



HARFORD COUNTY, MARYLAND

Office of the County Auditor

AUDIT OF CABLE FRANCHISE FEES – VERIZON MARYLAND LLC

Report Number:

2024-A-12C

Report Date:

7/31/2024

Council Members and County Executive Cassilly:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of Cable Franchise Fees paid by Verizon Maryland LLC for the period of 1/1/2021 through 12/31/2023. This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2024.

The objective of this audit was to determine if revenue reported by cable companies is complete and if franchise fees were completely collected by the County. The results of the audit, our findings and recommendations for improvement are detailed in this report.

We would like to thank the members of management for their cooperation during the audit. Although none was required, they have been provided an opportunity to respond to this report; accordingly, none was provided.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks

County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is Verizon's records for calculating franchise fees included most serviceable addresses and franchise fees reported were generally accurate during the reporting period; however, the County lacks adequate oversight over franchise agreements. This assessment is based on the strengths and weaknesses identified for the operational objectives below.

Business Process Objective	Assessment ⁱ
Harford County receives franchise fees in full and timely	Effective
Public facilities have adequate television and/or internet service per the agreement	Effective
Franchisees are properly insured to limit the County's liability	Effective

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

The Harford County Council must authorize cable television providers 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. Verizon's current agreement went into effect in 2009. During and for the review period, Harford County received approximately \$3.4 million in franchise fees from Verizon Maryland LLC.

The audit approach focused on testing the key controls that address management's objectives. Our audit procedures included interviewing personnel, observation, and testing as described in the table below.

Process / Control Objective	Scope of Review
Franchise Fee Collection	
Franchisee has systems in place to determine the franchise assignment of a service address	<ul style="list-style-type: none">• Perform data analysis to confirm the provider's address list for completeness (i.e., all on-grid serviceable addresses with a structure or house number within the provider's service area, within Harford County and not in a municipality, are included in the address list)• Confirm all required revenue sources are included in the franchise payments• Confirm payments reconcile to remittance advice reports and are made timely and in accordance with the County's franchise agreement with the subscriber
Service Receivables	
Discounts are applied to the service bills for required facilities.	<ul style="list-style-type: none">• For a sample of payments, confirm billings are appropriate according to the contract and, specifically, that public facilities are served by the franchisees at no additional costs, if applicable

Process / Control Objective	Scope of Review
Agreement Oversight	
Franchisees maintain insurance coverage in accordance with their franchise agreements.	<ul style="list-style-type: none">• Confirm franchisee has active required Certificates of Insurance with policies and terms in accordance with County Code and contract agreements

Areas for improvement are described in the Issues and Corrective Actions section of this report. There were no issues reported in a prior audit.

Harford County 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.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Report Distribution:	Audit Team:
Ms. Louise Anderson, Verizon Maryland LLC, Franchise Service Manager	Chrystal Brooks CPA, CIA, CGAP, CISA, CGFM, CRMA
Ms. Meaghan Alegi, Council Attorney	<i>County Auditor</i>
Ms. Mylia Dixon, Council Administrator	Brad DeLauder CPA, CIA
Mr. Robert Sandlass, County Treasurer	<i>Senior Auditor</i>

ⁱ Definitions

Effective: The design and effectiveness of the internal control environment address key risks. The business unit complies with external laws and regulations, and internal policies, procedures, and guidelines. Business processes are managed effectively resulting in achievement of expected outcomes.

Generally Effective: The design and/or effectiveness of the internal control environment generally address key risks; however, the number and severity of findings relative to the size and scope of the business unit being audited indicate that some minor areas of weakness in the control environment need to be addressed. Isolated instances of non-compliance with external laws and regulations, and internal policies, procedures and guidelines may exist. Business processes may not be managed effectively in all areas resulting in reduced achievement of expected outcomes.

Not Effective: The design and/or effectiveness of the internal control environment does not address key risks. Non-compliance or historical patterns of non-compliance with key regulatory requirements and internal policies, procedures and guidelines exist which expose the audited entity to financial, reputational, and operational risks. Business processes are not managed effectively and expected outcomes are not achieved.