



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### **AUDIT OF CABLE FRANCHISE FEE REVENUE: COMCAST**

#### **Report Highlights**

#### **Why We Did This Audit**

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2017.

#### **What We Found**

We estimate Comcast owes Harford County \$13,083.38 in underpaid franchise fees.

**Report Number:** 2017-A-05B

**Date Issued:** 01/17/2017

Council Members and County Executive Glassman:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the Cable Franchise Fees paid by Comcast to Harford County for calendar years 2014 and 2015. The results of that audit, our findings and recommendations for improvement are detailed in the attached report.

We used the County's tax records and Comcast's address listings to identify properties that should be included in Comcast's payment to the County. The audit found most addresses were properly included in Comcast's franchise fee payment calculation. However, we found a net of 499 addresses that have not been included in Comcast's franchise fee payment to Harford County. We calculated the potential impact of these differences and estimate that Comcast has underpaid Harford County by approximately \$13,083.38 for 2014 and 2015.

The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

*Chrystal Brooks, CPA*

Chrystal Brooks  
County Auditor

cc: Mr. Matthew Shiffermiller, Director, Government Affairs, Comcast  
Mr. Charles Kearney, Council Attorney  
Ms. Mylia Dixon, Council Administrator  
Mr. Robert Sandlass, Treasurer



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### REVIEW RESULTS

We have audited Comcast's franchise fee revenue for calendar years 2014 and 2015. Our opinion, based on the evidence obtained, is Comcast's records for calculating franchise fees are largely accurate, but some errors resulted in an underpayment during the reporting period. The audit approach focused on testing the data that addresses management's objectives for the process. Conclusions drawn are below.

<b>Risk</b>	<b>Expected Control</b>	<b>Conclusion</b>
Harford County does not receive franchise fees for all serviced properties within the county	Franchisee has systems in place to determine the franchise assignment of a service address	Needs Improvement
Harford County becomes liable for the actions of a franchisee	Franchisees maintain insurance coverage in accordance with their franchise agreements.	Satisfactory
Harford County pays for services that should be provided for free under the agreement	Discounts are applied to the service bills of required facilities.	Satisfactory

Areas for improvement are described in the Findings and Corrective Actions section of this report. Comcast Management has been provided an opportunity to respond to this report; the response provided follows the Report.

### FINDINGS AND CORRECTIVE ACTIONS

#### **Finding Number: 2017-A-05B.01 Comcast Underpayment**

#### **Comcast's franchise payments did not include some addresses.**

**Analysis:** Within its systems, Comcast associates all addresses with a "corp" code to determine which jurisdiction should receive the related franchise fee. Comcast provided us a list of all serviceable addresses (Homes Passed) with Harford's corp code and a list of non-serviceable addresses within the same area. To protect their proprietary information, Comcast did not advise which of the addresses were customers and which were not.

We used the County's tax records to identify properties that should be included in Comcast's payment to the County. We eliminated from the County-wide tax file

properties that were within municipalities, unimproved, had no utilities (water, sewer, well and septic), or had duplicate street addresses. We additionally eliminated from our list properties that we assumed or confirmed with Comcast were outside of the service area. We added, to the list, addresses within mobile home communities, which are not included in the tax files.

We found 893 tax list properties that were missing from the homes passed list and 404 homes passed addresses that should not be included in Harford's franchise. These discrepancies resulted in an estimated underpayment of \$13,083.38 for the reporting period.

## **BACKGROUND INFORMATION**

### **PROGRAM DESCRIPTION AND KEY STATISTICS**

Cable television providers must be authorized by the Harford County Council to provide service within the County. Currently, Harford County has franchise agreements with Comcast, Verizon and Armstrong Cable. These franchise agreements are renewed every 10 to 15 years. Comcast's agreement was renegotiated and approved in 2013. During and for the review period, Harford County received \$3.08 million in franchise and related fees from Comcast.

### **REVIEW OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this audit is to determine if revenue reported by cable companies is complete and if franchise fees were completely collected by the County.

The audit focused on activity during the period of 01/01/2014 through 12/31/2015. Our audit procedures included interviewing personnel, observation and testing. Specifically, we used the County's tax records and Comcast's address records to identify properties that should be included in Comcast's payment to the County.

Comcast's management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain

sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Audit Team:**

Chrystal Brooks  
CPA, CIA, CGAP, CISA, CGFM, CRMA  
*County Auditor*

Brad DeLauder, CPA  
*Senior Auditor*

Sarah Self  
*Staff Auditor*



January 18<sup>th</sup>, 2017

Chrystal Brooks  
Office of the County Auditor  
Harford County  
212 South Bond Street, 2<sup>nd</sup> Floor  
Bel Air, Maryland 21014

RE: Franchise Fee Audit

Dear Ms. Brooks:

Comcast is in receipt of the Harford County Auditor's draft report related to Comcast's franchise fee payments for 2014 and 2015. The auditor's findings appear to be accurate based on the collaborative review of addresses conducted by Comcast and the County. Comcast accepts the finding of \$13,083.38 as full settlement of the audit findings.

Upon execution of a settlement agreement, Comcast will submit payment to the County of \$13,083.38 within forty five (45) days. A proposed settlement agreement is attached to this letter.

Comcast will correct any miscoded accounts identified in the auditor's findings, that will not require customer notification, within sixty (60) days. Those accounts that require customer notification will be corrected within ninety (90) days.

Comcast values its relationship with Harford County and we look forward to resolving this matter to the mutual satisfaction of the County and Comcast.

Please feel free to contact me with any questions or concerns.

Regards,

A handwritten signature in blue ink, appearing to read "Matt Shiffermiller", is written over a faint, illegible background.

Matt Shiffermiller  
Director, Government Affairs