



*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
Southern Manhattan Division,
With Its Franchise Agreement
October 1, 1998, to December 31, 2001**

FN02-153A

June 28, 2002

*The City of New York
Office of the Comptroller
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**Audit Report on the Compliance of
Time Warner Cable of New York City,
Southern Manhattan Division,
With Its Franchise Agreement
October 1, 1998, to December 31, 2001**

FN02-153A

EXECUTIVE SUMMARY

In September 1998, the City, through the Department of Information Technology and Telecommunications (DOITT), and Time Warner Cable of New York City, Southern Manhattan Division (Time Warner) agreed to a renewed franchise agreement for 10 years. Section 9 of the renewed agreement requires that Time Warner pay the City five 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 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 \$3.5 million; and provide specified annual payments, payable quarterly, 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 its 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 other non-revenue related requirements of its franchise agreement (i.e., maintained the required liability insurance and security fund, and made the required payments to the NYSPSC and CAO).

For the audit period October 1, 1998, through December 31, 2001, Time Warner reported gross revenues totaling \$628 million. Time Warner paid the City \$39.3 million in franchise fees. In addition, Time Warner paid the NYSPSC \$725,586. (See Appendix I.) Of the franchise fees, \$30.6 million pertained to the Southern Manhattan Division and \$8.7 million related to franchise fees from advertising revenues that included all Time Warner City Divisions for its CityCable Advertising Division. CityCable's advertising revenues and franchise fees for the period January 1, 1996, to December 31, 1999, were covered in a separate audit—FN00-098A, issued on May 11, 2000.

For the audit period October 1, 1998, through December 31, 2001, Time Warner reported gross revenues totaling \$628 million. Time Warner paid the City \$39.3 million in franchise fees. In addition, Time Warner paid the NYSPSC \$725,586. Time Warner had an adequate system of internal controls over its revenue collection process. However, Time Warner under-reported its gross

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 companies operating in the State.

revenue by \$26,894,861 for the period October 1, 1998, to December 31, 2001. This resulted in Time Warner's owing the City \$1,493,954 in additional franchise fees and calculated interest as of December 31, 2001.

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.² 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. Also, Time Warner did not report \$75,046 in revenue from Non-Sufficient Fund check charges—a fee charged to each customer for each check returned by the bank as uncollectible—on its gross revenue statements to the City from October 1, 1998, to December 30, 2001.

The preliminary draft of this report recommended that Time Warner pay the City \$1,493,954 for additional franchise fees and interest due, and include on its quarterly gross revenue statements to the City all franchise fees collected from subscribers and Non-Sufficient Fund check charges.

However, as a result of this audit and two other audits of Time Warner cable franchise agreements—Time Warner Northern Manhattan Division and Queens Inner Unity Cable System—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, \$1,776,532 pertained to the Southern Manhattan Division.) Therefore, this report now recommends that Time Warner pay the City \$4,460 in franchise fees and interest owed under its franchise agreement for the Southern Manhattan Division for excluding Non-Sufficient Fund check charges on its gross revenue statements from October 1, 1998, through December 31, 2001.

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.

² 47 U.S.C. § 542(b) provides that for any 12-month period, franchise fees paid by cable operators shall not exceed five 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 (1977), 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.

INTRODUCTION

Background

In September 1998, the City, through the Department of Information Technology and Telecommunications (DOITT), and Time Warner Cable of New York City, Southern Manhattan Division (Time Warner) agreed to a renewed franchise agreement for 10 years. Section 9 of the renewed agreement requires that Time Warner pay the City five 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 J.P. 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 \$3.5 million with the City Comptroller's Office — \$130,000 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, 2001, Time Warner offers more than 200 channels to approximately 300,000 Southern Manhattan 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 1999 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 Southern Manhattan, and includes the value of such services as revenue.

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

For the audit period October 1, 1998, through December 31, 2001, Time Warner reported gross revenues totaling \$628 million. Time Warner paid the City \$39.3 million in franchise fees. In addition, Time Warner paid the NYSPSC \$725,586. (See Appendix I.) Of the franchise fees, \$30.6 million pertained to the Southern Manhattan Division and \$8.7 million related to franchise fees from advertising revenues that included all Time Warner City Divisions for its CityCable Advertising Division.

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 companies operating in the State.

CityCable's advertising revenues and franchise fees for the period January 1, 1996, to December 31, 1999, were covered in a separate audit—FN00-098A, issued on May 11, 2000.

Objectives

Our audit objectives were to determine whether Time Warner:

- maintained adequate internal controls over the recording and the reporting of its 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 other requirements of its franchise agreement (i.e., maintained the required liability insurance and security fund, and made the required payments to the NYSPSC and CAO).

Scope and Methodology

This audit covered the period October 1, 1998, to December 31, 2001. To achieve our audit objectives, we reviewed and abstracted the relevant terms and conditions of the renewed franchise agreement. We evaluated the internal control structure that Time Warner had over its revenue functions.

To obtain an understanding of Time Warner's controls, we interviewed its Accounting Manager and other key personnel. We documented the results through flowcharts and memoranda. We then reviewed the consistency of the gross revenue reported by Time Warner for its Southern Manhattan Division by analyzing its quarterly gross revenue statements for the entire audit period.

Subscriber Revenue

For the period covered by our audit, subscriber revenue for Southern Manhattan accounted for approximately 98 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, 2001. 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 payments 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

application presents fairly, in all material respects, the relevant aspects of CSG's and First Data's controls that had been placed in operation as of September 30, 2001. 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 Time Warner's non-subscriber revenue was accurately reported, we traced the amounts reported to the City on Time Warner's quarterly statements for October 1998 through December 2001 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 employees and apartment managers listed as receiving free services in the CSG reports."⁴

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. A draft report was sent to Time Warner and DOITT officials on June 12, 2002, and will be 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 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,

⁴ Section 1.31 of Time Warner's Southern Manhattan Division franchise agreement requires that it include as gross revenue the value of "free services" that Time Warner provides to apartment managers and its employees.

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 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 \$26,894,861 for the period October 1, 1998, to December 31, 2001. This resulted in Time Warner’s owing the City \$1,493,954 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 Queens Inner Unity Cable System—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, \$1,776,532 pertained to the Southern Manhattan Division.) Therefore, Time Warner now owes the City only \$4,460 in franchise fees and interest under its franchise agreement for the Southern Manhattan Division for excluding Non-Sufficient Fund check charges on its gross revenue statements from October 1, 1998, through December 31, 2001, as shown in Table I, which follows.

TABLE I
Schedule of Additional Franchise Fees and Interest Owed
October 1, 1998, to December 31, 2001

Revenue Category	Reported Amount	Audited Amount	Difference
Audited Revenue from Billing and Reporting Changes (October 1, 1998, to December 31, 2001)	\$3,405,480	\$30,225,295	\$26,819,815
Revenue from Billing and Reporting Changes (January 1, 2002, to May 31, 2002)	0	5,143,118	5,143,118
Exclusion of Non-Sufficient Fund Check Charges (October 1, 1998, to December 31, 2001)	89,429	164,475	75,046
Total			\$32,037,979
Franchise Fees Due on Under-Reported Revenue @ 5%			1,601,900
Add: Interest Owed (See Appendices II and III)			179,092
Total			1,780,992
Less: Time Warner Payment (through May 31, 2002)			1,776,532
Total Franchise Fees and Interest Due, as of December 31, 2001			\$4,460

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.⁵ This unreported revenue collected from subscribers for our audit period October 1, 1998, to December 31, 2001, amounted to \$26,819,815. As a result, Time Warner did not pay \$1,340,991 in franchise fees.

As previously mentioned, Time Warner, through an agreement with 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, \$1,776,532 pertained to the Southern Manhattan Division.)

Exclusion of Non-Sufficient Fund Check Charges

Time Warner did not report \$75,046 in revenue from Non-Sufficient Fund check charges on its gross revenue statements to the City from October 1, 1998, to December 30, 2001. 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. As a result, Time Warner did not pay \$3,752 in 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 [now J.P. Morgan Chase] for commercial loans, compounded daily.”

Based on the additional franchise fees of \$3,753 owed by Time Warner, we calculated that Time Warner owes the City \$707 in interest. (See Appendix III for details.)

⁵ 47 U.S.C. § 542(b) provides that for any 12-month period, franchise fees paid by cable operators shall not exceed five 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 (1977), 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.

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 \$130,000 and posted a \$3.37 million 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 \$4,460 for additional franchise fees and interest due.
2. Include on its gross revenue statements to the City all franchise fees collected from subscribers and Non-Sufficient Fund check 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, Southern Manhattan Division
 Reported Revenues, Franchise Fees Paid, and NYS/PSC Payments
 Audit Period: October 1, 1998 to December 31, 2001

	Reported Gross Revenue For Southern Manhattan	Franchise Fee Paid*	NYS/PSC Payments
1998			
4th Quarter	\$42,097,010	\$2,441,243	\$65,859
Subtotals	\$42,097,010	\$2,441,243	\$65,859
1999			
1st Quarter	\$43,211,025	\$2,427,355	\$60,627
2nd Quarter	43,691,254	2,620,351	60,627
3rd Quarter	44,060,812	2,659,905	60,627
4th Quarter	44,935,027	2,972,314	60,627
Subtotals	\$175,898,118	\$10,679,925	\$242,508
2000			
1st Quarter	\$45,694,150	\$2,832,327	\$56,972
2nd Quarter	47,696,963	3,102,274	56,890
3rd Quarter	47,754,232	2,972,517	56,890
4th Quarter	49,071,727	3,347,517	19,429
Subtotals	\$190,217,072	\$12,254,635	\$190,181
2001			
1st Quarter	\$52,605,140	\$3,150,354	\$58,721
2nd Quarter	54,598,021	3,413,248	58,721
3rd Quarter	56,117,521	3,521,495	58,721
4th Quarter	56,554,946	3,904,206	50,875
Subtotals	\$219,875,637	\$13,989,303	\$227,038
Totals	\$628,087,837	\$39,365,106	\$725,586

*Includes CityCable Advertising Revenue Franchise Fees for all Time Warner Divisions.

APPENDIX II

Time Warner Cable of New York City - Southern Manhattan
 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	\$ 87,156	\$ 87,156	1/30/99	1/31/99	4/30/99	90	7.75%	\$ 1,681
1999		88,837						
1st Quarter	89,876	178,713	4/30/99	5/1/99	6/30/99	61	7.75%	2,350
		181,043		7/1/99	7/30/99	30	8.00%	1,194
		182,237						
2nd Quarter	90,900	273,137	7/30/99	7/31/99	8/24/99	25	8.00%	1,501
		274,638		8/25/99	10/30/99	67	8.25%	4,190
		278,828						
3rd Quarter	93,365	372,193	10/30/99	10/31/99	11/16/99	17	8.25%	1,433
		373,626		11/17/99	1/30/00	75	8.50%	6,582
		380,208						
4th Quarter	94,573	474,781	1/30/00	1/31/00	2/2/00	3	8.50%	332
		475,113		2/3/00	3/21/00	48	8.75%	5,498
		480,611		3/22/00	4/30/00	40	9.00%	4,763
2000		485,374						
1st Quarter	98,000	583,374	4/30/00	5/1/00	5/16/00	16	9.00%	2,306
		585,679		5/17/00	7/30/00	75	9.50%	11,544
		597,223						
2nd Quarter	100,962	698,185	7/30/00	7/31/00	10/30/00	92	9.50%	16,918
		713,103						
3rd Quarter	102,888	817,991	10/30/00	10/31/00	1/3/01	65	9.50%	13,955
		831,945		1/4/01	1/30/01	27	9.00%	5,556
		837,502						
4th Quarter	106,952	944,454	1/30/01	1/31/01	1/31/01	1	9.00%	233
		944,687		2/1/01	3/20/01	48	8.50%	10,618
		955,304		3/21/01	4/18/01	29	8.00%	6,091
		961,395		4/19/01	4/30/01	12	7.50%	2,373
2001		963,768						
1st Quarter	111,288	1,075,056	4/30/01	5/1/01	5/15/01	15	7.50%	3,318
		1,078,375		5/16/01	6/27/01	43	7.00%	8,929
		1,087,304		6/28/01	7/30/01	33	6.75%	6,655
		1,093,959						
2nd Quarter	119,149	1,213,108	7/30/01	7/31/01	8/21/01	22	6.75%	4,945
		1,218,053		8/22/01	9/17/01	27	6.50%	5,870
		1,223,923		9/18/01	10/2/01	15	6.00%	3,021
		1,226,944		10/3/01	10/30/01	28	5.50%	5,187
		1,232,132						
3rd Quarter	120,660	1,352,792	10/30/01	10/31/01	11/6/01	7	5.50%	1,428
		1,354,219		11/7/01	12/1/01	35	5.00%	6,508
		1,360,727		12/12/01	1/30/02	50	4.75%	8,882
		1,369,610						
4th Quarter	125,222	1,494,832	1/30/02	1/30/02	4/30/02	91	4.75%	17,807
2002		1,512,638						
1st Quarter	154,294	1,666,932	4/30/02	5/1/02	5/31/02	31	4.75%	6,738
		1,673,670						
2nd Quarter	102,862	1,776,532	7/30/02					
Total	\$ 1,598,147							\$ 178,385

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.

ADDENDUM II



DEPARTMENT OF INFORMATION TECHNOLOGY
AND TELECOMMUNICATIONS

11 Metrotech Center
Brooklyn, NY 11201
(718) 403-1200

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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