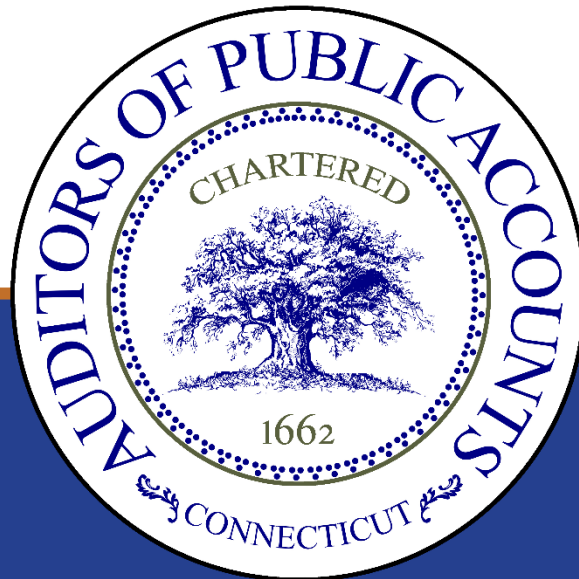


AUDITORS' REPORT

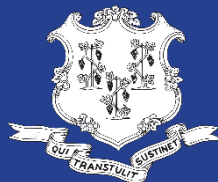
PERFORMANCE AUDIT COMPLIANCE REPORT

Administration of the Department of Economic and Community Development's Media Tax Credits (Follow-Up Report) As of August 2026



STATE OF CONNECTICUT
Auditors of Public Accounts

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INTRODUCTION

Background

Our office published the [Administration of the Department of Economic and Community Development's Media Tax Credits](#) performance audit on January 10, 2024.

At the time of the original audit, the [Department of Economic and Community Development \(DECD\)](#) administered three tax credits intended to incentivize private spending in film, digital media, and related infrastructure projects. These credits were the:

- [Film, Television, and Digital Media Tax Credit](#)
- [Digital Animation Production Company Tax Credit](#) (repealed in 2025)
- [Film Infrastructure Tax Credit](#).

Film, Television, and Digital Media Tax Credit

This credit is available for productions with at least \$100,000 in Connecticut expenditures. The percentage of total production expenses eligible for credit is based on the following thresholds:

Production Expenses	Potential Tax Credit
\$100,000 – \$500,000	10%
\$500,001 – \$1,000,000	15%
More than \$1,000,000	30%

To qualify, production companies must meet one of the following requirements: conduct at least 50% of principal photography in Connecticut, expend at least 50% of postproduction costs in the state, or incur at least \$1 million in in-state postproduction costs. Before the 2024 income year, production companies that received a credit could sell or transfer up to 78% of the credit to another company. This percentage increased to 92% for the income years 2024 and 2025.

Digital Animation Production Company Tax Credit

This credit applied to companies engaged in digital animation production in Connecticut. Spending thresholds and credit percentages mirrored those of the Film, Television, and Digital Media Tax Credit. Eligible companies were required to maintain studio facilities in Connecticut and employ at least 200 full-time Connecticut employees. Public Act 25-168, Sections 63 through 66, repealed this credit effective June 30, 2025.

Film Infrastructure Tax Credit

This credit offers a 20% tax credit to taxpayers who invest at least \$3 million in capital projects providing buildings, facilities, or installations that support digital media and motion picture functions in Connecticut.

All three credits are nonrefundable but can be sold or otherwise transferred up to three times.

- The Film, Television, and Digital Media Tax Credit may be applied against the corporate business, insurance company, health care center, community antenna television system, one-way satellite

transmission, and sales and use taxes for the income year in which the production expenses were incurred or during the following five income years.

- The Digital Animation Production Company Tax Credit and the Film Infrastructure Tax Credit may be applied to the corporate business, insurance company, and health care center taxes for the year in which the expenses were incurred or during the following three income years.

Follow Up

On March 27, 2026, we requested an update from the Department of Economic and Community Development on how it addressed the report's 13 recommendations.

The report's recommendations focused on strengthening internal controls related to credit administration and data collection; developing written policies and procedures; updating regulations, required documentation, and public-facing materials; reconciling credit vouchers; accurately collecting application fees and spending associated revenue consistent with statute; and ensuring compliance with relevant laws and regulations when administering the credits.

Highlighted Agency Accomplishments

Since the release of the audit, the Department of Economic and Community Development has been developing an online portal for media tax credit applications, which is expected to strengthen several administrative controls. DECD also successfully advocated for statutory changes. Public Act 25-165 made media credit application fees nonrefundable, exempted interactive websites from certain production thresholds, and allowed statutory deadlines to begin after the completion of required independent audits of credit applicants. Public Act 26-68, Sections 223 and 268, extended the 92% credit redemption rate for two additional tax years. Section 275 allowed production companies eligible for the existing credits to apply for an additional credit if they shoot principal photography in Bridgeport, New Haven, or Hartford.

The Department of Economic and Community Development appears to have partially or fully implemented 77% of our audit recommendations. This information is solely based upon the department's responses to our update request and may be verified during our next departmental audit.

AGENCY UPDATES

Finding Area 1

Lack of Segregation of Duties - Administration of the Media Credits

Recommendation 1

The Department of Economic and Community Development should segregate key aspects of media credit administration. If such segregation is not possible, the department should develop a formalized management review process using reliable records and information.

Status

IMPLEMENTED

DECD provided policies and procedures that outline segregation of duties in the credit administration process.

Agency Update

"Segregation of duties does exist throughout phases of the process (intake/administration/approval). Process/procedures document has been developed."

Finding Area 2

DECD has not Developed Written Media Credit Administration Policies and Procedures

Recommendation 2

The Department of Economic and Community Development should develop written policies and procedures to administer its media credits and should prioritize policies and procedures promoting internal control to ensure statutory and regulatory compliance.

Status

PARTIALLY IMPLEMENTED

DECD provided our office with a written document describing the media tax credit process. The document outlines clear procedures for reviewing and processing credit applications. However, it does

not appear to establish formal written policies related to the administration of the credit.

Agency Update

"Per #1, process/procedure document has been developed."

Finding Area 3

DECD did not Reconcile Claimed and Issued Transfer Vouchers

Recommendation 3

The Department of Economic and Community Development should enter an agreement with the Department of Revenue Services to obtain data necessary for reconciliation of individual credit vouchers with state tax credits. The department should develop a prompt and accurate reconciliation procedure.

Status

NOT IMPLEMENTED

DECD stated that it has not established a formal agreement with the Department of Revenue Services (DRS) to obtain voucher reconciliation data. In subsequent correspondence, DECD confirmed that it does not have written policies or procedures that outline internal controls for credit administration.

Agency Update

"A formal agreement has not been entered into with DRS. However, there is open communication between the two agencies, with DECD sharing tax credit data twice yearly."

Finding Area 4

DECD Lacks Reliable Data to Establish and Monitor Control Activities over Media Credit Administration

Recommendation 4

The Department of Economic and Community Development should obtain information necessary to improve its control activities. The department should revise its processes to ensure it generates reliable data, which may include the creation of an on-line application system.

Status**PARTIALLY IMPLEMENTED**

DECD is developing an online application portal, and its procedures document outlines some recordkeeping controls. However, the department did not provide additional details regarding improvements to its internal data reliability processes.

Agency Update

"Refer to process/procedure document. DECD is in the process of an online application system to improve the capture of data. It is anticipated that the online application complete with electronic payments will be available during calendar year 2026 (subject to resource constraints)."

Finding Area 5**DECD has not Updated its Media Credit Regulations****Recommendation 5**

The Department of Economic and Community Development should update its regulations to reflect statutory changes and establish a process to ensure regulations are promptly updated.

Status**NOT IMPLEMENTED**

DECD informed us it has not updated the regulations.

Agency Update

"DECD has not updated its regulations."

Finding Area 6**DECD did not Consistently Provide Accurate, Quality Media Credit Information to Applicants and Stakeholders****Recommendation 6**

The Department of Economic and Community Development should update its website, forms, and policies to reflect statutory, regulatory, and other media credit changes. The department should establish a process to ensure it promptly updates public information.

Status**PARTIALLY IMPLEMENTED**

The DECD update states the department corrected some of the errors that our initial audit identified in publicly available credit information. However, our review revealed the credit webpages and linked PDF applications still contain multiple errors. The procedures document provided to our office does not outline controls to ensure the accuracy of public information.

Agency Update

"Refer to process/procedure document. DECD has updated its website and online forms. It is also in the process of creating an online application system."

Finding Area 7**DECD did not Collect Accurate Media Credit Application Fees****Recommendation 7**

The Department of Economic and Community Development should develop internal controls to ensure it consistently and correctly collects media credit fees. The department should document a clear record of applications and related receipts.

Status**PARTIALLY IMPLEMENTED**

DECD informed us that it does not have formal controls to ensure the accurate collection of credit fees. However, the procedures document includes controls over check recordkeeping. The department stated that the planned online application portal is expected to address this issue by ensuring it accurately collects fees.

Agency Update

"Process/procedures have been established and documented. While there are presently no formal controls listed, the process/procedures have control activities baked in which address the collection of media credit fees. The establishment of the online portal application/payment processing will formalize the fee collection process."

Finding Area 8

DECD's Spending of Revenue from Media Credits Fees did not Conform with Statutes

Recommendation 8

The Department of Economic and Community Development should expend all application fee revenue to review associated applications or seek legislation to allow fees to be used for general Office of Film, Television, and Digital Media operational costs.

Status

NOT IMPLEMENTED

The DECD response and subsequent correspondence with our office referenced statutory language updated by Public Act 25-165. While the act made the administrative fee nonrefundable, it did not modify the statute to permit the use of these fees for general operational costs.

Section 12-217jj(h)(3), as amended by PA 25-165, did not provide authority for DECD to cover its operational costs, only an "administrative fee sufficient to cover the department's costs to analyze applications."

Agency Update

"Legislation was updated with broader language around fee usage. CGS 12-217jj(h)(3) states 'The department shall charge a reasonable administrative fee sufficient to cover the department's costs to analyze applications submitted under this section.'"

Finding Area 9

DECD Accepted Incomplete External Audit Reports when Processing Media Credit Applications

Recommendation 9

The Department of Economic and Community Development should develop internal controls to ensure all applicant audits include items and notes required by its instructions. The department should update its instructions if necessary.

Status**PARTIALLY IMPLEMENTED**

DECD informed us that it does not have formal controls to ensure it collects complete external audit reports. The DECD internal procedures document requires it to review the independent audit to reconcile applicant documents. However, it is unclear how those procedures will ensure that the independent audit report includes all necessary items and notes.

Agency Update

"Process/procedures have been established and documented. While there are presently no formal controls listed, the process/procedures have control activities baked in which address the requirements of third-party audits. The implementation of the online portal application will disallow submissions with missing documents."

Finding Area 10**DECD did not Consistently Collect all Required Statutory, Regulatory, or Administrative Media Credit Application Information****Recommendation 10**

The Department of Economic and Community Development should establish sufficient controls to ensure it collects all required information and documentation during the media credit application process. Additionally, the department should revise its forms to provide fields for all required information.

If certain documentation or information is no longer relevant to the application review process, or to satisfying statutory requirements, DECD should amend the regulations to eliminate the requirements.

Status**PARTIALLY IMPLEMENTED**

DECD informed us that it does not have formal controls to ensure it collects all required information from applicants. However, the department's internal procedures document requires it to compare application materials to the Required Information Checklist and follow up if certain documents are missing. DECD stated that it expects the planned online application portal to address this issue by ensuring submissions include all required information.

Agency Update

"Process/procedures have been established and documented. While there are presently no formal controls listed, the process/procedures have control activities baked in which address the concern of all required applicant information being collected. The implementation of the online portal application will disallow submissions with missing documents."

Finding Area 11**DECD Issued Credits to Projects that did not Meet Statutory Production Thresholds****Recommendation 11**

The Department of Economic and Community Development should seek legislation to amend Section 12-217jj(c) of the General Statutes to include interactive website productions.

Status**IMPLEMENTED**

DECD successfully advocated for statutory changes under Public Act 25-165 that exempt interactive websites from the production threshold requirements.

Agency Update

"The statute has been amended per [PA 25-165](#). Paragraph (a)(3)(A) of Section 12-217jj has been updated to include reference to interactive websites as part of the definition of a 'qualified production.' "

Finding Area 12**DECD did not Hold Voucher Applicants to the 90-Day Statutory and Regulatory Deadline****Recommendation 12**

The Department of Economic and Community Development should hold applicants to the statutorily required deadline or seek legislation to allow applicants more time to submit their voucher application.

Status**IMPLEMENTED**

DECD successfully advocated for statutory changes under Public Act 25-165 that allow the 90-day voucher application window to begin after the completion of the independent certification. At the time of the audit, the timing of the application window was the primary reason DECD did not hold voucher applicants to the 90-day deadline.

Agency Update

"General Statutes have been updated to allow for a 90-day application window after the completion of the independent certification."

Finding Area 13**DECD Improperly Used Audit Expense to Establish the 90-Day Voucher Application Window****Recommendation 13**

The Department of Economic and Community Development should comply with Section 12-217jj(a)(5)(C) of the General Statutes and not allow audit costs to be considered a production expense for establishing the 90-day application window.

Status**IMPLEMENTED**

DECD successfully advocated for statutory changes under Public Act 25-165 that allow the 90-day voucher application window to begin after the completion of the independent certification.

Agency Update

"General Statutes have been updated to allow for a 90-day application window after the completion of the independent certification."