



*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the Compliance of
Time Warner Cable of New York City,
Queens Inner Unity Cable System,
With Its Franchise Agreement
October 1, 1998, to December 31, 2000**

FN02-107A

June 28, 2002

*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

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Time Warner Cable of New York City,
Queens Inner Unity Cable System,
With Its Franchise Agreement
October 1, 1998, to December 31, 2000**

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EXECUTIVE SUMMARY

In September 1998, the City's Department of Information Technology and Telecommunications (DOITT), and Queens Inner Unity Cable System (QUICS), currently doing business as Time Warner Cable of New York City (Time Warner), agreed to a renewed franchise agreement for 10 years. Section 9 of the renewed agreement requires that Time Warner pay the City 5 percent of its gross revenue, less the mandatory payments made to the New York State Public Service Commission (NYSPSC).¹ In addition, Time Warner is required to: carry \$50 million in insurance that names the City as an additional insured; maintain a security fund deposit of \$1.23 million; and provide specified annual payments to the NYSPSC and the Community Access Organization (CAO).

This audit determined whether Time Warner maintained adequate internal controls over the recording and the reporting of gross revenues; reported accurately its gross revenue and calculated and paid the appropriate franchise fees due, paying those franchise fees on time; and complied with certain non-revenue-related requirements of its franchise agreement. For the audit period, October 1, 1998, to December 31, 2000, Time Warner reported gross revenues totaling \$137.9 million, and paid the City franchise fees of \$6.7 million. In addition, Time Warner paid the New York State Public Service Commission \$195,598. (See Appendix I.)

Time Warner had an adequate system of internal controls over its revenue collection process. However, Time Warner under-reported its gross revenue by \$6,733,670 for the period October 1, 1998, to December 31, 2000. This resulted in Time Warner's owing the City \$366,365 in additional franchise fees and calculated interest.

Commencing February 1998, Time Warner separately identified the cost of franchise fees in its bills to subscribers, but improperly excluded the franchise fee portion totaling \$6,638,576 of the billed amount from October 1, 1998, to December 31, 2000, in its gross revenues reported to the City.² Prior

¹ Pursuant to Article 28, § 817, of the New York State Executive Law, the NYSPSC's operating expenses are to be paid by all cable companies operating in the State. Each cable company's share of the NYSPSC's operating expenses is based on the proportion of the company's gross revenue to the total gross revenue of all the cable companies operating in the State.

² 47 U.S.C. § 542(b) provides that for any 12-month period, franchise fees paid by cable operators shall not exceed 5 percent of such cable operator's gross revenues derived in such period from the operation of the cable system to provide cable services. In *City of Dallas v. Federal Communication Commission*, 118 F.3d

to February 1998, Time Warner reported the total amount collected from subscribers (including franchise fees collected from subscribers) on its gross revenue statements and paid the pertinent fees on these amounts. In addition, Time Warner did not report \$78,900, in revenue from Non-Sufficient Fund check charges—a fee charged to each customer for each check returned by the bank as uncollectible. Furthermore, Time Warner did not report \$16,194 on its gross revenue statements to the City relating to revenue received from subscriber trip charges—a fee charged to its subscribers to collect delinquent payments.

The preliminary draft of this report recommended that Time Warner pay the City \$366,365 for additional franchise fees and interest due, and include on its quarterly gross revenue statements to the City all franchise fees collected from subscribers, Non-Sufficient Fund check charges, and trip charges.

However, as a result of this audit and two other audits of Time Warner cable franchise agreements—Time Warner Northern Manhattan Division and Time Warner Southern Manhattan Division—Time Warner, through an agreement with the City, paid the City \$7,677,521 on May 31, 2002. This payment covered franchise fees that were excluded from gross revenue calculations to May 31, 2002, and owed under the seven Time Warner cable franchise agreements with the City. (Of the total amount paid, \$641,357 pertained to the QUICS Division.) Therefore, this report now recommends that Time Warner pay the City \$5,524 in franchise fees and interest owed under its franchise agreement for its QUICS Division for excluding Non-Sufficient Fund check charges on its gross revenue statements from October 1, 1998, through December 31, 2000.

Time Warner officials responded that “We disagree with your characterization of our not including the amount of franchise fees in our computation of gross revenues as an ‘underreporting’ and an ‘improper exclusion’. As you are aware, there was a difference of opinion between the City and Time Warner with regard to this fee on fee issue. It was Time Warner’s position that franchise fees should not be included as part of gross revenues while it was the City’s position that they should. Subsequently, as you discuss in the Report, an Agreement settling this matter was reached, although it should be pointed out that neither party conceded their position. Further, although the audit periods vary, it should be made clear in each Report that the \$7,677,521 payment covered the period from February 1, 1998 through May 31, 2002, in each case a period beyond the Audit period.”

DOITT officials responded that “the financial issues brought forward during the audit have been addressed and are now correctly being reported as gross revenue [by Time Warner]. The appropriate franchise fees will be paid quarterly. Franchise fee payments will continue to be reviewed and monitored by this agency accordingly.”

Neither Time Warner nor DOITT responded to the audit’s findings pertaining to the exclusion of Non-Sufficient Fund check charges.

INTRODUCTION

Background

In 1983, the City of New York entered into a 15-year agreement with Queens Inner Unity Cable System (QUICS) to construct and operate a cable television system within a designated part of Queens. In 1987, QUICS entered into an agreement with Warner Cable Communications, Inc., to create a joint venture to be owned equally by Warner Cable of New York, Inc. (d.b.a. Time Warner

393 (1997), the United States Court of Appeals for the Fifth Circuit held that a cable operator’s gross revenues derived from the operation of a cable system includes money collected from subscribers that is allocated to pay franchise fees.

Cable of New York City), and QUICS. In September 1998, the City's Department of Information Technology and Telecommunications (DOITT), which is responsible for monitoring Time Warner's compliance with the terms of the franchise agreement, extended the agreement for 10 years. In 2000, QUICS became wholly owned by Time Warner Entertainment Company LP (Time Warner).

Section 9 of the renewed agreement requires that Time Warner pay the City 5 percent of its gross revenue, less the mandatory payments made to the New York State Public Service Commission (NYSPSC).³ Time Warner is also required to submit quarterly gross revenue statements with its franchise fee payments no later than 30 days after the last day of March, June, September, and December. Interest on late payments of franchise fees is assessed at the prime commercial lending rate of Chase Manhattan Bank (now JP Morgan Chase).

In addition, Time Warner is required to:

- carry a \$50 million combined insurance policy for property damage and bodily injury, naming the City as an additional insured;
- maintain a security fund deposit of \$1.23 million with the City Comptroller's Office—\$75,000 in cash or City bonds, and the remainder in a letter of credit or in another form that is acceptable to the Comptroller and the City's Corporation Counsel; and
- provide specified annual payments, payable quarterly, to the NYSPSC and the Community Access Organization (CAO).

As of December 31, 2000, Time Warner offers more than 200 channels to approximately 106,000 subscribers. Time Warner offers multiple service options consisting of basic service channels, standard service channels, premium service channels, pay service channels, and "Road Runner" service, which began in October 2000 and provides high speed internet connection. Time Warner also receives revenue from its weekly programming guide and non-subscriber revenue from home-shopping channel commissions. In addition, Time Warner provides free services to its employees and to apartment managers in Queens, and includes its value as revenue.

Time Warner contracted with CSG Systems, Inc. to manage its monthly subscriber billings. CSG Systems processes subscriber billings and payments, and generates various management reports used by Time Warner when compiling its financial data.

³ Pursuant to Article 28, § 817, of the New York State Executive Law, the NYSPSC's operating expenses are to be paid by all cable companies operating in the State. Each cable company's share of the NYSPSC's operating expenses is based on the proportion of the company's gross revenue to the total gross revenue of all the cable companies operating in the State.

For the audit period, October 1, 1998, to December 31, 2000, Time Warner reported gross revenues totaling \$137.9 million, and paid the City franchise fees of \$6.7 million. In addition, Time Warner paid the New York State Public Service Commission \$195,598. (See Appendix I.)

Objectives

Our audit objectives were to determine whether Time Warner:

- maintained adequate internal controls over the recording and the reporting of gross revenues;
- reported accurately its gross revenue and calculated and paid the appropriate franchise fees due, paying those franchise fees on time; and
- complied with certain non-revenue-related requirements of its franchise agreement (i.e., maintained the required liability insurance and security fund deposit, and made all the required payments to the NYSPSC and CAO).

Scope and Methodology

This audit covered the period October 1, 1998, to December 31, 2000. To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the franchise agreement. We evaluated the internal control structure that Time Warner had over its revenue functions. To obtain an understanding of Time Warner's internal controls, we interviewed its Accounting Manager and other key personnel. We documented the results through flowcharts and memoranda. We reviewed the consistency of the gross revenue reported by Time Warner for QUICS by performing an analytical review of its quarterly gross revenue statements for the entire audit period.

Subscriber Revenue

For the period covered by our audit, subscriber revenue for QUICS accounted for approximately 99 percent of total reported gross revenue. To determine whether Time Warner accurately reported its gross revenue from subscribers, we traced the amounts reported on Time Warner's quarterly statements to its Income Statements and general ledger detail for the audit period—October 1, 1998, to December 31, 2000. We then traced the detailed general ledger entries to the corresponding CSG Systems reports. Finally, we traced revenue entries and miscellaneous credit entries from the CSG Systems reports to Time Warner's general ledger for the same period. We also verified whether deductions from revenue were made in compliance with the terms of Time Warner's franchise agreement. In addition, by reviewing the records of the City Department of Finance, we verified whether Time Warner actually made its payment to the City.

To determine whether we could rely on the subscriber revenue reports generated by CSG Systems, we reviewed Time Warner's "Financial Net Income Statements," general ledger revenue accounts, and CSG Systems revenue reports to determine whether the amounts reported were in agreement. We reviewed an "Independent Service Auditor's Report" prepared by Ernst & Young LLP for CSG Systems, as it applied to CSG System's data processing and applications. The report, in part, stated:

"Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering

our opinion In our opinion, the accompanying description of the aforementioned system presents fairly, in all material respects, the relevant aspects of CSG System, Inc.'s and First Data Corporation Information Services Group's controls that have been placed in operation as of September 30, 2000. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the user organizations applied those aspects of internal control contemplated in the design of CSG's and First Data's controls."

Non-Subscriber Revenue

To determine whether non-subscriber revenue⁴ was accurately reported by Time Warner, we traced the amounts reported on Time Warner's October 1998 through December 2000 quarterly statements submitted to the City to Time Warner's general ledger and supporting documentation (i.e., invoices and related statements). Furthermore, to determine the reasonableness of the amounts Time Warner included in its gross revenue for "free service," we verified the "free service" rates to Time Warner's "schedule of rates." We then recalculated the reported value of "free service" by multiplying the number of employee and apartment managers listed as receiving free services in the the CSG systems reports."⁵

Contract Compliance Issues

To determine whether Time Warner complied with the non-revenue-related terms and conditions of its franchise agreement, we verified whether Time Warner had the required insurance coverage by reviewing the original insurance certificates. We also confirmed whether Time Warner remitted the required security deposit and made the required payments to the NYSPSC and the CAO.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities, as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with Time Warner officials during and at the conclusion of this audit. This draft report was sent to Time Warner and DOITT officials on June 12, 2002, and was discussed at an exit conference on June 17, 2002. We received a written response from Time Warner on June 20, 2002, and from DOITT officials on June 21, 2002.

In its response, Time Warner stated that:

"We disagree with your characterization of our not including the amount of franchise fees in our computation of gross revenues as an 'underreporting' and an 'improper exclusion'. As you are aware, there was a difference of opinion

⁴ Non-subscriber revenue includes "Home Shopping," the value of free services, and other miscellaneous revenue sources.

⁵ Section 1.31 of Time Warner QUICS's franchise agreement requires that it include as gross revenue the value of "free services" that Time Warner provides to apartment managers and its employees.

between the City and Time Warner with regard to this fee on fee issue. It was Time Warner's position that franchise fees should not be included as part of gross revenues while it was the City's position that they should. Subsequently, as you discuss in the Report, an Agreement settling this matter was reached, although it should be pointed out that neither party conceded their position. Further, although the audit periods vary, it should be made clear in each Report that the \$7,677,521 payment covered the period from February 1, 1998 through May 31, 2002, in each case a period beyond the Audit period."

DOITT officials responded that:

"The financial issued brought forward during the audit have been addressed and are now being reported as gross revenue [by Time Warner]. The appropriate franchise fees will be paid quarterly. Franchise fee payments will continue to be reviewed and monitored by this agency accordingly."

Neither Time Warner nor DOITT responded to the audit's findings pertaining to the exclusion of Non-Sufficient Fund check charges.

The full texts of Time Warner's and DOITT's comments are included as addenda to this final report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: June 28, 2002

FINDINGS AND RECOMMENDATIONS

Time Warner had an adequate system of internal controls over its revenue collection process. However, Time Warner under-reported its gross revenue by \$6,733,670 for the period October 1, 1998, to December 31, 2000. This resulted in Time Warner’s owing the City \$366,365 in additional franchise fees and calculated interest.

As a result of this audit and two other audits of Time Warner cable franchise agreements—Time Warner Northern Manhattan Division and Time Warner Southern Manhattan Division—Time Warner, through an agreement with the City, paid the City \$7,677,521 on May 31, 2002. This payment covered franchise fees that were excluded from gross revenue calculations to May 31, 2002, and owed under the seven Time Warner cable franchise agreements with the City. (Of the total amount paid, \$641,357 pertained to the QUICS Division.) Therefore, this report now recommends that Time Warner pay the City \$5,524 in franchise fees and interest owed under its franchise agreement for its QUICS Division for excluding Non-Sufficient Fund check charges on its gross revenue statements from October 1, 1998, through December 31, 2000, as shown in Table I, which follows.

TABLE I
Schedule of Additional Franchise Fees and Interest Owed
October 1, 1998, to December 31, 2000

Revenue Category	Reported Amount	Audited Amount	Difference
Audited Revenue from Billing and Reporting Changes (October 1, 1998, to December 31, 2000)	\$ 0	\$6,638,576	\$6,638,576
Revenue from Billing and Reporting Changes (January 1, 2001, to May 31, 2002)	0	4,815,200	4,815,200
Exclusion of Non-Sufficient Fund Check Charges	54,732	133,632	78,900
Exclusion of Trip Charges	13,100	29,294	16,194
Total			\$11,548,870
Franchise Fees Due on Under-reported Revenue @ 5%			\$577,444
Add: Interest Owed (see Appendices II and III)			69,437
Total			\$646,881
Less: Time Warner Payment (through May 31, 2002)			\$641,357
Total Franchise Fees and Interest Due			\$5,524

Our audit exceptions are discussed in detail in the following sections of this report.

Unreported Revenue from Billing and Reporting Changes

Prior to February 1998, Time Warner reported the total amount collected from subscribers (including franchise fees collected from subscribers) on its gross revenue statements and paid the pertinent fees on these amounts. However, commencing February 1998, Time Warner separately identified the cost of franchise fees in its bills to subscribers, but improperly excluded the franchise fee portion of the billed amount in its gross revenues reported to the City.⁶ This unreported revenue collected from subscribers for our audit period October 1, 1998, to December 31, 2000, amounted to \$6,638,576. As a result, Time Warner did not pay \$331,929 in franchise fees.

As previously mentioned, Time Warner, through an agreement with the City, paid the City \$7,677,521 on May 31, 2002. This payment covered franchise fees that were excluded from gross revenue calculations to May 31, 2002, and owed under the seven Time Warner cable franchise agreements with the City. (Of the total amount paid, \$641,357 pertained to the QUICS Division.)

Exclusion of Non-Sufficient Fund Check Charges

Time Warner did not report \$78,900, in revenue from Non-Sufficient Fund check charges on its gross revenue statements to the City from October 1, 1998, to December 2000. Time Warner charges its customers a processing fee for each check returned by the bank as uncollectible. According to its franchise agreement, Time Warner is required to report all revenue received from subscribers and pay the appropriate fees to the City.

Exclusion of Trip Charges

Time Warner did not report \$16,194 on its gross revenue statements to the City relating to revenue received from subscriber trip charges for October 1, 1998, to September 30, 1999. Time Warner imposes a trip charge fee to its subscribers for delinquent payments collected at their residence by Time Warner personnel. According to its franchise agreement, Time Warner is required to report all revenue received from subscribers and pay the appropriate fees to the City. It should be noted, however, that Time Warner did include these charges on its gross revenue statements and paid the appropriate fees in accordance with its agreement from October 1999 through December 2000.

⁶ 47 U.S.C. § 542(b) provides that for any 12-month period, franchise fees paid by cable operators shall not exceed 5 percent of such cable operator's gross revenues derived in such period from the operation of the cable system to provide cable services. In *City of Dallas v. Federal Communication Commission*, 118 F.3d 393 (1997), the United States Court of Appeals for the Fifth Circuit held that a cable operator's gross revenues derived from the operation of a cable system includes money collected from subscribers that is allocated to pay franchise fees.

Interest Due

Section 9.4 of its franchise agreement with the City requires that Time Warner pay the City interest in accordance with the following:

“In the event that any payment required by this Agreement is not actually received by the City on or before that applicable date fixed in this Agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by the Chase Manhattan Bank for commercial loans, compounded daily.”

Based on the additional franchise fees of \$4,755 owed by Time Warner, we calculated that Time Warner owes the City \$769 in interest. (See Appendix III for details.)

Contract Compliance Issues

Time Warner adhered to certain non-revenue-related requirements of the franchise agreement. Specifically, we verified that Time Warner maintained the required \$50 million insurance coverage by reviewing the insurance certificates. We also confirmed that the City was included as an additional insured. In addition, we verified that Time Warner deposited \$75,000 and posted a \$1,155,000 letter of credit with the Comptroller’s Office. Finally, we verified that Time Warner made its required payments to the NYSPSC and the CAO in accordance with its franchise agreement.

Recommendations

We recommend that Time Warner:

1. Pay the City \$5,524 for additional franchise fees and interest due.
2. Include on its quarterly gross revenue statements to the City all franchise fees collected from subscribers, Non-Sufficient Fund check charges, and trip charges.

Time Warner’s Response: Time Warner officials stated that “We disagree with your characterization of our not including the amount of franchise fees in our computation of gross revenues as an ‘underreporting’ and an ‘improper exclusion’. As you are aware, there was a difference of opinion between the City and Time Warner with regard to this fee on fee issue. It was Time Warner’s position that franchise fees should not be included as part of gross revenues while it was the City’s position that they should. Subsequently, as you discuss in the Report, an Agreement settling this matter was reached, although it should be pointed out that neither party conceded their position. Further, although the audit periods vary, it should be made clear in each Report that the \$7,677,521 payment covered the period from February 1, 1998 through May 31, 2002, in each case a period beyond the Audit period.”

We recommend that DOITT:

3. Ensure that Time Warner complies with the report’s recommendations.

DOITT's Response: DOITT officials responded that “the financial issues brought forward during the audit have been addressed and are now being reported as gross revenue [by Time Warner]. The appropriate franchise fees will be paid quarterly. Franchise fee payments will continue to be reviewed and monitored by this agency accordingly.”

APPENDIX I

Time Warner Cable of New York City, Queens Inner Unity Cable System
 Reported Revenues, Franchise Fees Paid, and NYSPSC Payments
 October 1, 1998, to December 31, 2000

	Reported Gross Revenue	Franchise Fee Paid	NYSPSC Payments
1998			
4th Quarter	\$ 14,202,818	\$ 686,819	\$ 23,321
Subtotal	\$ 14,202,818	\$ 686,819	\$ 23,321
1999			
1st Quarter	\$ 14,838,084	\$ 718,583	\$ 23,321
2nd Quarter	14,661,992	710,953	22,147
3rd Quarter	14,829,878	719,347	22,147
4th Quarter	18,338,048	894,756	22,147
Subtotal	\$ 62,668,002	\$ 3,043,639	\$ 89,761
2000			
1st Quarter	\$ 15,425,580	\$ 749,132	\$ 22,147
2nd Quarter	15,652,406	762,478	20,142
3rd Quarter	15,070,780	733,426	20,113
4th Quarter	14,867,354	723,254	20,113
Subtotal	\$ 61,016,121	\$ 2,968,290	\$ 82,513
Total	\$ 137,886,940	\$ 6,698,748	\$ 195,598

APPENDIX II

Time Warner Cable of New York City - QUICS
 Schedule of Interest Due on Revenue from Billing and Reporting Changes
 October 1, 1998, through May 31, 2002

Date	Franchise Fee Due	Accumulated Balance Due	Due Date	Cover Period		Number of Days Overdue	Interest Rate	Interest Due
				From	To			
1998								
4th Quarter	\$ 34,617	\$ 34,617	1/30/99	1/31/99	4/30/99	90	7.75%	\$ 668
1999		35,285						
1st Quarter	36,109	71,394	4/30/99	5/1/99	6/30/99	61	7.75%	931
		72,324		7/1/99	7/30/99	30	8.00%	477
2nd Quarter	36,217	72,801	7/30/99	7/31/99	8/24/99	25	8.00%	599
		109,018		8/25/99	10/30/99	67	8.25%	1,672
3rd Quarter	37,126	109,617	10/30/99	11/1/99	11/16/99	17	8.25%	571
		111,290		11/17/99	1/30/00	75	8.50%	2,625
4th Quarter	37,689	148,416	1/30/00	1/31/00	2/2/00	3	8.50%	132
		148,987		2/3/00	3/21/00	48	8.75%	2,192
		151,612		3/22/00	4/30/00	40	9.00%	1,899
2000		193,524						
1st Quarter	37,389	230,913	4/30/00	5/1/00	5/16/00	16	9.00%	913
		231,826		5/17/00	7/30/00	75	9.50%	4,569
2nd Quarter	37,628	236,395	7/30/00	7/31/00	10/30/00	92	9.50%	6,640
		274,023		10/31/00	1/3/01	65	9.50%	5,426
3rd Quarter	37,381	280,663	10/30/00	1/4/01	1/30/01	27	9.00%	2,160
		318,044		1/31/01	1/31/01	1	9.00%	90
4th Quarter	37,773	323,470	1/30/01	2/1/01	3/20/01	48	8.50%	4,085
		325,630		3/21/01	4/18/01	29	8.00%	2,344
		363,403		4/19/01	4/30/01	12	7.50%	913
2001		370,835						
1st Quarter	38,561	409,396	4/30/01	5/1/01	5/15/01	15	7.50%	1,264
		410,660		5/16/01	6/27/01	43	7.00%	3,400
		414,060		6/28/01	7/30/01	33	6.75%	2,534
2nd Quarter	41,171	416,594	7/30/01	7/31/01	8/21/01	22	6.75%	1,866
		457,765		8/22/01	9/17/01	27	6.50%	2,215
		459,631		9/18/01	10/2/01	15	6.00%	1,140
		461,847		10/3/01	10/30/01	28	5.50%	1,957
3rd Quarter	41,516	462,987	10/30/01	10/31/01	11/6/01	7	5.50%	534
		464,944		11/7/01	12/11/01	35	5.00%	2,436
		506,460		12/12/01	1/30/02	50	4.75%	3,325
4th Quarter	512,756	1/30/02	1/30/02	4/30/02	91	4.75%	6,629	
2002		556,488						
1st Quarter	45,468	563,117	4/30/02	5/1/02	5/31/02	31	4.75%	2,460
2nd Quarter	30,312	608,588	7/30/02					
		611,045						
		641,357						
Total	\$ 572,689							\$ 68,668

Time Warner Cable of New York City - QUICS
 Schedule of Interest Due For Exclusion of Non-Sufficient Fund Check Charges and Trip Charges
 October 1, 1998, through December 31, 2000

Date	Franchise Fee Due	Accumulated Balance Due	Due Date	Cover Period		Number of Days Overdue	Interest Rate	Interest Due
				From	To			
1998								
4th Quarter	\$ 1,125	\$ 1,125	1/30/99	1/31/99	4/30/99	90	7.75%	\$ 22
1999								
1st Quarter	1,009	1,147 2,156 2,184	4/30/99	5/1/99 7/1/99	6/30/99 7/30/99	61 30	7.25% 8.00%	28 14
2nd Quarter	839	2,198 3,037 3,054	7/30/99	7/31/99 8/25/99	8/24/99 10/30/99	25 67	8.00% 8.25%	17 47
3rd Quarter	998	3,100 4,098 4,114	10/30/99	10/31/99 11/17/99	11/16/99 1/30/00	17 75	8.25% 8.50%	16 72
4th Quarter	132	4,186 4,318 4,321 4,371	1/30/00	1/31/00 2/3/00 3/22/00	2/2/00 3/21/00 4/30/00	3 48 40	8.50% 8.75% 9.00%	3 50 43
2000								
1st Quarter	132	4,414 4,547 4,564	4/30/00	5/1/00 5/17/00	5/16/00 7/30/00	16 75	9.00% 9.50%	18 90
2nd Quarter	158	4,654 4,812 4,929	7/30/00	7/31/00	10/30/00	92	9.50%	117
3rd Quarter	173	5,102 5,189 5,223	10/30/00	10/31/00 1/4/01	1/3/01 1/30/01	65 27	9.50% 9.00%	87 35
4th Quarter	190	5,223 5,413 5,414 5,475 5,510 5,524	1/30/01	1/31/01 2/1/01 3/21/01 4/19/01	1/31/01 3/20/01 4/18/01 4/30/01	1 48 29 12	9.00% 8.50% 8.00% 7.50%	1 61 35 14
Total	\$ 4,755							\$ 769

ADDENDUM I

Kathy Scopp
Vice President / General Counsel

June 20, 2002

Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of the Comptroller
Bureau of Audits
1 Centre Street, Room 1100
New York, New York 10007-2341

RE: RESPONSE TO DRAFT AUDIT REPORTS DATED JUNE 12, 2002 FOR
SOUTHERN MANHATTAN, NORTHERN MANHATTAN AND QUICS

Dear Mr. Liwer:

We have reviewed the Draft Audit Reports dated June 12, 2002 pertaining to our Southern and Northern Manhattan and QUICS systems. There are several misstatements which we would like to bring to your attention.

We disagree with your characterization of our not including the amount of franchise fees in our computation of gross revenues as an "underreporting" and an "improper exclusion". As you are aware, there was a difference of opinion between the City and Time Warner with regard to this fee on fee issue. It was Time Warner's position that franchise fees should not be included as part of gross revenues while it was the City's position that they should. Subsequently, as you discuss in the Report, an Agreement settling this matter was reached, although it should be pointed out that neither party conceded their position. Further, although the audit periods vary, it should be made clear in each Report that the \$7,677,521 payment covered the period from February 1, 1998 through May 31, 2002, in each case a period beyond the Audit period.

Sincerely,


Kathleen H. Scopp

cc: Barry Rosenblum
Terence Rafferty
Agostino Cangemi, Esq.

Time Warner Cable 120 East 23rd Street, New York, NY 10010 Tel 212.598.1710 Fax 212.420.4812

 **TIME WARNER**
CABLE
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at its best



DEPARTMENT OF INFORMATION TECHNOLOGY
AND TELECOMMUNICATIONS

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GINO P. MENCHINI
Commissioner
Chief Information Officer

June 21, 2002

Roger D. Liwer
Executive Deputy Comptroller
Office of the Comptroller
One Centre Street, Room 530
New York, NY 10007-2341

Re: Audit reports of Time Warner Cable Northern/ Southern Manhattan and Queens
Inner Unity Cable System's compliance with their franchise agreement for the
period October 1, 1998 to December 31, 2001.
FN02-108A...FN02-153A...FN02-107A

Dear Executive Deputy Comptroller Liwer:

We have discussed the audit findings with Time Warner officials and have been
assured that the financial issues brought forward during the audit have been addressed
and is now being correctly reported as gross revenue. The appropriate franchise fees will
be paid quarterly.

Franchise fee payments will continue to be reviewed and monitored by this
agency accordingly. Should you have any questions please contact me at 718-403-8228.

Sincerely,

Marvin E. Fields
Director, Cable Television/
Hi Capacity Telecommunications
Operations & Engineering

- c: Gino Menchini, Commissioner (DoITT)
- Agostino Cangemi, Deputy Commissioner/ General Counsel (DoITT)
- John McCormick, Assistant Commissioner (DoITT)
- Elaine Brower, Bureau of Audit, Office of the Comptroller
- Susan Kupferman, Mayors Office of Operations

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