



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

### **AUDIT OF CABLE FRANCHISE FEE REVENUE - VERIZON**

#### **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**

Verizon's cable franchise fees have been calculated correctly.

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

**Date Issued:** 03/21/2017

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 Verizon to Harford County for calendar years 2013, 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 Verizon's address listings to identify properties that should be included in Verizon's payment to the County. The audit found most addresses were properly included in Verizon's franchise fee payment calculation. There is no underpayment to be reported.

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: Ms. Karen Handy, Franchise Service Manager, Verizon  
Mr. Charles Kearney, Council Attorney  
Ms. Mylia Dixon, Council Administrator  
Mr. Robert Sandlass, Treasurer



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### REVIEW RESULTS

We have audited Verizon's franchise fee revenue for the period of calendar years 2013, 2014 and 2015. Our opinion, based on the evidence obtained, is Verizon's records for calculating franchise fees were missing some serviceable addresses; however, those addresses were not serviced and would not have impacted the franchise fee reported during the reporting period. The audit approach focused on testing the key controls that address 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	Satisfactory
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

Although no issues were noted for remediation, Verizon's management has been provided an opportunity to respond to this report. Since there were no issues to report; Verizon has opted not to provide a response.

### 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. Verizon's current agreement went into effect in 2009. During and for the review period, Harford County received approximately \$2.8 million in franchise fees from Verizon.

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

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 audit focused on activity during the period of 01/01/2013 through 12/31/2015. Our audit procedures

included interviewing personnel, observation and testing. Specifically, we used the County's tax records and Verizon's address records to identify properties that should be included in Verizon's payment to the County.

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.

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*