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**CLARK COUNTY**  
WASHINGTON

**AUDITOR**  
**GREG KIMSEY**

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## **Cable Television Franchise Fee Audit For the Years 2001 - 2008**

**Clark County Auditor's Office  
Audit Services**

**Report # 10-1**

**February 22, 2010**



For other formats, contact the Clark County ADA Office: **Voice** (360) 397-2000;  
**Relay** 711 or (800) 833-6388; **Fax** (360) 397-6165; **E-mail** ADA@clark.wa.gov.



## **EXECUTIVE SUMMARY**

We have completed an audit of cable television franchise fees for the City of Vancouver and Clark County ("City/County") for calendar years 2001 through 2008. Our audit of the franchise holder's records, performed in accordance with generally accepted government auditing standards, was intended only to conclude on the stated objectives of this audit. Our review differed from an examination of financial systems and records for the purpose of expressing an opinion thereon, and accordingly we do not express such an opinion.

### Objectives, Scope and Methodology

The objectives of this audit work were to determine if franchise fees had been properly calculated and if all appropriate revenues had been included in the fee calculations. In performing this work, we

- evaluated the accuracy of assigning addresses to the correct area;
- assessed Comcast's methodology for allocating revenue to each area;
- traced at least one month's revenue in each year from Comcast records to the fee schedule and recomputed the five-percent franchise fee payment; and
- prepared a schedule of underreported revenues for City/County and calculated fees owed to the two jurisdictions.

### Summary of Findings and Recommendations

In our prior audit of 2000, we had recoveries of about \$19,000 and \$16,000 City/County. Following that audit and other audits by Portland-area franchises, we find Comcast made commendable improvements in the accuracy of the franchise fee calculation.

For the years 2003 through 2008, Comcast's calculation of the franchise fee had small errors, and increased in accuracy through the years. Comcast agrees that underpaid franchise fees for 2003 – 2008, including interest, are \$2,199 and \$1,119 City/County.

For the years 2001 and 2002, complete records were not available. The parties have agreed to a compromise where the City and County will receive a certain sum, release any claim on those years, and not classify it as a liability or underpayment from Comcast.

## **BACKGROUND**

Comcast Cable Communications has franchise agreements with the City of Vancouver and Clark County ("City/County") requiring Comcast to remit five percent of gross revenues derived from cable system operations in the jurisdictions. Revenue from internet service and phone service are not subject to the franchise fee. For the years 2001 through 2008, AT&T/Comcast remitted more than \$18.2 million in combined franchise fees to City/County.

Clark County Audit Services previously audited the franchise fees for calendar year 2000 and recovered about \$19,000/\$16,000 City/County. The cable operator at the time was AT&T Cable Services. At the end of 2002, AT&T Cable and Comcast Cable merged, and operations have continued under the same franchise agreements granted in 1997.

Our performance audit focused on the accuracy of franchise fees, and was different from a "performance evaluation session" contemplated in the franchise agreements. For this audit, we requested records supporting the franchise fee calculations for 2001 – 2008. Comcast did not provide records for 2001 and 2002, stating: (1) their document retention schedule is only for six years; (2) they no longer have the documents (the years under AT&T's operation), and (3) they do not believe they are legally required to keep the records longer than six years.

## **FINDINGS**

### 2003 through 2008

For 2003 through 2008, we found that Comcast generally included gross revenues and calculated the franchise fee in accordance with the franchise agreement. In several cases, Comcast detected errors and made retroactive adjustments within the same year as the error.

We found two amounts which had not been corrected. One was in advertising revenue, where a total did not pick up all the listed details. The other was an error in allocating bad debt to the video versus non-video product lines. The total amount of underpaid franchise fee, with interest, was \$2,199 and \$1,119 City/County. Comcast agreed.

### 2001 and 2002

For 2001 and 2002, the years that records were not available from Comcast, we analyzed other information for potential underpayment of the franchise fees. The alternate information included prior audits, the 2001 and 2002 City/County

franchise fee schedules, and records within the Clark County Auditor's Office regarding AT&T / Comcast payments.

Because actual and complete records were not available, Comcast stated they could not agree with or argue against specific liabilities. The parties agreed to a compromise where the City and County will receive a certain sum and all parties will release each other from any claims on those years without admission of liability.

### Accuracy of Addresses

In addition to tracing revenue detail to the fee schedules, we tested the accuracy of assigning addresses to the correct jurisdiction. We did not find major or systemic problems with addresses, and therefore we do not have any recommendations in this area.

Comcast supplied a "homes passed report," which is a database of nearly 140,000 addresses where service could be provided (not all of which are current subscribers). Each address was designated as to whether it was in the City of Vancouver or unincorporated Clark County. The Clark County Assessor's Office compared the Comcast database to County property records.

1. Only 14 addresses were assigned to the wrong jurisdiction.
2. About 350 records did not have a match in the Assessor's database.  
Many of those could be to-be-built subdivisions, where cable lines pass.

In addition, 6,757 records had "low match" scores. Examples of low matches are: the direction didn't match (Northwest vs. Northeast 179<sup>th</sup> Street); the street type did not match (NE 179<sup>th</sup> Street vs. Circle); or the house number did not match, but the program found something close on the same street. Also, in new subdivisions, the address first assigned to a parcel can change.

We conveyed these results to Comcast, who confirmed the addresses "...have been audited and affected changes were administered October 2009."

### Commendation

We would like to thank the staffs of the Clark-Vancouver Television Office, Comcast, and Clark County Assessor's Office for their cooperation and assistance with this audit.

## **AUDIT STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards, except for the standard requiring an external peer review performed by independent reviewers at least once every three years. 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. A peer review is required to determine if our quality control system is suitably designed to ensure that applicable professional standards have been followed; our first peer review is being scheduled for 2010. Based on the quality control system in place to ensure professional standards are followed we do not believe our audit, or the assurance we are providing, is negatively impacted.

## **MANAGEMENT RESPONSE**

The response and comments from Comcast Cable are attached.

## Franchise Holder Response



Comcast Cable  
183 Inverness Drive West  
Englewood, CO 80112

Sent via Electronic Submission

February 22, 2010

Ms. Linda Bade  
Clark County  
P.O. Box 1995  
202 East Mill Plain  
Vancouver, WA 98668

Ms. Julie Jackson  
Clark County  
P.O. Box 1995  
202 East Mill Plain  
Vancouver, WA 98668

Ms. Christine L. Smith  
City of Vancouver  
610 Ester Street  
Vancouver, WA 98660

Dear Ms. Bade, Ms. Jackson and Ms. Smith:

Comcast wants to thank the City of Vancouver and Clark County, Washington ("the City and County") for the opportunity to respond to the final audit report regarding Comcast of Washington/Oregon, Inc. (hereafter "Comcast" or the "Company") franchise fee remittances for the period beginning January 1, 2003 through December 31, 2008 ("Review Period"). The audit conducted and report produced by the City and County is in accordance with the May 19, 2009 letter acknowledging the treatment of industry sensitive, proprietary documents as confidential.

The Company has taken significant measures to improve the accuracy of collecting, calculating, and remitting franchise fees to the City and County as the franchise fee audit report attest to our efforts. Comcast has reviewed the audit report and agrees all issues have been resolved for the Review Period. In the areas of dispute between the City, County and Comcast, we have settled our differences without admission of liability of the alleged claims of underpayment of franchise fees, including but not limited to those contained in audit report. Thus, we believe the audit report and the Settlement Agreement resolve all issues relating to Comcast's franchise fee remittances reviewed for the subject audit. Comcast will submit within 30 days of the execution of the Settlement Agreement the sum of eight thousand and sixty-eight dollars (\$8,068).

Ms. Linda Bade  
Ms. Julie Jackson  
Ms. Christine L. Smith  
Comcast Franchise Fee Audit Response Letter  
February 22, 2010  
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I would like to take this opportunity to call out a commendation to Linda Bade and Julie Jackson for the professional and proficient methods utilized throughout the franchise fee audit process. Their diligence into the details is appreciated by Comcast as this process benefits each of us, the Company, the City and the County. Comcast will continue with our commitment to abide by the terms of our Franchise Agreements with the City and County and to conduct our operations in accordance with accepted business principles and standards as well as all governing laws.

Respectfully,  
On Behalf of Comcast Cable Communications, LLC



Robbin Pepper  
Sr. Director, Rates and Regulatory  
West Division

cc: Mr. Sanford Inouye, VP of Government Affairs, Comcast  
Ms. Kate Slayton, Finance Manager, Comcast  
Mr. Mike Stoffel, Fixed Assets & Accounting Manager, Comcast