HARFORD COUNTY, MARYLAND
Office of the County Auditor

AUDIT OF CABLE FRANCHISE FEES

Report Number:
2024-A-12

Report Date:
8/2/2024

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 to the County 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; they have been provided an opportunity to respond to this report. The response provided follows the Issues and Corrective Actions.

Sincerely,

Chrystal Brooks, CPA

Chrystal Brooks
County Auditor

CONCLUSIONS

Our opinion, based on the evidence obtained, is 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	Generally Effective

ISSUES AND CORRECTIVE ACTIONS

Franchise Agreement Oversight

Harford County government has cable franchise agreements with three cable providers - Armstrong, Comcast, and Verizon - with various requirements within each of the respective agreements with the franchisees. As a part of the audit, we reviewed each agreement and looked to confirm each of the terms are met to ensure the County has proper oversight over the agreements. Specifically, we looked to determine:

- All required revenue sources are included in the franchise payments;
- Remittance advice reports were provided with each payment and reconciled to the franchise fee revenue receipts and the payment; and
- Each franchisee has the active insurance coverages required by the franchise agreements.

We found Comcast and Verizon paid quarterly and on time, complying with their franchise agreements. However, Armstrong paid annually rather than quarterly. As a result, interest and penalties were not collected on the first three quarters of Armstrong's payments.

Additionally, our testing found an instance where insurance coverage does not satisfy the contractual requirements. Specifically, we found Armstrong's policy does not include Broadcaster's Liability coverage. Comcast's certificates of insurance were not provided to us when requested.

Without occasional monitoring of compliance with the contract, potential issues may not be identified timely for resolution with the franchisees. This is especially relevant as the County's franchise agreements with two of the three franchisees, Comcast and Verizon, terminate in 2024. The negotiations for the new contracts will allow for revisiting contract oversight.

We recommend the Council Attorney and Council Administrator develop procedures over cable franchisee contract compliance, specifically detailing required tasks and responsible parties.

Management Response:

Together, the Council Attorney and Council Administrator will be responsible for ensuring cable franchise payments are received timely, insurance coverage is current and other franchise agreement requirements are met. We will work with the Treasurer's office to develop a report to monitor the payments. The Council Administrator will reach out to

Armstrong to remind them of the quarterly payment requirement. All of the franchisees will be asked to also submit their Certificates of Insurance to the Council Office, as required.

Expected Completion Date: 9/1/2024

BACKGROUND, OBJECTIVES, SCOPE, AND METHODOLOGY

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. Comcast's and Verizon's current agreements went into effect in 2009 and 2014, respectively, with both ending in late 2024, while Armstrong's current 15-year agreement went into effect in 2019. During the review period, Harford County received approximately $6.8 million in total franchise fees from the three cable franchisees.

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	• 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.	• 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
Agreement Oversight	
Franchisees maintain insurance coverage in accordance with their franchise agreements.	• 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.

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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. Meaghan Alegi, Council Attorney	Chrystal Brooks	Brad DeLauder
Ms. Mylia Dixon, Council Administrator	CPA, CIA, CGAP, CISA, CGFM, CRMA	CPA, CIA
Mr. Robert Sandlass, County Treasurer	*County Auditor*	*Senior Auditor*

[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.