

**Performance Audit:
Comcast Franchise Fees**

August 2020

**City Auditor's Office
City of Atlanta**

File #20.03



CITY OF ATLANTA
City Auditor's Office
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August 2020

Performance Audit:

Comcast Franchise Fees

What We Found

Comcast errors in the 4th quarter of 2019 resulted in a net underpayment of \$15,246 in franchise fee revenue to the city. Comcast franchise fee payments are calculated through the NRSA (National Revenue Share Application) database, which contained errors in the rate codes used to determine how much the city was due in franchise fee payments. Depending on how long the database has contained these errors, it is possible that the city may be due more in franchise fees since the effective date of the 2009 agreement.

We recommend the city periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records, as needed, to support the quarterly franchise fee payments made. We also recommend that the Chief Financial Officer work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city; and collect all amounts owed from Comcast plus interest.

While franchise agreement audit functions seem to be consistent with audits that the Office of Revenue performs, city code does not explicitly identify the city department responsible for managing the Comcast franchise fee agreement.

We recommend the Chief Financial Officer develop a procedure within its departmental policy to audit any franchise using the city right-of-way.

Comcast's database of eligible service addresses appears to be missing 27,303 Atlanta addresses and incorrectly codes 2,181 addresses as being in the city.

We recommend the city work with the GIS group to follow-up with Comcast to determine the total number of addresses that are miscoded within city limits and ensure that the city received the appropriate credit for these addresses between 2017 through 2019.

Why We Did This Audit

We undertook this audit at the request of City Council. Comcast provides cable services to customers and collects franchise fees from those customers. Comcast then pays franchise fees to the city of Atlanta as compensation for use of its public rights-of-way and easements. Citizens have expressed concerns that Comcast overcharged city subscribers and under-paid quarterly franchise fees owed the city. According to the city's franchise agreement with Comcast, franchise fees are calculated as a percentage gross revenue. We assessed whether Comcast completely and accurately reported this revenue and paid franchise fees owed to the city between January 2017 through December 2019.

What We Recommended

To ensure franchise fee payments are complete and accurate, we recommend that the Chief Financial Officer:

- periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms
- develop a procedure to audit any franchise using city right-of-way
- work directly with Comcast to determine how much the city is due in franchise fees and collect all amounts owed from Comcast
- work with the GIS group to follow-up with Comcast to ensure that the city received the appropriate credit for addresses between 2017 through 2019

For more information regarding this report, please use the "contact" link on our website at www.atlaudit.org

Management Responses to Audit Recommendations

Summary of Management Responses

Recommendation #1: We recommend that the Chief Financial Officer periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records, as needed, to support the quarterly franchise fee payments made.

**Response & Proposed
Action:**

Agree

Pursuant to 2019 agreement (19-O-1598), the Franchising Authority (City) may conduct an audit no more than once annually to ensure payments in accordance with this Agreement. The most recent Comcast audit concluded in July 2020. Thus, the next audit engagement will occur post - July 2021 and will follow this cadence annually thereafter.

Timeframe: December 2020

Recommendation #2: We recommend that the Chief Financial Officer develop a procedure within its departmental policy to audit any franchise using the city's right-of-way.

**Response & Proposed
Action:**

Agree

The Department of Finance will develop audit processes and a thorough audit methodology for any franchise using the city's right-of-way. Currently, the City has more than 25+ franchises. The Department of Finance may elect to utilize the services of Georgia Municipal Association (GMA) or other external vendor to support compliance with this recommendation.

Timeframe: March 2021

Recommendation #3: We recommend that the Chief Financial Officer work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city; and collect all amounts owed from Comcast plus interest.

**Response & Proposed
Action:**

Agree

The Department of Finance will partner with Comcast to review revenue allocations and collect all amounts owed from Comcast plus interest as authorized by contractual agreement. The Department of Finance will review and

incorporate internal audit's methodology, processes and work paper analysis to develop a comprehensive understanding of Comcast franchise operations for continuous compliance with this recommendation.

Timeframe: January 2021

Recommendation #4:	We recommend that the Chief Financial Officer work with the Department of City Planning's GIS group to follow-up with Comcast to determine the total number of addresses that are miscoded within city limits and ensure that the city receives the appropriate credit for these addresses between 2017 through 2019.
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Response & Proposed

Action: The Department of Finance agrees to work with the GIS group to validate addresses miscoded within the city limits. It should be noted that Finance will be challenged to commit resources from another department (GIS group is in AIM) to work on this project as their resource and/or time commitments may be restricted. However, Finance is committed to partnering with AIM to craft a timeline and resource allocation that is agreeable to both parties (AIM and Finance) to support compliance with this recommendation

Agree

Timeframe: June 2021



CITY OF ATLANTA

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AUDIT COMMITTEE
Marion Cameron, CPA, Chair
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August 21, 2020

Honorable Mayor and Members of the City Council:

We conducted this audit at the request of the City Utilities Committee to assess whether Comcast completely and accurately reported gross revenue, as defined in the 2009 franchise agreement, and paid franchise fees owed to the city during the three-year period January 2017 through December 2019.

We found errors in the calculation of franchise fees and the addresses coded to the city. We also found that the city does not have procedures in place to monitor compliance or ensure franchise fees paid by Comcast are complete and accurate. Our recommendations focus on collecting all amounts owed to the city from Comcast and how the city should establish a procedure to periodically monitor compliance with the terms of the franchise agreement.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. Public release was delayed by Executive Order 2020-27, which postponed meetings of city boards while city facilities are closed during the pandemic response. We sent the draft report to management July 15, 2020 and received the final response August 12, 2020. The response is appended. Comcast's response to the audit is also appended. We appreciate the courtesy and cooperation of city staff and Comcast staff throughout the audit. The team for this project was Patricia Westerfield, Duane Braithwaite, and Randi Hadeen.

Amanda Noble
City Auditor

Marion Cameron
Chair, Audit Committee

Comcast Franchise Fees

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Introduction

City Council requested that we conduct an audit of Comcast, which provides cable services to customers and collects franchise fees from those customers. Comcast then pays franchise fees to the city of Atlanta as compensation for use of its public rights-of-way and easements. Citizens have expressed concerns that Comcast overcharged city subscribers and under-paid quarterly franchise fees owed the city. According to the city's franchise agreement with Comcast, franchise fees are calculated as a percentage of gross revenue. In addition to making franchise fee payments, the agreement requires Comcast to report quarterly revenues generated from its city subscribers. The audit assesses whether Comcast completely and accurately paid franchise fees and reported revenue owed to the city during the three-year period from January 2017 through December 2019.

Background

The city entered into a nonexclusive franchise agreement with cable operator Comcast (Comcast Cable Communications, LLC), allowing the company to use the city's rights-of-way and infrastructure to operate its cable communications system within the city limits. Comcast provides cable services—including PEG (public, educational, and government access channels)—to city subscribers. In exchange, Comcast agrees to pay the city five percent of gross revenues collected for cable services. Comcast collects these franchise fees from its subscribers. Comcast provides high-speed internet, video, voice, wireless, security, and automation services to residential customers under the Xfinity brand. These services can be purchased individually or as a bundle. The company also provides business services and sells advertising.

Atlanta Has Held A Franchise Agreement with Comcast Since 2009

Comcast has had a franchise agreement with the city since 2009, with the most recent agreement entered into in December 2019. The company previously held a 2009 agreement with the city that formally ended after a seven-year term and two renewal extensions, as shown in Exhibit 1. Between May 30, 2019, through December 19, 2019, the city held no formal franchise agreement with Comcast; however, the company continued to collect franchise fees from customers and pay

revenues to the city in accordance with the 2009 agreement. Our audit focuses on the contract terms contained in that original agreement.

Exhibit 1: Audit Scope Covers 2009 Agreement Terms

Effective Date	End Date	Contract Type	City Legislation
November 30, 2009	November 29, 2016	2009 Agreement	09-O-1223
November 30, 2016	November 29, 2017	Extension	16-O-1696
November 30, 2017	May 29, 2019	Extension	16-O-1599
May 30, 2019	October 20, 2019	No Agreement or Legislation	
October 21, 2019	October 20, 2026	2019 Agreement	19-O-1598

Source: Compiled by auditors from final action legislation.

The basis of the city's franchise fee revenue includes four types of revenue generated by Comcast. The 2009 franchise agreement provided that in exchange for using the city's rights-of-way, Comcast agreed to pay the city five percent of the gross revenue it collected from subscribers. The gross revenue is based on the amount of revenue billed, not collected, minus bad debt.

Gross revenue includes all revenue collected from:

- subscribers of cable and video services
- franchise fees
- advertising
- home shopping services

For purposes of determining revenue due to the city, gross revenue excludes taxes, surcharges, governmental fees, revenue billed but not received (bad debt), internet, telecommunications, yellow and white pages, banner advertising, late fees not initially booked as revenue, return check fees and interest, and revenue from providing or maintaining inside wiring. For customers with services that include cable services bundled with other services, only the portion of revenue from cable services is allocated toward gross revenue due under the franchise agreement.

Comcast is required to pay franchise fees to the city on a quarterly basis. According to the agreement, Comcast must make payments within 30 days of the end of March, June, September, and December. Any payments received after that date are subject to late fees equal to the Internal Revenue Service's rates for tax payments. If Comcast underpays the city by more than eight percent, the city can recover reasonable expenses paid to review and identify the underpayment. The company must also provide a report that identifies the gross revenue for the period along with the payment. In addition to the

quarterly report, the agreement also states that Comcast will provide the city with any information requested to ensure enforcement of the contract, except for private subscriber information.

Comcast also provided \$500,000 to the city in February 2010 to support PEG (public, educational, and government access channels). The Cable Communications Policy Act of 1984, as amended, makes it possible for a franchise authority to negotiate access to free television channels and to receive capital support for the channels. The city has elected to exercise this option and required Comcast to set aside these channels and provide financial support. Under the agreement, the company was to provide up to six channels for non-commercial, non-revenue generating public, education, and governmental programs. The city in turn, was to provide 15 hours of original content per month on each channel. If the city failed to provide the content for three consecutive months, Comcast could reclaim the channel for its own use. The agreement allowed Comcast to recover the full amount paid by charging its cable subscribers within the city.

The city's current franchise agreement with Comcast is similar to the 2009 agreement, but with key differences. Although the city still receives five percent of gross revenue collected by the company on a quarterly payment schedule, late fees would be assessed at a flat one percent interest rate per month. Also, Comcast is required to provide detailed quarterly statements with gross revenues identified in 12 categories: limited and expanded basic video service, digital video service, premium video service, pay-per-view and video-on-demand, equipment, installation and activation, franchise fees, guide, late fees, ad sales, home shopping commissions, and bad debt. This would provide the city with information to show how the amount paid was derived.

The new agreement changed the conditions under which the city could recover expenses related to underpayments. The agreement provides that any underpayment of more than ten percent requires the city to provide a written audit of findings. If the city and Comcast agreed on the findings, the company would be responsible for the underpayment and cost of the audit and be required to pay the amount within 45 days.

Comcast's current agreement with the city to provide non-commercial, non-revenue generating public, education, and governmental programs is different from the 2009 contract. Comcast now provides up to five channels for this programming, and the city is obligated to provide up to eight hours of original content per week on each channel. Comcast pays the city ten cents (10¢) per subscriber monthly, for the first two years of the agreement. During the remaining years of the contract, Comcast

will pay the city five cents (5¢) per subscriber monthly. All PEG amounts are collected from subscribers and must be used for capital costs for these channels. Appendix B shows a comparison between the provisions of the 2009 and 2019 agreements.

Some Franchise Revenue is Collected Directly from Subscribers

The amount that Comcast owes to the city is based on items billed and collected on customers' cable bills, as well as revenue generated from other sources, such as advertising. As shown in Exhibit 2, line items on customer bills that generate revenue for the city under the franchise agreement include TV Extra, TV Box, Broadcast TV Fees, Regional Sports Fees, and Franchise Fees.

Exhibit 2: Franchise Revenue Based in Part on Customer Payments

xfinity	Account Number [REDACTED]	Billing Date Oct 17, 2019	Services From Oct 21, 2019 to Nov 20, 2019	Page 3 of 4
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Regular monthly charges \$106.25	What's included? TV: 125+ Channels Internet: Download as fast as 200 Mbps Visit xfinity.com/myaccount for more details You've saved \$92.00 this month with your 2 product, contract and service discounts. Term Agreement Applies 24 Month Term Agreement On Account. Visit www.xfinity.com/myaccount For Details
My Xfinity plan \$70.00 My Xfinity services \$150.00 TV: Extra \$70.00 Includes Limited Basic, Sports & News, Kids & Family, Entertainment, Streampix, High Definition and 20 Hours of Cloud DVR Recording Storage Internet: Blast! \$80.00 Discounts -\$80.00 2 Product Discount (-\$20.00) -\$20.00 Autopay and Paperless Discount (-\$10.00) -\$10.00 Contract Discount -\$50.00	
Add ons \$0.00 Showtime \$0.00 Includes \$12.00 Service Discount The end date of your promotion is Aug 23 2020	
Equipment & services \$18.00 TV Box \$5.00 Internet/Voice Equipment Rental \$13.00	
Service fees \$18.25 Broadcast TV Fee \$10.00 Regional Sports Fee \$8.25	
Taxes, fees and other charges \$5.33 Other charges \$3.71 Franchise Fee \$3.64 Regulatory Cost Recovery \$0.07	
Taxes & government fees \$1.62 Sales Tax \$1.62	

The denoted are revenue items on which franchise fees are paid to the city.

Source: Sample bill provided by Comcast with auditor's notes.

Other revenues that form the basis for the gross revenue on which the city's payment is based are not collected directly from customers, such as advertising, or commissions from a percentage of sales on shopping channels.

The City's Franchise Fee Payment is Shown on Quarterly Statements

Comcast sends a check to the city each quarter and emails a statement showing the gross revenue the company collected on which the city's franchise fee payment is based. The city receives five percent of total gross revenues, minus amounts uncollected. The quarterly statement, as shown in Exhibit 3, shows revenue in 12 categories, which include the four areas of video, equipment, accounting, and sales.


The statement contains five line items related to video services. Expanded basic video service includes satellite-delivered channels; limited basic video service includes broadcast, satellite, and PEG channels; digital video services are a mix of several tiers of expanded, limited, and digital channels. The pay category consists of premium movie channels and pay-per-view and video on demand (PPV/VOD) are one-time purchases.

Two line items in the statement are related to equipment. Digital video equipment consists of cable box hardware, and video installation and activation are the charges associated with the installation and activation of Comcast's services.

Two accounting line items are listed on the statement. Franchise fees are the pass-through for payment made to the city. The write-offs and recoveries line item represents billed but uncollected charges, or bad debt. This amount is listed on the statement but subtracted from the gross revenue total, as provided by the franchise agreement.

Two line items are related to sales and consist of advertising revenue received by each channel, as well as home shopping commissions resulting from sales on the shopping channels. The statement also contains a category of "other" that is included in franchise fee gross revenue and consists of the video-related portions of early termination fees, FCC user fees, leased access, and indefeasible rights of use.

Exhibit 3: Franchise Fee Statements Include Multiple Revenue Categories



COMCAST

System Name: Comcast of Georgia/Virginia, Inc.

Email: [REDACTED]

Phone: [REDACTED]

Vendor ID: [REDACTED]

Contract Name: Atlanta City

Statement Period: Oct - Dec, 2019

Payment Amount: \$1,286,434.66

Statement Number: [REDACTED]

CUID: [REDACTED]

System ID: [REDACTED]

ATLANTA CITY OF GA

FRANCHISE FEE

REVENUE COLLECTOR

ATLANTA, GA, 30335

This statement represents your payment for the period listed above.

Revenue Category	Amount
Expanded Basic Video Service	\$5,801,829.82
Limited Basic Video Service	\$6,759,565.37
Digital Video Service	\$4,732,625.33
Pay	\$2,854,040.74
PPV / VOD	\$573,078.93
Digital Video Equipment	\$1,810,025.71
Video Installation / Activation	\$580,979.97
Franchise Fees	\$1,198,950.28
Other	\$470,786.75
Write-offs / Recoveries	(\$831,118.74)
Ad Sales	\$1,630,575.90
Home Shopping Commissions	\$147,352.42
Total	\$25,728,692.48
Franchise Fee %	5.00 %
Franchise Fee	\$1,286,434.66

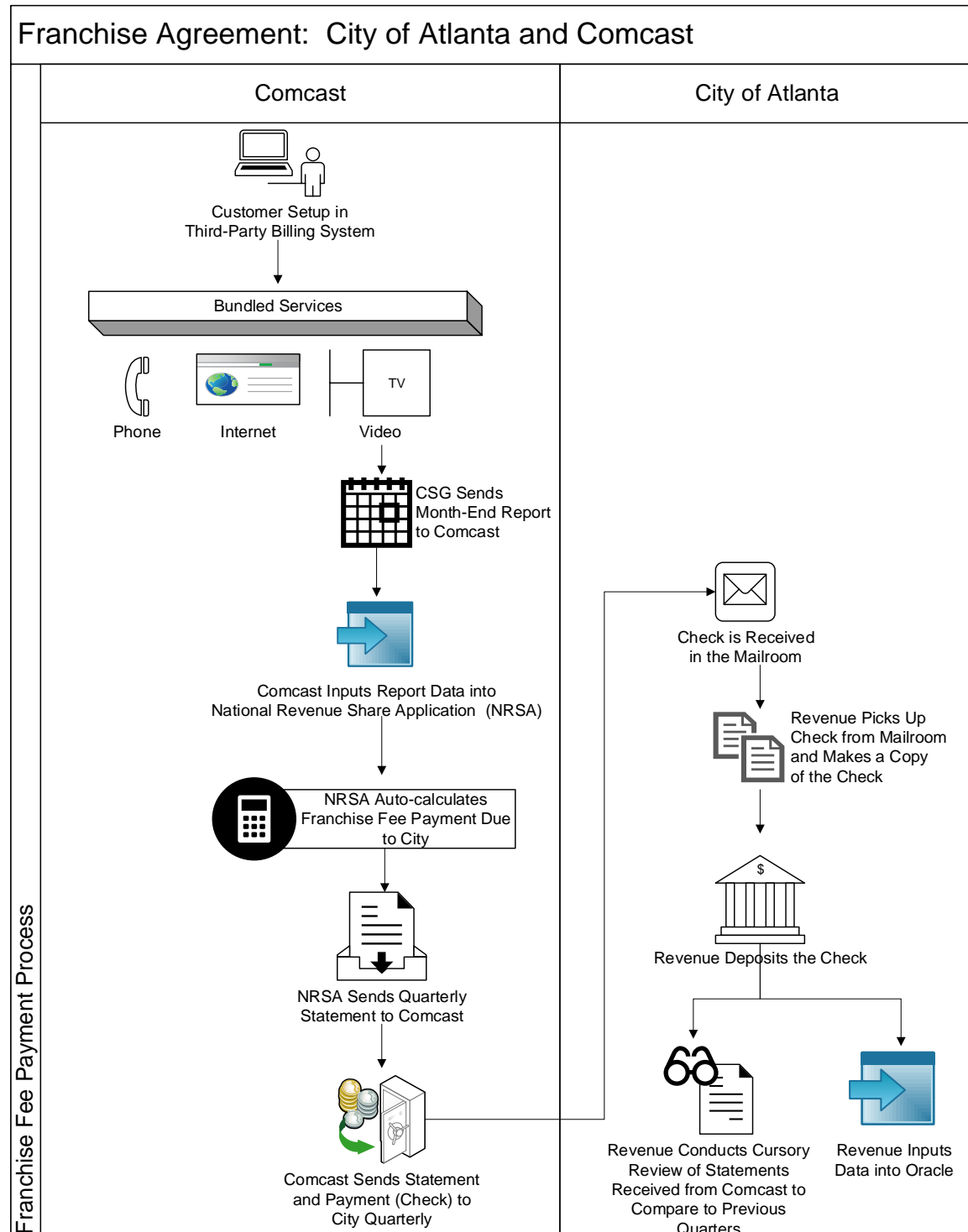
Source: Copy of 4th Quarter 2019 Franchise Fee Statement provided by Comcast.

Comcast Uses Multiple Systems to Calculate Franchise Fee Revenue

When subscribers contact Comcast to set up new service, its third-party biller, CSG International, Inc., inputs customer data into an automated billing system that identifies the customer as a city resident. The system codes customer payments and other revenue types into the categories that are shown on the quarterly statements provided to the city (see Exhibit 3). To calculate the franchise fee revenue that Comcast owes to the city, Comcast's third-party billing service provider splits the revenue streams into specific categories, which are used to identify video-related services from which the city receives its portion of the franchise fee payment. CSG International staff sends Comcast employees monthly reports generated from the third-party billing system. Comcast then uploads that information into the National Revenue Share Application (NRSA) database to calculate franchise fees due to the city and generate quarterly statements (see Exhibit 3). The NRSA is a custom-built software package that supports the franchise fee processes.

Each quarter, Comcast mails a physical check for franchise fees to the city. An Office of Revenue employee retrieves the check and makes a copy for recordkeeping. The check is not accompanied by any supporting documentation and is only identified as a franchise fee payment by matching the amount of the check to the quarterly statement (see Exhibit 4), which Comcast staff emails separately to Revenue staff. A Revenue employee deposits the check into the city's miscellaneous revenue account, then another Revenue employee verifies that the check amount matches the quarterly statement totals and inputs the information into Oracle, the city's financial system.

Exhibit 4: Franchise Fee Payments Are Processed Through Comcast's Third-Party Biller



Legend: CSG – CSG International NRSA-National Revenue Share Application

Source: Auditor's creation based on interviews with Office of Revenue and Comcast staff.

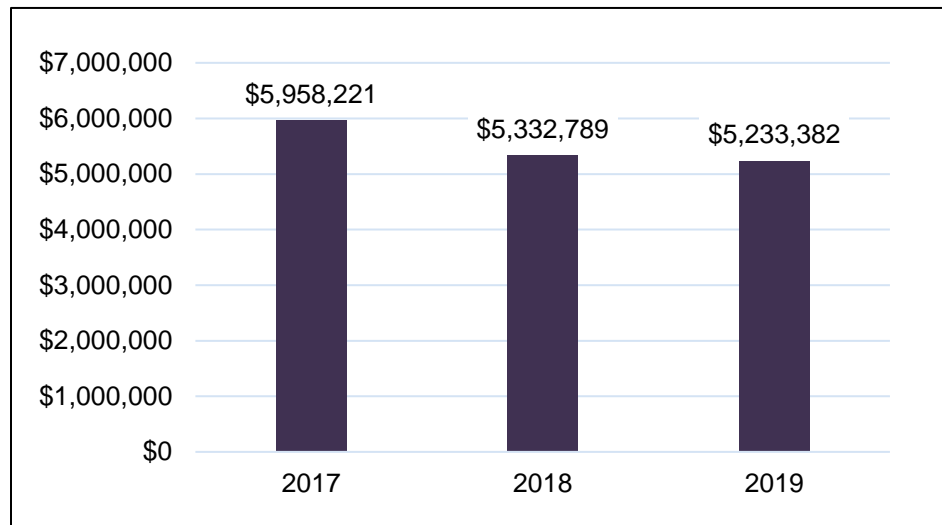
Franchise Fee Revenue Decreased as Cable Viewership Declined

As of December 2019, Comcast reported that franchise fee revenue has decreased over the last three years from 2017 through 2019 due to a decline in cable viewership.

According to Comcast's 2019 Annual Report, Comcast expects to see a continued decline in residential video customers due to the competitive environment and shifting video consumption patterns. From January 2018 through December 2019, Comcast's video subscribers decreased as the total video market increased, which is consistent with our review of the data provided by Comcast over a two-year period as it could only provide data for 2018 and 2019.

The city received \$16,524,392 in franchise fees from Comcast in calendar years 2017 through 2019 (see Exhibit 5). From 2017 to 2019, the total franchise fee payments to the city decreased by 12 percent.

Exhibit 5: Comcast Franchise Fee Payments Have Decreased in the Last Three Years



Source: Auditor's analysis based on franchise fee statements provided by Comcast.

Audit Objectives

This report addresses the following objectives:

- Has Comcast completely and accurately charged subscribers and paid franchise fees to the city in accordance with the 2009 agreement?

- Did Comcast accurately bill and remit fees for PEG (public, education and governmental) programming in accordance with the 2009 agreement?
 - Does the city have procedures in place to oversee the Comcast agreement?
-

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards.

Our audit methods included:

- reviewing federal, state, and city code regulations related to franchise agreements
- interviewing staff from the city's Office of Revenue, Law Department, and City Planning, as well as staff from Comcast, and community stakeholders
- reviewing the Office of Revenue's policies and procedures
- reviewing the city's Department of Enterprise Asset Management's mailroom policies and procedures
- reviewing Comcast financial reports from 2017 through 2019 that support the franchise fee payments made to the city
- analyzing financial reports received from Comcast for the 4th quarter of 2019 to determine the accuracy and completeness of franchise fee payments made to the city
- working with staff from the Department of City Planning, who used ArcGIS (Geographic Information System) to compare the city's list of addresses to Comcast's list of serviceable addresses to assess whether the city was receiving full credit in its franchise fee payments

Generally accepted government auditing 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.

We omitted proprietary market share data provided by Comcast from the report.

Findings and Analysis

Errors in Comcast's Database Reduced Franchise Revenue

The database that Comcast uses to calculate franchise fee revenue owed to the city contained errors in the revenue categorizations, resulting in amounts incorrectly included in and excluded from gross revenue, resulting in a net underpayment of \$15,246 during the 4th quarter of 2019. We found that for the 2nd quarter of 2018, the amount Comcast paid to the city did not match the quarterly franchise fee statement provided. The city allowed Comcast to deduct \$163,000 from a 2018 franchise fee payment as reimbursement for occupational license fees that Comcast said the company had paid in error. City code does not explicitly identify a city department responsible for verifying that the payments the city receives from Comcast are accurate and consistent with supporting documentation. Office of Revenue staff told us they conduct cursory reviews of franchise fee payments received from Comcast, but do not perform detailed audits. Georgia Municipal Association's franchise management best practices suggest that municipalities should audit franchise agreements at least once every three years in order to identify errors that may have occurred and recoup possible underpayments.

Also, Comcast's database of addresses within the city limits does not match the addresses maintained by the city's Department of Planning. The city's GIS staff identified 2,181 addresses outside of the city limits that were coded as Atlanta addresses, and 27,303 addresses within the city limits that were missing from the database or miscoded to another jurisdiction. Comcast staff told us the lack of a match between the addresses was likely because of missing address quadrants, for example, NW, NE, SW, SE, in the physical address in the data they provided to the city. Using Comcast's calculation method based on market share penetration, Comcast could owe the city between \$35,593 to \$1.4 million in additional franchise fees for the last three years depending on how many of the missing or miscoded addresses are serviceable.

We recommend that the Chief Financial Officer periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records to support the quarterly franchise fee payments made. We recommend that the Chief Financial Officer develop a procedure within its departmental policy to audit any franchise using the city's right-of-way.

Comcast's Underlying Data Contains Errors, Resulting in a Net Underpayment of \$15,000 to the City in FY19 Q4

Comcast under-reported video gross revenue for the 4th quarter of 2019 by \$349,864 and over-reported video gross revenue by almost \$45,000 during the same period. These errors resulted in a net underpayment of \$15,246 in franchise fee revenue to the city. Comcast franchise fee payments are calculated through the NRSA (National Revenue Share Application) database, which contained errors in the rate codes used to determine how much the city was due in franchise fee payments. Depending on how long the database has contained these errors, it is possible that the city may be due more in franchise fees since the effective date of the 2009 agreement. We recommend that the Chief Financial Officer work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city; and collect all amounts owed from Comcast plus interest.

Errors in Comcast's categorization information caused gross revenue to be underreported by \$349,864 during the last quarter of 2019.

We requested underlying data to support the franchise fee payments and identified discrepancies in the revenue allocation reports provided by the company. The Revenue Report provided by Comcast does not agree with the Comcast rate code detail report for all revenue categories. Comcast reviewed the discrepancies and attributed the underpayment to missing categories in the underlying data formulating the basis of the calculations. Revenue categories that are "outside billing" and the "multi service" lines of business will have a variance. Comcast's multi-service revenue report contains categories that identify types of revenue that should be included in the franchise fee payments. Multi-service revenue categories that should be included in the franchise fee revenue include:

- business services
- early termination fees
- write-offs/recoveries
- billing and collection
- convenience fees
- late fees

Comcast did not include billing and collection, convenience fees, or late fees in its video gross revenue calculation, which understated the total gross revenue by \$349,864 (see Exhibit 7).

Comcast overreported gross revenue by \$34,051 by including the revenue category Whole House Maintenance in gross revenue

calculations in error. Whole house maintenance are monthly recurring flat fees for subscribers who choose to have insurance on the repair of any inside wiring. The franchise agreement states that gross revenue does not include “revenue received from providing or maintaining inside wiring.” The overreporting of this revenue, combined with the underreporting by excluding \$349,864 that should have been included resulted in a net underpayment to the city of \$15,246 (see Exhibit 6).

While reviewing the discrepancies we identified in revenue categories, Comcast also identified inaccurate multi-service allocation calculations and categories on its 4th quarter 2019 franchise fee statement. Early termination fees, write-offs and recoveries, and allocated adjustments should have been calculated based on the monthly multi-service allocation percentages, but a higher percentage was applied, resulting in overstating gross revenue by \$10,889. This amount should not have been included in the gross revenue (see Exhibit 6).

Exhibit 6: Q4 2019 Errors Underreported Gross Revenue Resulting in Underpayment

Multi-Service Revenue	Total Q4	Subtotals
Incorrectly Included in Gross Revenue		
Whole House Maintenance	\$(34,051)	\$(34,051)
Incorrect Allocation Percentage Applied		
Early Termination Fee	\$10,342	\$(10,889)
Write-offs/Recoveries	\$(21,238)	
Allocated Adjustments	\$7	
Incorrectly Excluded from Gross Revenue		
Billing and Collection	\$(16,422)	\$349,864
Convenience Fees	\$11,846	
Late Fees	\$354,440	
Gross Revenue Not Reported Q4 2019	\$304,924	
Franchise Fee	5%	
Amount Due to City from Comcast (Net Underpayment)	\$15,246	

Source: Auditor’s summary based on Multi-service allocation report received from Comcast.

Multi-service revenue allocation is a formula that divides the total video revenue billed by the overall revenue billed to city subscribers by month. The total video revenue billed and collected is the sum of the revenue categories:

- digital video equipment
- digital video service
- expanded basic video service

- franchise fees
- limited basic video service
- pay
- PPV/VOD (pay-per-view/video-on-demand)
- and video installation/activation shown on the franchise fee statement

The overall revenue billed to city subscribers also includes data, security, and voice categories.

Comcast provided raw data for bad debt. We were unable to tie the raw data to the franchise fee quarterly statements and have requested additional information from Comcast.

The 2009 agreement provides that the city receives 5% of Comcast's video gross revenue. The 2009 franchise agreement also states that if an underpayment exceeds eight percent of any payment due, the city should also receive interest at rates identified by the Internal Revenue Service for tax refunds and additional tax payments.

The city allowed Comcast to deduct \$163,000 from a 2018 franchise fee payment as reimbursement for occupational license fees that Comcast said it paid in error. We identified this issue because in the 2nd quarter of 2018, the amount Comcast paid to the city did not match the quarterly franchise fee statement. Comcast told us that it paid the city \$163,000 in occupational licensing fees in 2015 in error and provided us with documentation which supported that claim. A former employee within the Office of Revenue agreed to allow Comcast to deduct the amount from the franchise fee check owed to the city, but Comcast did not show the deduction in the quarterly statement. Section 2-916(c) of the city code requires approval from City Council for tax refunds greater than \$5,000.

We recommend that the Chief Financial Officer work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city; and collect all amounts owed from Comcast plus interest.

Additional Revenue May Be Due as a Result of Missing Addresses

Comcast's database of eligible service addresses appears to be missing 27,303 Atlanta addresses and incorrectly codes 2,181 addresses as being within the city limits. Applying Comcast's market share and average customer revenue per subscriber to the net miscoded or missing addresses yields an estimate of between \$35,593 to \$1.4 million in additional franchise fees owed to the city over the three years we

reviewed. Comcast relies on its address database to identify the subscribers in the city, which if miscoded, would result in incomplete or inaccurate calculation of franchise fee revenue due to the city.

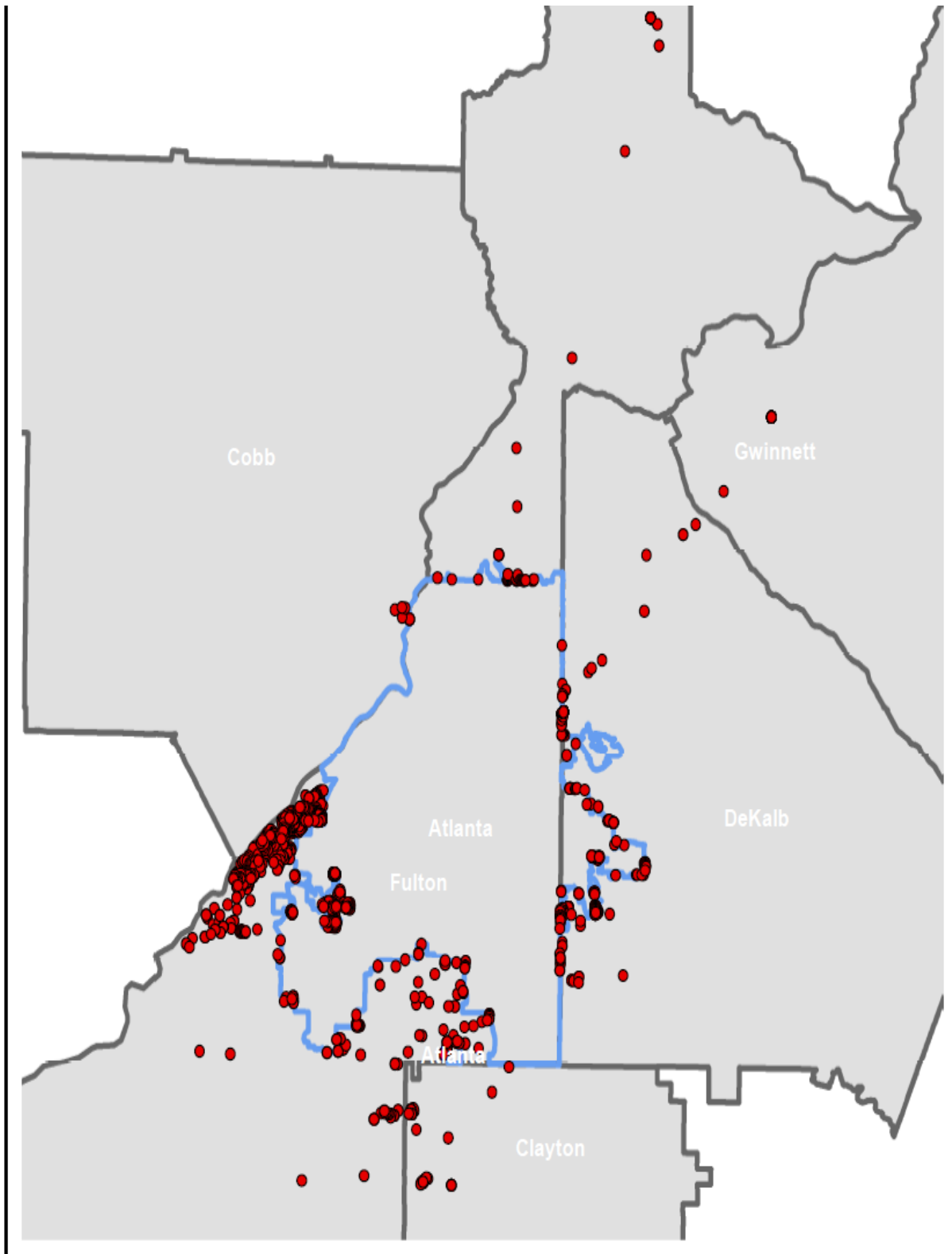
We requested Comcast's address list and worked with the city's GIS (Geographic Information System) group within the Department of City Planning to compare this list to the city's address database. Comcast provided us with a one-month snapshot of city of Atlanta address data for December 2019. GIS staff identified addresses in the city's database and not in the Comcast database and vice versa. City Planning's analysis found that Comcast's database erroneously coded 2,181 addresses outside of the city limits as Atlanta addresses, (shown as red dots in Exhibit 7), and was missing 27,303 addresses within the city limits (shown as blue dots in Exhibit 8). Comcast could owe additional franchise fee revenue on the missing addresses, if they are Comcast subscribers.

Comcast reviewed the discrepancies we provided and believe missing addresses to be much lower. Comcast told us that 16,507 of the Atlanta addresses are not in the database, and therefore cannot be subscribers. An additional 3,069 addresses are unserviceable. And 4,815 addresses flagged as missing, were in the Comcast database. Comcast staff told us the lack of a match between the addresses was likely because of missing address quadrants, for example, NW, NE, SW, SE, in the address in the data they provided to the city. Comcast staff said they are working to correct their data. Comcast leadership told us early on in our audit that they anticipated possible errors in the company's database of addresses and said they did not have a designated city employee contact to work with to ensure that their information was correct and kept up-to-date.

Comcast told us that to make historical corrections to their data they would use a market share calculation to determine any revenue owed to the city. Using this formula (uncredited number of addresses multiplied by the average market share and average franchise fee per subscriber), we estimate between \$35,593 and \$1.4 million in additional franchise fee revenue could be due to the city for the period January 2017 through December 2019.

We recommend that the Chief Financial Officer work with the Department of City Planning's GIS group to follow-up with Comcast to determine the total number of addresses that are miscoded within city limits and ensure that the city receives the appropriate credit for these addresses between 2017 through 2019.

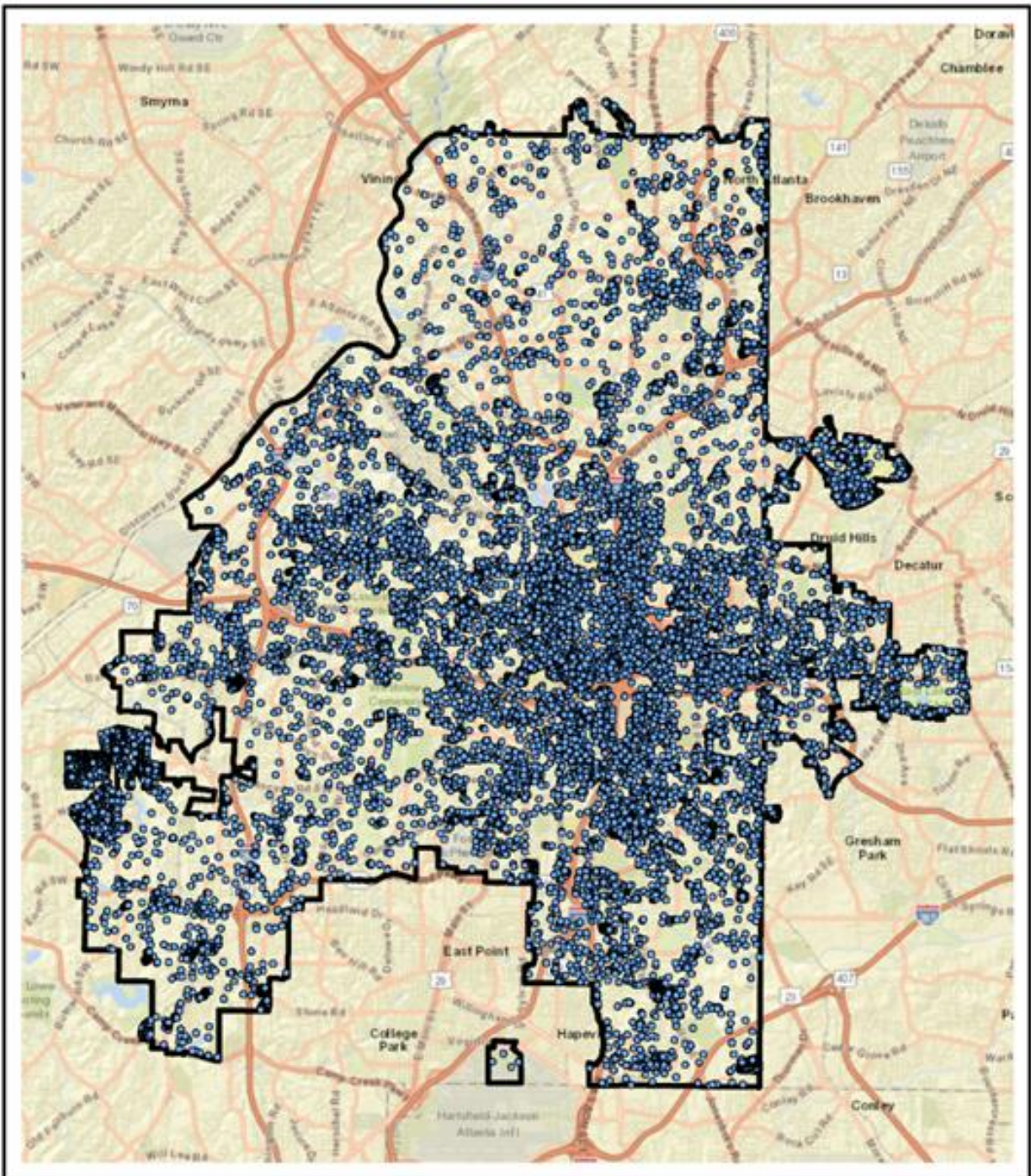
Exhibit 7: Comcast's Addresses Incorrectly Coded As Within the City Limits



Legend: Red dots indicate addresses outside of city limits that the city may have received payments for in error.

Source: Map created by city's GIS group using address lists from Comcast.

Exhibit 8: City Addresses Missing From the Comcast Database



Department of
CITY PLANNING

This map is prepared as a public service. The City of Atlanta does not warrant the accuracy or completeness of the information contained herein. The City of Atlanta is not responsible for any errors or omissions. The City of Atlanta is not responsible for any damages or losses resulting from the use of this map. The City of Atlanta is not responsible for any damages or losses resulting from the use of this map.

Legend: Blue dots indicate addresses the city may not be receiving credit for from Comcast.

Source: Map created by city's GIS group using address lists from Comcast.

City Identifies No Clear Responsibility for Managing Franchise Agreement

While franchise agreement audit functions seem to be consistent with audits that the Office of Revenue performs, city code does not explicitly identify the city department responsible for managing the Comcast franchise fee agreement. Section 2-377 of the city code states that the Office of Revenue's functions include:

- billing and collections
- billing of fees, taxes, rents, etc.
- managing account receivables
- managing outside collection efforts
- revenue auditing
- audits of business license fees and tax payments

Revenue's departmental policies include procedures to conduct revenue audits of business tax customers. These audits appear consistent with the compliance audits outlined in the franchise fee agreement as a method to ensure documentation supports payments made to the city; however, Revenue has never performed a detailed audit of the Comcast franchise fee payments received to date, which may result in undetected franchise fee payment errors.

During interviews with Revenue staff, they told us they conduct cursory reviews of franchise fee payments received from Comcast, but do not perform detailed audits. Community stakeholders expressed concerns about the city entering into the 2019 agreement with Comcast without first conducting an audit to ensure that Comcast was performing as required. The Georgia Municipal Association's franchise management best practices suggest that municipalities should audit franchise agreements at least once every three years to identify errors that may have occurred and recoup any underpayments owed.

We recommend that the Chief Financial Officer periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records to support the quarterly franchise fee payments made to the city. The Chief Financial Officer should also develop a procedure within its departmental policy to audit any franchise using the city's right-of-way.

Comcast Accurately Charged Customers Fees to Support Public Television

In February 2010, Comcast provided the city with a lump sum payment of \$500,000 to support PEG (public, educational, and government access) channels, in accordance with the 2009 franchise agreement. Comcast recouped this cost, with interest, from subscribers through a line item on customer bills. The company charged customers 11.25% interest monthly on the rolling balance between 2010 through 2016. The total amount charged to customers was \$716,346 (see Exhibit 9).

Exhibit 9: Comcast Charged \$207,984 In PEG Interest Over a Seven Year Period

Calendar Year	Pass Through PEG Fee (Interest)	Pass Through PEG Fee (Principal)	Total PEG Fee Paid by Subscribers
2010	\$45,529	\$34,545	\$80,074
2011	\$49,029	\$65,476	\$114,505
2012	\$41,405	\$70,014	\$111,419
2013	\$33,230	\$78,044	\$111,274
2014	\$23,766	\$90,086	\$113,852
2015	\$13,035	\$102,715	\$115,750
2016	\$1,832	\$67,639	\$69,471
Subtotals	\$207,827	\$508,519	\$716,346
		Overestimation	\$8,362
Total	\$207,984	\$500,000	\$707,984

Source: Auditor's analysis of PEG pass-through calculation provided by Comcast.

FCC (Federal Communications Commission) regulations allow cable operators to collect up to 11.25% in interest on PEG fees as the cost of capital as a pass-through cost to its subscribers, but Comcast overestimated the interest for the cost of capital by \$8,362 (see Exhibit 9).

To correct this overestimation of interest, Comcast reduced the franchise fee line item on the city subscribers' bills for the next annual rate adjustment period, which is consistent with FCC regulations. The total adjusted PEG fees and interest collected by Comcast between 2010 through 2016 is \$707,984 (see Exhibit 9).

The 2009 franchise agreement stated that the city should receive the lump sum payment within 60 days of the contract execution date. We confirmed that the payment was received by the city through the general mail process; however, we could not confirm the timeliness of the payment because Revenue does not have a process in place to confirm the receipt of franchise fee payments through the city's general

mailroom process. Both Revenue and Comcast staff agreed to make arrangements for electronic payments for franchise fees going forward.

In the current franchise agreement, the city negotiated five channels and collection of ten cents (\$0.10) per subscriber per month for PEG during the first two years and five cents (\$0.05) per subscriber per month for the remainder of the agreement term. This change in the agreement terms does not require Comcast to make a lump sum payment to the city and therefore subscribers will not be charged interest on the PEG fees.

Recommendations

To ensure compliance with the 2009 and 2019 Comcast agreement, the Department of Finance Chief Financial Officer should:

1. periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records, as needed, to support the quarterly franchise fee payments made.
2. develop a procedure within its departmental policy to audit any franchise using the city's right-of-way.
3. work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city, and collect all amounts owed from Comcast plus interest.
4. work with the Department of City Planning's GIS group to follow-up with Comcast to determine the total number of addresses that are miscoded within city limits and ensure that the city received the appropriate credit for these addresses between 2017 through 2019.

Appendices

Appendix A: Management Review and Response to Audit Recommendations

Report # 20.03	Report Title: Comcast Franchise Fees	Date: August 2020
Recommendation 1: We recommend that the Chief Financial Officer periodically monitor the Comcast franchise fee agreement to confirm that Comcast is complying with agreement terms by requesting supplemental financial records, as needed, to support the quarterly franchise fee payments made.		
Proposed Action: Pursuant to 2019 agreement (19-O-1598), the Franchising Authority (City) may conduct an audit no more than once annually to ensure payments in accordance with this Agreement. The most recent Comcast audit concluded in July 2020. Thus, the next audit engagement will occur post - July 2021 and will follow this cadence annually thereafter. Additional Comments: Finance will perform due diligence review efforts to vet quarterly payments (September, December, March, June) for anomalies and document findings to share with Comcast and request supporting supplemental records for reconciliation purposes.		Response: Agree
Person Responsible: Enterprise Revenue Chief		Implementation Date: December 2020
Recommendation 2: We recommend that the Chief Financial Officer develop a procedure within its departmental policy to audit any franchise using the city's right-of-way.		
Proposed Action: The Department of Finance will develop audit processes and a thorough audit methodology for any franchise using the city's right-of-way. Currently, the City has more than 25+ franchises. The Department of Finance may elect to utilize the services of Georgia Municipal Association (GMA) or other external vendor to support compliance with this recommendation.		Response: Agree
Person Responsible: Enterprise Revenue Chief		Implementation Date: March 2021
Recommendation 3: We recommend that the Chief Financial Officer work directly with Comcast to determine how much the city is due in franchise fees by identifying the appropriate revenue allocations that should be included in franchise fee payments to the city; and collect all amounts owed from Comcast plus interest.		
Proposed Action: The Department of Finance will partner with Comcast to review revenue allocations and collect all amounts owed from Comcast plus interest as authorized by contractual agreement. The Department of Finance will review and incorporate internal audit's methodology, processes and work paper analysis to develop a comprehensive understanding of Comcast franchise operations for continuous compliance with this recommendation.		Response: Agree
Person Responsible: Enterprise Revenue Chief		Implementation Date: January 2021

Recommendation 4:

We recommend that the Chief Financial Officer work with the GIS group to follow-up with Comcast to determine the total number of addresses that are miscoded within city limits and ensure that the city received the appropriate credit for these addresses between 2017 through 2019.

Proposed Action: The Department of Finance agrees to work with the GIS group to validate addresses miscoded within the city limits. It should be noted that Finance will be challenged to commit resources from another department (GIS group is in AIM) to work on this project as their resource and/or time commitments may be restricted. However, Finance is committed to partnering with AIM to craft a timeline and resource allocation that is agreeable to both parties (AIM and Finance) to support compliance with this recommendation

Response:

Agree

Person Responsible: Enterprise Revenue Chief

Implementation Date:

June 2021

Appendix B: Comcast Letter Responding to Audit Report



July 30, 2020

Ms. Amanda Noble
City Auditor
City of Atlanta
68 Mitchell Street SW, Suite 12100
Atlanta, Georgia 30303

Dear Ms. Noble:

Please accept this letter as Comcast's response to the City of Atlanta's Performance Audit of Comcast's Franchise Fees, for the period from January 1, 2017 through December 31, 2019 (the "Audit Period"). We appreciate the opportunity to respond to the audit report and the professionalism and diligence with which your team conducted the audit.

We at Comcast have performed and continue to perform in good faith under the 2009 franchise agreement, the 2019 franchise agreement, and applicable law. Our objective is to fully satisfy our franchise obligations to the City. Perfection is the goal, but the identification of some mistakes is expected.

We are glad to report that the audit team's findings are relatively minor in scope—amounting to a variance of **less than 1.5 percent** of franchise fees owed over three years—and are easily addressed.

1. Revenue Categorization

We agree with the finding that certain revenue line items were excluded or included in error from "gross revenues" for the purpose of calculating franchise fees, resulting in an underpayment of \$15,246 during the test period (4Q 2019)—a variance of less than 1.2 percent.

Upon execution of our new franchise agreement in 2019, Comcast reviewed and adjusted the line items to be included in "gross revenues" according to the terms of the new agreement; thus, this issue has already been addressed for franchise fee calculations from January 1, 2020, onward.

With respect to the 2009 franchise agreement, we will work closely with the City's Chief Financial Officer to calculate and remit to the City the correct amount of franchise fees owing for the Audit Period, in accordance with Recommendation No. 3.

6200 The Corners Parkway, Suite 200 Peachtree Corners, GA 30092 www.comcastcorporation.com

2. Address Coding

As anticipated when the audit began, it was found that certain City addresses in Comcast's database are coded to other jurisdictions, while other addresses are incorrectly coded to the City. The scope of these errors appears to be extremely limited, however, and the potential amount of franchise fees owing to the City during the Audit Period is significantly lower than the range set out in the audit report. We believe franchise fees due to the City resulting from address coding errors to be **\$23,315.75**—a variance of approximately 0.14 percent.

The audit team provided to Comcast a list of 27,303 addresses in the City of Atlanta that the City's GIS team was unable to match to Comcast's Atlanta address list. The audit team also provided a list to Comcast of 2,180 addresses that the GIS team identified as being located outside but incorrectly coded to the City.

We searched the Comcast database for each of the 27,303 addresses identified by the City as missing, with the following results:

- a. 16,507 addresses are not included in Comcast's billing system. Addresses absent from our database are not serviceable and, thus, have no revenue associated with them. Accordingly, no franchise fees are owed to the City on these addresses.
- b. Similarly, 3,069 addresses are coded in our billing system as non-serviceable. Because these addresses are not serviceable, Comcast has no subscribers and generates no revenues at these addresses. No franchise fees are owed to the City on these addresses.
- c. 4,815 addresses were found to be serviceable and correctly coded to the City of Atlanta. We believe slight differences in spelling and abbreviation along with misidentification or omission of quadrants (e.g., SE vs. SW) in Comcast's billing system contributed to the initial inability to match addresses between the City's and Comcast's lists. No franchise fees are owed to the City on these addresses because they are properly coded.
- d. Finally, 2,912 addresses were found to be serviceable and incorrectly coded to jurisdictions other than the City of Atlanta. Some franchise fees may be owed to the City on these addresses. Note that at least 1,175 of these addresses appear to have been annexed by the City effective January 1, 2018, as part of the Emory/CDC annexation; any calculation of franchise fees on such addresses must be adjusted to the extent that they were not a part of the City during the entire Audit Period.

In addition, we searched the Comcast database for each of the 2,180 addresses identified as being coded to the City of Atlanta in error. We found that 86 of those addresses are correctly coded to the City and 24 are Comcast test accounts, leaving a total of 2,070 addresses that are serviceable and incorrectly coded to the City of Atlanta.

Ms. Amanda Noble
July 30, 2020
Page 3

Comcast's database currently contains approximately **319,000** serviceable addresses coded to the City of Atlanta. With **2,912** serviceable addresses inside the City of Atlanta but coded to other jurisdictions and **2,070** serviceable addresses outside but coded to the City, there is a **net total of 842 addresses** for which Comcast owes the City of Atlanta franchise fees during the Audit Period in whole or in part. Our calculations result in franchise fees owed to the City for the Audit Period in the amount of **\$23,315.75**.

Comcast is already working to correct all address coding errors in its database, pending the agreement of other affected jurisdictions. We will work closely with the Chief Financial Officer to calculate the amount of franchise fees that might be owed to the City for those addresses during the Audit Period, in accordance with Recommendation No. 4.

Thank you again for the opportunity to comment on the audit report. We look forward to working with the City to resolve these outstanding issues and to continuing to serve the Atlanta community.

Sincerely,

A handwritten signature in blue ink, appearing to read "James A. Macke".

James A. Macke
Vice President, External Affairs

Appendix C: Franchise Fee Payment Agreements Comparison

	2009 Comcast Agreement	2019 Comcast Agreement
Date	Effective: November 30, 2009 Term length: 7 years	Effective: October 21, 2019 Term length: 7 years
Renewal	Subject to section 626 of the cable act (47 U.S.C. § 546), which lays out a renewal process beginning 3 years before the contract expires to engage the public, review performance, and allow Comcast to submit a renewal proposal.	Same as 2009 agreement.
Scope	Gives Comcast the right to occupy & use the public right-of-way within city limits to construct, operate, maintain, upgrade, repair and remove the cable system and provide cable services.	Same as 2009 agreement.
Compliance	No material compliance statement.	City acknowledges that Comcast is in material compliance with contract, subject to city's right to audit payments.
PEG provisions	<p>Comcast will provide up to 6 channels for non-commercial, non-revenue generating public, education and governmental (PEG).</p> <p>The city will provide 15 hours/month of non-duplicating content for 3 consecutive months on each PEG channel; otherwise Comcast can reclaim the channel.</p> <p>Within 60 days of contract, Comcast will pay the city \$500,000 for PEG support, which Comcast will recoup from customers in line item on bill.</p>	<p>Comcast will provide up to 5 channels for non-commercial, non-revenue generating public, education and governmental (PEG).</p> <p>The city will provide 8 hours/week of non-duplicating content during contract period; if city fails to provide for 3 consecutive months on any channel, Comcast can reclaim the channel.</p> <p>Comcast will pay the city:</p> <ul style="list-style-type: none"> • 10¢/subscriber/per month for 2 years • 5¢/subscriber/per month for the remainder of the agreement term <p>Paid quarterly along with other revenue to be used for capital costs for PEG channels.</p>

	2009 Comcast Agreement	2019 Comcast Agreement
Revenue basis	<p>Comcast pays city 5% of gross revenue</p> <p>Gross revenue includes: all revenue billed to subscribers for cable/video service, including franchise fees, advertising and home shopping services</p> <p>Gross revenue excludes:</p> <p>taxes, surcharges, governmental fees, revenue billed but not received (bad debt); revenue from internet, telecommunications, yellow and white pages, banner advertising, revenue from late fees not initially booked as revenue, return check fees and interest; revenue from providing or maintaining inside wiring.</p> <p>Bundled services - If any noncable/nonvideo service is bundled with cable/video service for one price, Comcast allocates revenue for the cable/video services.</p>	Same as 2009 agreement.
Payment schedule	Quarterly - within 30 days of the end of March, June, September, and December.	Same as 2009 agreement.
Interest on late payments	Late fees based on IRS for tax refunds (federal short-term rate plus 3%; determined quarterly and compounds daily – see wp#C1 Att. G).	Comcast will pay 1%/month on late payments (from due date to date paid).
Resolution of incorrect payments	If any underpayment is more than 8%, city may recover reasonable expenses in identifying underpayment.	If the city finds that Comcast has underpaid fees in any 12-month period by 10% or more, Comcast will pay amount owed plus reasonable costs for the audit. City must provide written audit results to Comcast within 45 days.

	2009 Comcast Agreement	2019 Comcast Agreement
Reporting	<p>Submit franchise fee report stating gross revenue for the period with payment.</p> <p>Comcast will provide the city with any information the city requests to support contract compliance (subject to Section 631 of the Cable Act, which protects subscribers' privacy).</p>	<p>Submit report on same schedule as payment.</p> <p>Report includes basis for gross revenue calculation, at a minimum:</p> <ul style="list-style-type: none"> ○ Limited and expanded basic video service, digital and premium video service, pay-per-view and video-on-demand ○ Equipment installation and activation ○ franchise fees ○ guide, late fees, ad sales, home shopping commissions, and bad debt
Change in franchise area (city's borders)	<p>No change in franchise area statement.</p>	<p>If the city's borders change through annexation or other reason, the city must notify Comcast in writing and provides an updated map and electronic list of all addresses in the franchise area.</p> <p>Comcast will not pay franchise fees for subscribers in updated area until 60 days after receiving notice.</p>
Audit provisions	<p>The city's acceptance of payments does not denote an agreement that the correct amounts have been paid.</p> <p>The city can audit a maximum of once per year to ensure payments comply with contract.</p> <p>Audit period is limited to 3 years following the end of the quarter of the most recent payment; cannot audit a period twice.</p>	<p>The city's acceptance of payments does not denote an agreement that the correct amounts have been paid.</p> <p>The city can audit a maximum of once per year to ensure payments comply with contract.</p> <p>Audit period is limited to 3 years before the end of the quarter of the most recent payment; cannot audit a period twice.</p>
Confidentiality of information	<p>City agrees to keep proprietary information confidential under the Open Records Act – noted by Comcast as “confidential” or “trade secret” in documents submitted to the city and will notify Comcast in the event of an open records request before releasing information.</p>	<p>Same as 2009 agreement.</p>

Source: Summary table created from the 2009 and 2019 Comcast Franchise agreements.