital Media Tax Credit Program

Requirements and Tax Credit Allocations



To be eligible for the program, the film or digital media content must meet various criteria established by law. A film project must be:

1. a feature film, a television series, or a television show of 22 minutes or more in length, intended for a national viewing audience; or

2. a television series or television show of 22 minutes or more in length intended for a national or regional audience, including, but not limited to, a game show, award show, or other gala event filmed and produced at a nonprofit arts and cultural venue receiving state funding.

In addition, principal photography of the film must commence within 180 days from the date of application for the tax credit. The film must also meet one of the two following criteria:

1. At least 60 percent of the total film production expenses (exclusive of post-production costs) must be incurred for services and goods purchased through vendors authorized to do business in New Jersey; or
2. Qualified film production expenses (expenses incurred in New Jersey for the production of a film) must exceed one million dollars per production for goods and services purchased through vendors authorized to do business in New Jersey.

For digital media content to be eligible for the program, the production must meet both eligibility requirements below:

1. At least two million dollars of the total digital media production expenses must be incurred for services performed and goods purchased through vendors authorized to do business in New Jersey; and
2. Fifty percent or more of the qualified digital media production expenses must be incurred for wages and salaries paid to full-time employees in New Jersey.

Tax credits are based on the qualified expenses incurred in New Jersey. For film, tax credits are currently 35 percent of qualified expenses, with the tax credit reduced to 30 percent for goods and services incurred for use within a 30-mile radius of Columbus Circle, New York City. Expenses for advertising, promotional materials, and wages in excess of \$500,000 per person are not eligible under the program. For digital media projects, the credit is 30 percent of qualified expenses, with an increase to 35 percent for goods and services incurred through vendors authorized to conduct business in New Jersey and have a primary business location in one of eight select counties: Atlantic, Burlington, Camden, Cape May, Cumberland, Gloucester, Mercer, or Salem.



For both film and digital media projects, there is an available bonus of two percent for productions that exhibit satisfactory evidence of a commitment to prioritizing the hiring of minority and women employees across all levels of the production. Eligible productions that make additional commitments for hiring certain local on-screen talent who are women or members of a minority group may receive an additional two percent bonus.

To encourage the development of large, long-term studio facilities, two additional and separate allocation designations were created by law and are currently known as: studio partners and film-lease production companies. A studio partner is a designated film studio or production company that has made a commitment to produce films or commercial audiovisual products in New Jersey and has site control of a production facility of at least 250,000 square feet for a minimum of 10 years. A film-lease production company is a production company who commits to occupy production space within a designated film-lease partner facility. The company will shoot at least 50 percent of their project within New Jersey and shoot at least 50 percent of its days at the film-lease partner facility. A film-lease partner facility is a production facility in New Jersey of at least 250,000 square feet whose owner or developer has made the commitment to build, lease, or operate for a period of five or more successive years.

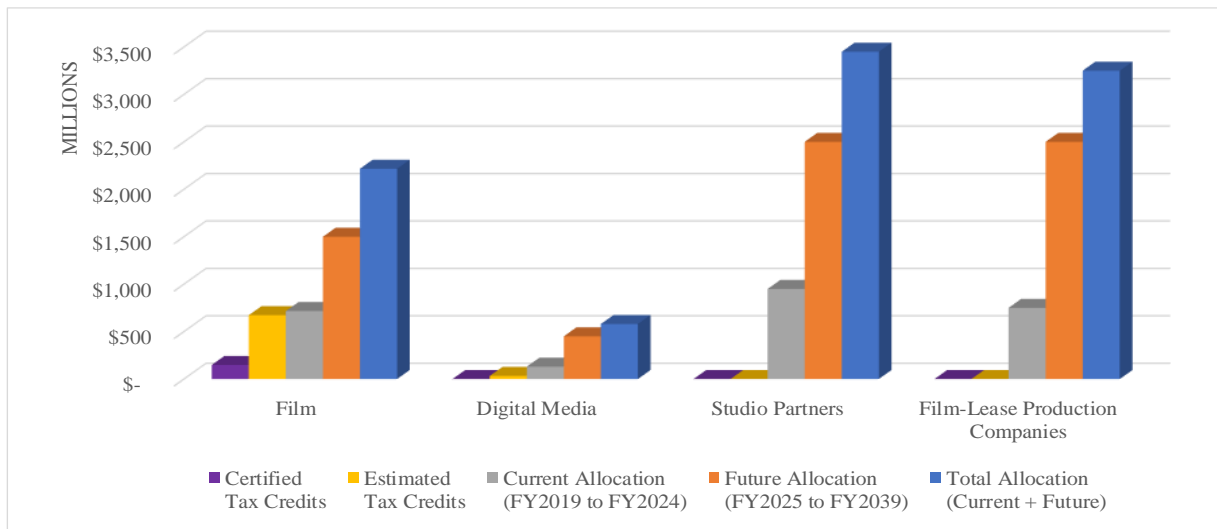
Current annual tax credit allocations for each designation are as follows:

Film	\$100,000,000	
Digital Media	30,000,000	
Film-Lease Production Companies	150,000,000	
Studio Partners	150,000,000	
TOTAL	\$430,000,000	

Recent statutes have extended the program at its current allocation amounts through fiscal year 2039. The total (current and future) allocation of the program for each of the four designations is as follows:

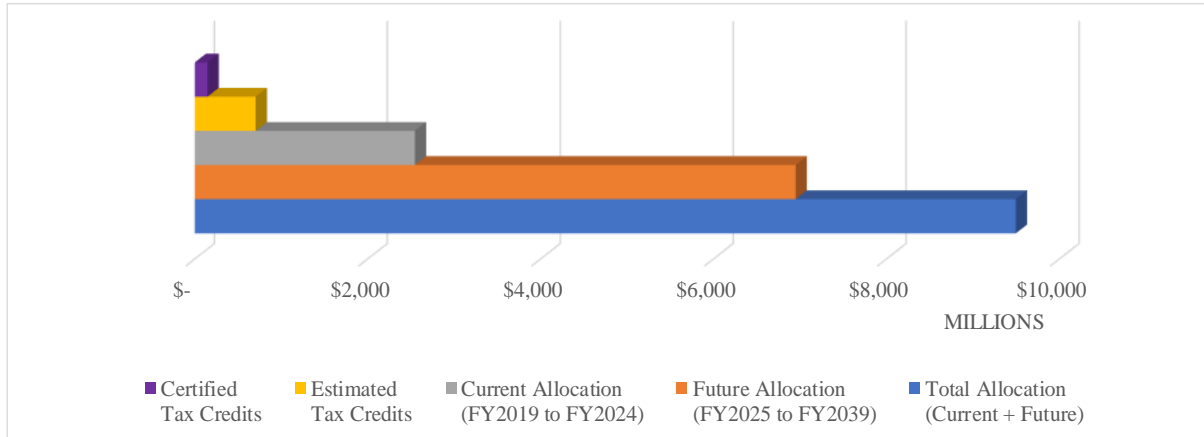
Film and Digital Media Tax Credit Program Allocation, by Designation

As of December 31, 2023



Film and Digital Media Tax Credit Program Total Program Allocation

As of December 31, 2023



Designation	Total Allocation (Current + Future)	Future Allocation (FY2025 to FY2039)	Current Allocation (FY2019 to FY2024)	Estimated Tax Credits	Certified Tax Credits
Film	\$ 2,216,170,517	\$ 1,500,000,000	\$ 716,170,517	\$ 672,498,833	\$ 147,237,255
Digital Media	580,000,000	450,000,000	130,000,000	32,400,397	-
Studio Partners	3,450,000,000	2,500,000,000	950,000,000	-	-
Film-Lease Production Companies	3,250,000,000	2,500,000,000	750,000,000	-	-
Total Program Allocation	\$ 9,496,170,517	\$ 6,950,000,000	\$ 2,546,170,517	\$ 704,899,230	\$ 147,237,255

From when the program was reestablished in July 2018 and through December 31, 2023, the authority has approved applications for 145 film projects (excluding those withdrawn) with total estimated tax credits of \$672.5 million and six digital media projects with estimated tax credits totaling \$32.4 million. However, the authority has yet to award a film-lease production company designation and awarded its only studio partners designation in fiscal year 2023.

Tax credits are awarded after a project's qualified expenses are reviewed by a Certified Public Accountant (CPA). The applicant works directly with the CPA, who is responsible for making sure the project's expenses meet the criteria of the program by completing agreed upon procedures developed by the authority. There have been 41 certified film projects, with certified tax credits totaling \$147.2 million; however, the authority has not certified any of the six digital media tax credits as of December 31, 2023.

Tax credits generated through the program can be used to offset the applicant's corporation business tax or gross income tax. Similar to many of the authority's other tax credit programs, the tax credit can be transferred to another taxpayer, in whole or in part, for no less than 75 percent of the transferred tax credit amount. Of the 41 certified film projects, 30 projects have sold \$80.9 million of credits for an average of 93 cents per tax credit dollar. Almost half of the credits sold, \$38.8 million, were purchased by a single major corporation.

Observation

Film and Digital Media Tax Credit Program

The Film and Digital Media Tax Credit Program (program) provides transferable credits against the corporation business tax and the gross income tax for qualified film production expenses (qualified expenses) incurred for the production of certain film and digital media content in New Jersey.

Fiscal Benefit

The program's goal is to incentivize the creation of film and digital media content in the state; however, there is no requirement for a cost-benefit analysis.

Despite originating from the Garden State Film and Digital Media Jobs Act, the program is not designed to boost the state's economy or provide jobs. Rather, the program's goal is to incentivize production companies to film and create digital media content in the state, which *may* provide jobs and have a positive effect on the economy. Contrary to other NJEDA programs, laws governing the program do not require the authority to perform a cost-benefit analysis to determine the net fiscal benefit to the state.

Program Allocation and Carryforward

Program allocations could exceed \$9 billion through fiscal year 2039.

Through fiscal year 2024, the program has allocated \$2.5 billion in available tax credits for film, digital media, film-lease production companies, and studio partners designations and is currently projected to allocate at least \$430 million per year through fiscal year 2039. In accordance with the law, the authority reallocated \$200 million from the film-lease production companies designation to the film designation in fiscal year 2023 and reallocated \$250 million from other authority incentive programs to studio partners and film-lease production companies during each fiscal year 2023, 2024, and 2025. This provided the authority with the ability to approve film projects totaling \$265 million in fiscal year 2023. Additionally, the law allows the authority to increase available credits annually for film-lease production companies and studio partners by \$250 million and \$400 million, respectively. The authority has not yet exercised this option because few projects have been approved for these designations.

Based on current legislation, the table on the following page summarizes current and future allocations through fiscal year 2039:

Film and Digital Media Tax Credit Program Allocation

Allocation	Film	Digital Media	Film-Lease Production Companies	Studio Partners	Total
Current	\$ 800,000,000	\$ 140,000,000	\$ 750,000,000	\$ 950,000,000	\$ 2,640,000,000
Forfeited	(83,829,483)	(10,000,000)	-	-	(93,829,483)
Total	716,170,517	130,000,000	750,000,000	950,000,000	2,546,170,517
Future	1,500,000,000	450,000,000	2,500,000,000	2,500,000,000	6,950,000,000
Total	\$ 2,216,170,517	\$ 580,000,000	\$ 3,250,000,000	\$ 3,450,000,000	\$ 9,496,170,517

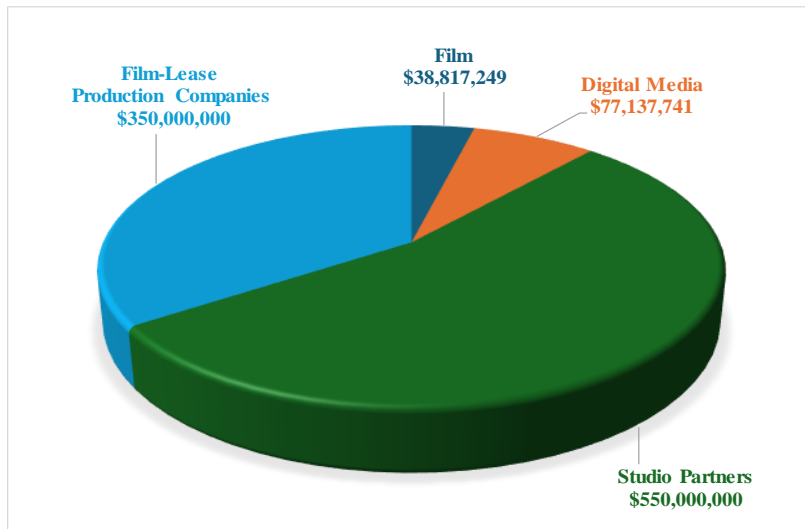
Current Allocation includes fiscal years 2019 through 2024

Future Allocation includes fiscal years 2025 through 2039

Since 2020, the law has allowed the program to carry forward unused tax credit allocations, initially with a \$50 million cap. Current legislation provides for an unlimited carryforward in each of the program’s four designations. The authority’s carryforward was over \$1 billion from fiscal year 2023 to fiscal year 2024.

Film and Digital Media Tax Credit Program

Fiscal Year 2023 Carryforward, by Designation



As a result of the growing amount of unused allocations and unlimited carryforward of those amounts, there is potentially more than \$9 billion in tax credits that could have an impact on state revenue, depending on the timing of their approval, certification, and amount claimed through fiscal year 2039.

Limited Designation Activity

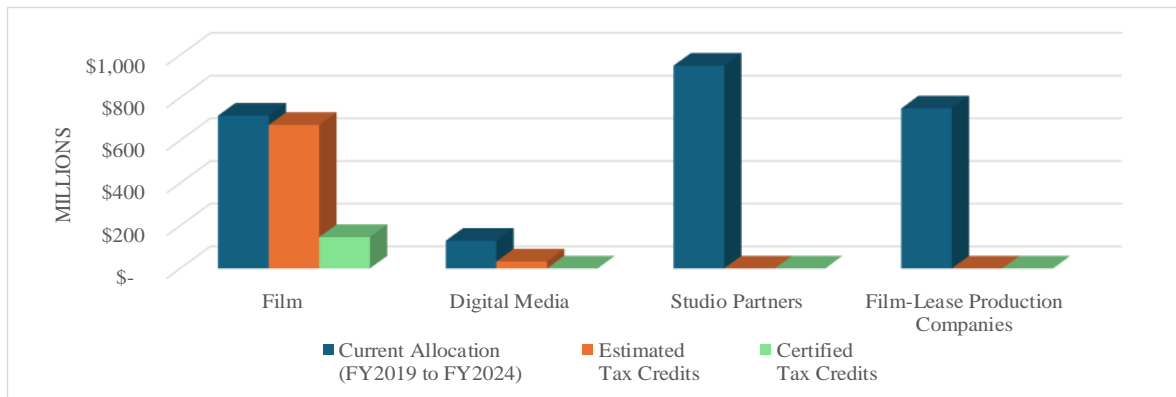
Digital media, film-lease production companies, and studio partners designations have seen limited or no activity.

While the film tax credit program remains active, with 145 approved projects for an estimated \$672.5 million in tax credits since the program was reestablished, the digital media, film-lease production companies, and studio partners designations have not seen much activity. There have only been six digital media projects approved totaling \$32.4 million, and no credits have been certified during the last five years. The authority awarded its only studio partner designation in fiscal year 2023, and the authority has yet to award a film-lease production company designation.

Film and Digital Media Tax Credit Program

Program Activity, by Designation

As of December 31, 2023



Despite the lack of activity within the digital media, studio partners, and film-lease production companies designations, annual allocations are projected to continue through fiscal year 2039. The rate of approved estimated tax credits is not consistent with the annual allocation amounts.

Project Certification Rate

The certification rate is not congruent with the approval rate for film and digital media projects.

The program has seen a significant increase in estimated tax credits for film and digital media projects since it was reestablished in July 2018. However, the rate of certification for these designations is not congruent with the rate of approved projects. Production companies wishing to join the program may apply at various points of their project: before, during, or after production is complete. Once an application is approved, factors such as the amount of time to film, post-production timeframes, and the amount of time the certified public accountant takes to complete

the agreed upon procedures (AUP) report can all affect a project’s timeline within the program. A schedule of estimated and certified projects (film and digital media combined) by fiscal year is provided below:

Film and Digital Media Tax Credit Program

Estimated vs. Certified Film and Digital Media Projects

Fiscal Year	Estimated		Certified		MILLIONS
	Count	Total	Count	Total	
2019	1	\$ 2,420,661	-	\$ -	
2020	11	59,842,799	-	-	
2021	21	57,862,407	2	603,988	
2022	38	202,873,038	4	7,396,799	
2023	57	282,366,568	20	79,220,093	
2024 *	23	99,533,757	15	60,016,375	
Total	151	\$ 704,899,230	41	\$ 147,237,255	

*as of December 31, 2023

If all estimated tax credits are certified within a specific tax year, the state could be subject to a substantial unexpected reduction of corporation business tax and gross income tax revenue.

Out-of-State Expenses

Statutes allow out-of-state expenses to be included in the tax credit calculation.

Statutes governing the program require qualified expenses to be, among other things, incurred in New Jersey. The law defines “Incurred in New Jersey” as a service performed within New Jersey or a tangible property purchased from a vendor authorized to do business in New Jersey and used or consumed in New Jersey. The law allows out-of-state expenses to be included in the tax credit calculation as long as the vendor is authorized to do business and the product is used or consumed in the state.

We requested and obtained expenditure documentation from the production companies for four judgmentally selected film projects with certified tax credits. Our sample selection was based on the CPA performing the AUP review and the certified tax credit amount. From the documentation received, we concluded that 60 percent of the qualified expenses (\$15 million) were purchased from out-of-state vendors.

When out-of-state expenses are used toward the credit, the state incurs a loss of tax revenue without receiving the associated economic benefit. The state could see a greater economic impact by incentivizing film production expenses originating from New Jersey vendors and reducing incentives for out-of-state purchases. In addition, the New Jersey Motion Picture and Television Commission, recently reorganized within the authority, maintains a production services directory that lists New Jersey vendors who cater to the film, television, and digital media industry.

Providing this list to applicants during the approval process could increase the usage of state vendors.



Findings

CPA Expenditure Certifications

The authority should enhance its monitoring of the tax credit certification process.

The Film and Digital Media Tax Credit Program provides transferable credits against the corporation business tax and the gross income tax for qualified film production expenses (qualified expenses) incurred for the production of certain film and digital media content in New Jersey. The program regulations include requirements for expenses to be incurred in New Jersey and reviewed by an independent third-party CPA. The law defines “Incurred in New Jersey” as a service performed within New Jersey or a tangible property purchased from a vendor authorized to do business in New Jersey and is used or consumed in New Jersey. Additionally, independent CPA reports are completed based on the AUP derived by the authority.

Business Registration Certificates

Pursuant to the law, vendors must be authorized to do business in New Jersey, which is verified as part of the AUP review. Upon receipt of the AUP report, the authority tests 10 percent of vendors to ensure they are registered to do business in New Jersey. The authority verifies there is an active New Jersey business registration certificate (BRC) using the Division of Revenue and Enterprise Services’ (DORES) online inquiry.

We judgmentally selected 125 vendors from 13 certified projects to determine whether each vendor had a BRC. Our sample selection was based on the qualified expense amount and vendor location. Using the DORES online search engine, we found certificates for 95 of these vendors. The remaining 30 vendors were not currently registered to do business with the state; however, they could have had an active certificate at the time the project was certified. Because only currently registered businesses are included in the online search results, we contacted DORES to perform a historical match on our sample of 125 vendors based on name, EIN or Tax ID, and the date the project was certified. DORES identified 34 instances (27.2 percent) where the vendor did not have a BRC on the date of certification. In 23 cases, DORES had no record of ever receiving a business registration application based on the information provided. We were able to quantify expenses for 25 of the 34 vendors, noting \$1.5 million purchased through vendors not authorized to do business with New Jersey; these expenses should not have been included within the projects’ tax credit calculations.

Agreed Upon Procedures

An AUP review is an attestation engagement in which specific procedures are performed on subject matter and findings are reported without providing an opinion or conclusion. Currently, production companies are responsible for selecting the CPA that will complete the AUP review and make sure the project's expenses meet the criteria of the program. The applicant works directly with the selected CPA and sends detailed support of production expenses to the CPA for certification. As of December 31, 2023, we noted that three CPA firms were used for 35 of the 41 film project certifications accounting for 95.9 percent of the awarded tax credits. One of these firms certified expenses for 20 projects accounting for 60.9 percent of the awarded tax credits. The authority relies almost exclusively on the CPA firm's expertise and the resulting AUP report to certify the project's tax credit amount; therefore, the authority documents only summary expenditure information on its internal systems.

Requiring third-party CPA reviews does not diminish the need for the authority to review certified project expenses. The NJEDA should have more oversight of the tax credit certification process by regulating CPA selection and performing a detailed review of the completed AUP reports. Our review of another state's investigation disclosed fraudulent expenditures submitted by a production company that switched CPA firms. The first firm disallowed certain expenses; however, the second firm allowed them and only the second review was submitted to the regulatory agency. Additionally, another state, following an audit of its film tax credit program, established a list of eligible third-party CPA firms that had completed training and were certified by that state's revenue department to complete film tax credit reviews. That state currently has twelve firms included on the list, and all of them have a primary address within that state. It should be noted that two of the CPAs included on the other state's list were responsible for reviewing the majority, 75.7 percent, of New Jersey's certified tax credits. Using firms based in New Jersey to conduct AUP reviews could also further the economic impact of the program.

The authority does not have right-to-audit agreements with the CPA firms and therefore cannot request any detailed expense information from them. However, the authority does have the right to request expense information from the applicant as described in the approval letter for program participation. No requests for expense information were made until our requests during the audit. We requested the authority obtain from the applicant the detailed support documentation sent to the CPA for four judgmentally selected film projects with certified tax credits. One applicant took more than four months to provide the requested information, and none of the sets of support documentation we received from the four applicants contained adequate information to clearly support the expenses reported in their respective AUP report.

Reviewing a limited number of certified expenses and resulting tax credit calculations would allow the NJEDA to better verify the work of the CPA firms and ensure it acquires and maintains expertise in the film and digital media production industry. This practice could also further deter ineligible expenses. During our fieldwork, the authority established agreed upon procedures and contracted with a CPA firm to review select certified projects and ensure their expenses met the criteria of the program. Going forward, this review will be completed after the AUP report is

issued by the CPA firm selected by the production company and should eliminate the authority's need for an increased internal review process.

Recommendation

We recommend the authority establish procedures to enhance its monitoring of the tax credit certification process. The authority should also develop a process to ensure all qualified expenses are purchased through vendors authorized to do business with New Jersey.



Program Fees

Fees collected have not covered the program's administrative costs.

The authority has developed a model to compare fees received to the costs incurred by the authority in the administration of specific programs. The model inputs include staff and their estimated time working on a specific program, and it allocates general, administrative, and overhead expenses to produce a program's cost estimate over a specific time period. This estimate is then compared to fees received over that same time period. After we inquired about program fees, the authority applied the model to the program, and it was determined that fee revenue (\$475,768) covered only 69.9% of administrative costs (\$680,181) in 2022. The authority has proposed new rules to modify the fee structure for the program, which were approved by the authority's board in February 2024. If implemented, the new rules would replace the existing fee structure, and the program's fees would be expected to cover the program's administrative costs.

Recommendation

We recommend the authority work towards implementing the new fee structure, and once implemented, continue to periodically apply the revenue model to ensure program fees cover the administrative costs of the program.



Appendix

Methodologies to Achieve Audit Objectives

To determine whether the NJEDA had approved film and digital media projects in excess of annual allocations, we analyzed the authority's tax credit tracking spreadsheets for fiscal years 2019 through 2024. This included a review of applicable annual carry-forward amounts.

To determine whether projects were eligible for the program and correct percentages were used when calculating the applicant's tax credit amount, we randomly sampled 26 approved film and digital media projects totaling \$141.6 million from a population of 115 approved projects totaling \$536.7 million for testing.

To determine whether projects met all program eligibility requirements and correct percentages were used when calculating the applicant's tax credit amount, we randomly sampled 13 certified projects totaling \$48.3 million from a population of 26 certified projects totaling \$87.2 million for testing. We also tested all 41 certified projects to determine whether the certified tax credit was equal to or less than the project's estimated tax credit upon program approval.

To determine if CPA firms completing the AUP reviews were registered with the state, we used the CRM system to research and determine which CPA firm performed the audit for each of the 41 certified projects.

To determine if tax credits were sold in accordance with program regulations and transfer fees were collected, we reviewed all 30 projects with a transferred credit.

To determine if fees, including the application fee, third-party analysis fee, and issuance fee, were calculated correctly and collected, we randomly selected 26 approved film and digital media projects totaling \$116 million from a population of 141 projects totaling \$624 million for testing.

To determine if certain application-level general controls were adequate for the customer relationship management and enable information systems, we performed testing of security management, change management, contingency planning, logical access security, and physical security and environmental controls.





August 26, 2024

Brian M. Klingele, Assistant State Auditor
Office of the State Auditor
Office of Legislative Services
P.O. Box 067
Trenton, NJ 08625-0067

RE: Audit Report of the New Jersey Economic Development Authority (NJEDA/Authority), Film and Digital Media Tax Credit Program

Dear Mr. Klingele:

I have received and reviewed the August 8, 2024 Film and Digital Media Tax Credit Program audit report provided by your office and am providing the following response for inclusion in the final report. We thank you and your staff for recognizing NJEDA has adequate controls in place to successfully administer this program and providing feedback that will help us continue to improve.

The below comments and updates are based upon our review of the audit report.

CPA Expenditure Certification:

As stated in the report, during the audit fieldwork the Authority established agreed upon procedures (AUP) and contracted with a CPA firm to review select certified projects and ensure their expenses met the criteria of the program. Going forward, this review will be completed after the AUP report is issued by the CPA firm selected by the production company and should eliminate the Authority's need for an increased internal review process.

The Authority agrees with the assessment that the use of an independent third-party auditor reduces the need for additional verification steps. This approach ensures the integrity and accuracy of our procedures, while also fostering transparency and accountability. The independent third-party will be responsible to sample the expenses as detailed in N.J.S.A. 54:10A-5.39b to ensure all eligible expenses as detailed in the regulations are accurately reflected and included in the tax credit verification documentation.

Additionally in response to your findings, the Authority is committed to further strengthening our oversight by implementing the following measures:

- A. **Training for CPA Firms:** We will conduct semi-annual training sessions for CPA firms to ensure that the AUP they perform align with NJEDA standards. These trainings will provide detailed guidance on the statutory requirements of the program, helping firms stay informed and compliant, including but not limited to, identifying only allowable expenses to be included in the certification documentation.

- B. Publication of Trained CPA Firms:** To promote transparency, we will publish a list of all CPA firms that attend these training sessions on the NJEDA website. This list will be regularly updated to reflect the most current information.
- C. Direct Engagement with CPA Firms:** In the event our independent auditor reviews uncover issues with specific CPA firms, the NJEDA will work directly with those firms to address any deficiencies. The Authority will ensure these firms are up to date on all statutory requirements and provide the necessary support to help them meet the program's standards.

We believe these steps will enhance the effectiveness of our audit processes and ensure the NJEDA continues to uphold the highest standards of financial management and accountability.

Program Fees:

The report noted that the Authority has proposed new rules to modify the fee structure for the program and recommends the Authority “work towards implementing the new fee structure, and once implemented, continue to periodically apply the revenue model to ensure program fees cover the administrative costs of the program.”

The Authority has already identified cost savings through administrative efficiencies and will continue to periodically monitor fee revenue as compared to administrative costs to ensure fees adequately meet the administrative costs of the program. Additionally, the Authority is currently reviewing public feedback on the rules, which were approved by NJEDA’s Board in February 2024 for special adoption and will expire in February 2025.

Update of Approvals (Post audit scope):

The audit report noted that the Authority awarded one studio partner designation in fiscal year 2023. The audit covered the period July 1, 2020 to December 1, 2023. As of August 15, 2024, the Authority has made two Studio Partner designations and one Film-lease Partner Facility designations. The NJEDA has awarded over \$84.4 million in tax credits across 12 approvals in the Digital Media Tax Credit Program, and over \$779.3 million in tax credits across 177 approvals in the Film Tax Credit Program. Additionally, there have been over \$231.9 million in tax credits issued across 72 certified projects.

Economic Impact:

On August 15, 2024, the Authority awarded a contract to a third-party vendor to perform an independent evaluation of the economic impacts of the New Jersey Film and Digital Media Tax Credit Program. The study will specifically compare the economic activity across the film industry within New Jersey focusing on two years. The analysis will look at 2019, a year when the program was newly rolling out and had limited activity, compared to 2022, a year with increased film activity coming out of the pandemic and was before any industry wide impacts from film industry worker

strikes in 2023. The report will provide a return-on-investment calculation of the program based on the gross value added to the state's economy including any direct, indirect and induced job creation within the industry. The report is expected to be completed before the end of 2024.

If you need any additional information, or have any questions regarding our response, please let me know.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Tim Sullivan', with a long horizontal flourish extending to the right.

Tim Sullivan
Chief Executive Officer