St Louis County Audit Guidelines

For a project to become eligible, an applicant applies to the Upper Midwest Film Office (UMFO) no more than 180 days prior to beginning principal photography, to obtain certification.

Upon completion of the project, the applicant commissions an audit performed by an independent certified public accountant (CPA) licensed in the state of Minnesota; the CPA will verify the amount of eligible production costs related to the project. The applicant then provides the audit to UMFO, and UMFO will determine the final rebate amount within 90 days and issue a cash rebate.

The audit must be performed in accordance with the attestation standards established by the American Institute of Certified Public Accounts (AT-C Section 205, Examination Engagements). The Upper Midwest Film Office and the rebate program origination (St Louis County) must be listed as a specified party in the engagement letter and specifically granted access to any work performed by the auditor. Audits that are not complete within 30 days of engagement should notify the program administrator of the delay.

The Examination Engagement subject matter and criteria are as follows:

    1. Subject Matter:
        a. A statement of eligible production costs directly related to this project; and
        b. Final Rebate Expenditure report and Certificate for Payment.
    2. Criteria:
        a. St Louis County resolution 21-48
        b. St Louis County Production Incentive guidelines, qualification and eligibility criteria published on Upper Midwest Film Office website; and
        d. Program checklist published on the Upper Midwest Film Office website; and
        e. Minnesota Wage Theft Prevention Act

The applicant is responsible for all costs associated with the audit. The applicant will submit the Audit Report and Final Production and Economic Report via email within 30 days of the audit report completion date. Questions regarding program or audit requirements should be directed to shari@uppermidwestfilmtv.org   218-349- 2982

Agreed Upon Procedures

The independent certified public accountant (CPA) licensed in the state of Minnesota CPA will perform the prescribed procedures. Any exceptions are to be listed as a finding in the CPA's report on applying agreed-upon procedures (AUP). The CPA must retain work papers related to performing the AUP for at least two years and St Louis County, at its own discretion, shall have the right to review the CPA's work.

Eligibility:

1) Read the statute(s) and compliance requirements of the St Louis County Production Rebate Program (https://uppermidwestfilmtv.org/incentives/), inclusive of Qualifications and Eligible Expenses

2) Obtain from the production company the following documents:

      a) Detailed cost ledger (e.g. Bible) of St Louis County Qualified Expenditures (SLCQE)

      b) Payroll summary and detail reports

      c) Final RER Report and Certificate for Payment

      d) Copy of initial application for the St Louis County Incentive Program

      e) Final Cast and Crew list including: job title, department, first name, last name, address, phone number, email address, and MN residency status

      f) Vendor list including: company name, physical address, business phone number, business web site address, and name of primary contact including phone number and email address.

      g) Location list including: location name, location physical address, name of primary contact including phone number and email address, whether a permit was required or not, number of days at location, and distinction if a fee was paid including the amount of compensation. When a location fee is paid also obtain a copy of signed contracts (if available).

3) Obtain the production reports, log, and call sheets and validate that principal photography began no later than the date outlined in the project certification. If the production company filed for an extension, obtain a copy of the approved filing. Report the actual date principal photography began and note the date an extension was approved.

Non-Payroll Expenditures:

1) Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which appear before the date of the project certification deduct any errors from the SLCQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.

2) Select a sample of vendors pursuant to Appendix A, excluding Purchasing Cards and Petty Cash, and confirm they are a St Louis County qualified company. A St Louis County qualified company is defined as a permanent business that has a physical address and is located in St Louis County, conducts business in St Louis County, and files a Minnesota tax return. Deduct any errors from the SLCQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.

3) Select non-payroll expenditures (AP, Purchasing Card, Petty Cash, etc.) from the SLCQE transactions in the detailed cost ledger, as per Appendix A. For each SLCQE selected in the sample, perform the following by agreeing the information to the supporting documents such as invoices, signed contracts, etc.:

   a) Inspect invoices, proof of payment (e.g., bank statements, check images, credit card statements and reimbursement checks, if applicable) or other equivalent documentation. Verify that expenditure amount is correct, date of invoice or receipt is correct, vendor is correct, and that the SLCQE was incurred and paid during the eligible period. Verify that all services incurred, goods purchased, and short-term leases are procured from a St Louis County qualified company.

   b) Verify that the expenditure was not associated with activities specifically excluded by the statute.

   c) Verify that the expenditure was not for in-kind services.

   d) Verify that the expenditure was recorded net of any refunds, insurance claims, credit notes received for discounts, rebates, invoicing errors, and purchase returns, as recorded in the SLCQE cost report.

   e) Verify that the expenditure was recorded net of proceeds from any sale of the production assets.

   f) Verify that the expenditure purchased or leased in St Louis County are pro-rated to reflect any usage out of the County.

   g) Verify that the expenditure was not incurred or paid prior to the date on which the project certification was issued.

4) For exceptions noted in the expenditure test in Non-payroll Expenditures procedure 3, for the sample identified in the Top Stratum of Appendix A, adjust the SLCQE for known errors noted during your testing.

5) For exceptions noted in the expenditures test in Non-payroll Expenditures procedure 3, for the sample identified in the Stratum 1 and Stratum 2 in Appendix A, adjust the SLCQE for known errors noted during your testing and project the misstatement results of the sample to all items from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total expenditure population from which the Stratum 1 and Stratum 2 sample was selected. Perform the following procedures based upon the results of the calculation of the projected misstatement:

    a) If the projected misstatement does not exceed 2% of SLCQE for Non-payroll Expenditures, document the projected misstatement in the Report. Do not make any adjustment to the SLCQE for a projected misstatement.

    b) If the projected misstatement exceeds 2% of SLCQE for Non-payroll Expenditures, select a second additional sample according to the sampling methodology noted in Appendix A for Stratum 1 and Stratum 2. Recalculate the projected misstatement for the second additional sample. If the projected misstatement for the second additional sample does not exceed 2%, document the projected misstatement in the Report. Do not make an adjustment to the SLCQE for a projected misstatement; however, do adjust the SLCQE for noted known errors. If the projected misstatement from the second sample selection exceeds 2% of SLCQE, adjust the SLCQE for the average of the two projected misstatements to the non-payroll population not sampled.

    c) Attach a listing of any exceptions noted in the expenditure test Non-payroll Expenditures procedure 3. The listing should include amount, date, vendor, and nature of discrepancy.

Payroll Expenditures:

1) Inspect the detailed cost ledger, Final Cast and Crew List, and Payroll ledgers to determine that only one non-resident Above the Line (ATL) producer and one non-resident ATL director and non-resident ATL talent was included in the SLCQE and that amounts are capped per guidelines. Deduct any errors from the SLCQE and remove them from the population to be sampled. Attach a list of any non-qualified costs found.

2) Sort the detailed cost ledger by invoice/ledger posting dates. Inspect the descriptions in the ledger for invoice/ledger posting dates which appear before the date of the Certification. Deduct any errors from the St Louis County Qualified Labor (SLCQL) and remove them from the population to be sampled. Attach a list of any non-qualified costs found.

3) Using payroll summary report(s) perform the following:

    a) If applicable, confirm that payroll handling fees are paid to a St Louis County qualified company.

4) Select payroll expenditures from the SLQCL transactions (total wages by employee) in the detailed cost ledger, as per Appendix A. For each SLCQL selected in the sample perform the following:

a) Compare the amount of the SLCQL in the detailed cost ledger for the individual with the payroll summary report. For any variances, determine if the cause is due to vacation pay, holiday pay, or equivalent reconciling items. Disqualify all salaries, wages, and fees included in the detailed cost ledger that are not included in the payroll summary report or any unknown variances.

b) Inspect payroll checks, check advices, and time cards, noting agreement of amounts, employee names, period dates, and confirm whether employee services were actually performed in St. Louis County per the time cards, daily call sheets, and records of employer withholding. Verify that wages or salaries were paid in agreement with the written notice required pursuant to the Minnesota Wage and Theft Prevention Act.

c) Confirm that the expenditure was not associated with activities specifically excluded by statute, program guidelines, or frequently asked questions.

d) Verify St Louis County residency status via a copy of a valid MN drivers license, ID card, voter registration card, I9 or equivalent document.

5) For amounts not paid through a payroll company, select a sample (total wages by individual) as per Appendix A, and obtain verification that amounts were paid for work performed in St Louis County by a St Louis County resident and withholding taxes were remitted timely. If applicable, verify the amounts were paid to a St Louis County qualified company.

6) For exceptions noted in the payroll test in Payroll Expenditure procedure 4, for the sample identified in the Top Stratum of Appendix A, adjust the SLCQL for known errors noted during your testing.

7) For exceptions noted in the payroll test in Payroll Expenditure procedure 4, for the sample identified in Stratum 1 in Appendix A, adjust the SLCQL for known errors noted during your testing and project the misstatement results of the sample to all items from which the sample was selected. For purposes of calculating the projected misstatement, divide the monetary amount of misstatement of the exceptions identified by the sample population total amount (rate of misstatement). Multiply this rate of misstatement to the total expenditure population from which the Stratum 1 sample was selected. Perform the following procedures based upon the results of the calculation of the projected misstatement:

a) If the projected misstatement does not exceed 2% of SLCQL, document the projected misstatement in the Report. Do not make adjustments to the ML for the projected misstatement.

b) If the projected misstatement exceeds 2% of SLCQL, select a second additional sample according to the sampling methodology noted in Appendix A for Stratum 1. Recalculate the projected misstatement for the second additional sample. If the projected misstatement for the second additional sample does not exceed 2%, document the projected misstatement in the Report. Do not make adjustments to the SLCQL for a projected misstatement; however, do adjust the SLCQL for noted known errors in this second sample. If the projected misstatement

from the second sample selection exceeds 2% of SLCQL, adjust the SLCQL for the average of the two projected misstatements to the population not sampled.

c) Attach a listing of any exceptions noted in the payroll test Payroll Expenditure procedure 4. The listing should include amount, person or entity, and nature of discrepancy.

Related Parties & Other Affiliations:

1) Obtain from the production company a schedule of all related party transactions for which the production company is including in the SLCQE. Related party is defined as common management or common ownership (owns, controls, or holds the power to vote 20% or more of the outstanding securities of the business, individually or combined with family members including siblings, spouse, ancestors and lineal descendants) in or affiliation with the Company. The schedule should include the type of relationship between the related parties, the nature, and amount of the transactions. If no related party transactions, make note of this in report.

2) Obtain a signed letter from the production company attesting that the applicant has properly disclosed all related parties and related party transactions and that the schedules produced in accordance with Related Parties & Other Affiliations procedure 1 are complete and accurate. This statement may be included in a representation letter. If not included in the representation letter, attach letter as Exhibit H in the report.

3) Obtain a signed letter from a production company representative stating that the applicant has properly disclosed all source of funds, including financial sources and non-monetary transactions that were included.

4) From the schedule obtained in Related Parties & Other Affiliations procedure 1, select a sample of related party transactions for testing. Select all transactions greater than $25,000. For transactions less than $25,000 randomly select a minimum of 10 transactions or 25% by dollar value, whichever is greater for testing. Perform the following procedures for each related party transaction selection:

a) For non-payroll expenditures:

i) Inspect studio rate cards or comparison bids obtained by the production company to determine that related party transactions did not exceed the highest rate/bid. In addition, inspect pass-through vendor invoices to determine no markup was added. Any expenditures above the highest rate/bid and/or which were marked up when passed through the related party must be noted and explained on the related party transaction schedule, see Related Parties & Other Affiliations procedure 1.

ii) Confirm that the expenditure is allowable as per Non-Payroll Expenditures procedure 3(a-g).

iii) Confirm that expenditures do not include finance fees, interest, or payments of a similar nature paid to related parties and/or investors in the production. (i.e., entities or parties that reap increased financial rewards based on sales, exploitation of the product, or the success in lining up distribution agreements.)

b) For wages paid to related parties:

     i) Confirm that the wage is allowable as per Payroll Expenditures procedures 3 and 4.

     ii) Compare rate of pay with applicable union rate or industry standard for position. If industry standard wages for type of position in relation to production type and budget levels are not explicit, contact program administrator.

5) Attach a schedule of all related party transactions obtained in Related Parties & Other Affiliations procedure 1. Note and explain any sampled transactions that did not have comparison bids, were above the higher rate/bid, and/or were marked up when passed through the related party.

Wrap Up Procedures:

1) Obtain an attestation from the production company that any qualified expenditure(s) included in insurance claims have been credited from the SLCQE. If the production company filed an insurance claim and received funds, the CPA is to inspect the supporting documentation of the claim to ensure the expenditures were properly credited to the correct accounts in the SLCQE. Retain in audit file.

2) Verify that the production company is in good standing with the Secretary of State in the state where the entity is organized or incorporated. Attach certificate of good standing as Exhibit F to the report; an unofficial web-based printout is acceptable.

3) Verify that the production company is in good standing with the Secretary of State in Minnesota. Attach certificate of good standing as Exhibit G to the report; an unofficial web based printout is acceptable.

4) Verify that the approved St Louis County logo is displayed. If post-production is not yet finalized, obtain written documentation for inclusion in credits. Note its inclusion or absence in the report.

5) Based on findings from the procedures outlined herein, recalculate the SLCQE. The final credit amount is 25% of recalculated SLCQE up to the maximum allocation amount contained in the Certification. Include the appropriate paragraph in the Final Results section of the report:

     a) Recalculated SLCQE is greater than planned SLCQE:

          i) As a result of applying the procedures outlined in the Audit Guide and Agreed Upon Procedures published on [month day, year], the recalculated St Louis County Qualified Expense is $[Dollar Value]. Therefore, the calculated rebate would be $[recalculated SLCQE * 0.25] which exceeds the approved amount of $[Allocated amount from Project certification].

     b) Recalculated SLCQE is less than planned SLCQE:

          i) As a result of applying the procedures outlined in the Audit Guide and Agreed Upon Procedures published on [Month day, year], the recalculated St Louis

County Qualified Expense is $[Dollar Value]. Therefore, the calculated rebate is $[recalculated SLCQE * 0.25].

c) Recalculated SLCQE is equal to the planned SLCQE:

i) As a result of applying the procedures outlined in the Audit Guide and Agreed Upon Procedures published on [month, day, year], the recalculated St Louis County Qualified Expense is $[Dollar Value]. Therefore, the calculated tax credit is $[recalculated SLCQE * 0.25].

6) Assist the production company with completing the Certificate for Payment using adjusted values. The production company, not the CPA, is responsible to sign the Certificate for Payment.

7) Attach a copy of the engagement letter to the report as Exhibit A.

8) Attach the detailed unadjusted cost ledger (e.g. Bible) of St Louis County Qualified Expenditures (SLCQE) to the report as Exhibit B.

9) Attach the Final Cast and Crew list to the report as Exhibit C.

10) Attach the Vendor List to the report as Exhibit D

11) Attach the Location List to the report as Exhibit E.

12) Provide final report electronically including all Exhibits to the production company. The production company is responsible to submit the report and certificate for payment to the St Louis County Administrator (UMFO).

Appendix A - Sampling Chart

Total Qualified Expenditures	Vendors	Top Stratum - Non Payroll – items $25,000 and over	Stratum 1 - Non Payroll – items $1,000 and $24,999	Stratum 2 - Non Payroll – items $999 and less	Top Stratum Payroll – top 10 total GL	Stratum 1 - Payroll – GL under the top 10	Extras and AP Payroll – Total Invoices
$1,000,001 - $5,000,000	All items $2,500 and over	All items	75	25	All Items	25	All greater than $2,500
$5,000,001 - $10,000,000	All items $5,000 and over	All items	100	25	All Items	25	All greater than $5,000
$10,000,001 - $25,000,000+	All items $7,500 and over	All items	150	25	All Items	25	All greater than $7,500