

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of Cablevision Systems New York City Corporation for the Bronx with Its Franchise Agreement January 1, 2001–December 31, 2002

FN03-162A

December 22, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the compliance of Cablevision Systems New York City Corporation for the Bronx (Cablevision), with the terms of its franchise agreement with the New York City Department of Information Technology and Telecommunications (DoITT). Under the provisions of the agreement, Cablevision is required to pay the City fees based on five percent of its annual gross revenues, less the mandatory payments that Cablevision makes to the New York State Public Service Commission and applicable taxes.

The results of our audit, which are presented in this report, have been discussed with officials from Cablevision and DoITT, and their comments have been considered in preparing this report.

These audits provide a means of ensuring that private concerns under contract with the City comply with the terms of their agreements, properly report revenues, and pay the City all fees due.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at audit@Comptroller.nyc.gov.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

WTC/GR

Report: FN03-162A
Filed: December 22, 2003

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

**Audit Report on the Compliance of
Cablevision Systems New York City Corporation
For the Bronx with Its Franchise Agreement
January 1, 2001–December 31, 2002**

FN03-162A

AUDIT REPORT IN BRIEF

In 1998, the City, through the Department of Information Technology and Telecommunications (DoITT) renewed the franchise agreement with Cablevision Systems New York City Corporation for the Bronx (Cablevision-Bronx) for 10 years. The agreement requires that Cablevision-Bronx pay the City five percent of its annual gross revenues, less the mandatory payments that Cablevision-Bronx makes to the New York State Public Service Commission (PSC). Cablevision-Bronx is also required to carry a \$50 million combined insurance policy for property damage and bodily injury, naming the City as an additional insured; deposit \$3.12 million with the City Comptroller's Office as security; and provide \$4.73 per subscriber annually to support the Community Access Organization (CAO).

This audit determined whether Cablevision-Bronx: maintained adequate internal controls over recording and reporting of gross revenues; accurately reported its total gross revenues, and calculated and paid the City the appropriate franchise fees due on time; and complied with certain non-revenue-related requirements of its agreement. For the period January 1, 2001, through December 31, 2002, Cablevision-Bronx reported gross revenues amounting to \$364.1 million, and paid the City franchise fees totaling \$17.8 million. In addition, Cablevision-Bronx paid the New York State Public Service Commission \$402,310.

Audit Findings and Conclusions

Cablevision had an adequate system of internal controls over its recording and reporting of gross revenues. Cablevision accurately reported its revenues to the City, and accurately calculated and paid its fees to the City on time. In addition, Cablevision maintained the required \$50 million insurance coverage, which named the City as an additional insured; remitted the appropriate security deposit to the Comptroller's Office; and made all required payments to the PSC and the CAO.

However, Cablevision overstated its allowable sales tax deductions by \$341,020 on its Quarterly Gross Revenue Statements to the City for 2001. Consequently, Cablevision owes the City \$18,232 in additional franchise fees and calculated interest for the period, January 1, 2001, through December 31, 2002.

INTRODUCTION

Background

On October 8, 1998, the City, through the Department of Information Technology and Telecommunications Agency (DoITT), renewed the Cablevision Systems New York City Corporation for the Bronx (Cablevision-Bronx) franchise agreement for 10 years. The franchise agreement requires that Cablevision-Bronx pay the City five percent of its annual gross revenues (exclusive of any taxes collected), less the mandatory payments that Cablevision-Bronx makes to the New York State Public Service Commission (PSC).¹ Cablevision-Bronx is required to submit to the City each quarter its franchise fee payments and corresponding revenue reports for the preceding quarter by the 30th of January, April, July, and October. Interest on the late payment of franchise fees is assessed at the prime commercial lending rate of JP Morgan Chase Bank.

In addition, Cablevision-Bronx is required to:

- carry a \$50 million combined insurance policy for property damage and bodily injury, naming the City as an additional insured;
- remit \$3.12 million on deposit to the City Comptroller's Office—\$250,000 in cash or City bonds, and the remainder in a line of credit or in another form that is acceptable to both the Comptroller and the City's Corporation Counsel; and
- provide \$4.73 per subscriber annually to support the Community Access Organization (CAO).

Cablevision-Bronx distributes more than 200 channels to its subscribers. Cablevision-Bronx offers multiple service options consisting of basic service channels, cable programming channels, pay service channels, digital channels, and "Optimum Online," which provides customers with high-speed internet service. The signals are received, amplified, and distributed to subscribers. As of December 31, 2002, Cablevision-Bronx provided service to approximately 270,000 subscribers.

The monthly subscriber billings for Cablevision-Bronx are managed by DST Innovis.² DST Innovis processes subscriber billings and payments, and generates various management reports used by Cablevision-Bronx when compiling its financial records. Cablevision-Bronx also receives revenue from its weekly programming guides, equipment installation, non-subscriber revenue from home-shopping channel commissions, and revenue from the sales of advertising time. In addition, Cablevision provides free services to its employees and to apartment managers in the Bronx, and includes the value of such services as revenue in gross revenues reported to the City.

For the period January 1, 2001, through December 31, 2002, Cablevision-Bronx reported gross revenues amounting to \$364.1 million, and paid the City franchise fees totaling \$17.8 million. In addition, Cablevision-Bronx paid the PSC \$402,310. (See Appendix I for details.) Since Cablevision included \$609,073 related to revenues received from advertising with its franchise fees

¹ Article 11, § 217, of the New York State Public Service Law, states that PSC operating expenses are to be paid by all cable companies operating in the State. Each cable company's share of PSC operating expenses is based on the company's gross revenue proportion of the total gross revenue of all the cable companies operating in the State.

² DST Innovis is a third-party billing, collection, and management company under contract with Cablevision.

paid to the City for the Bronx, we are conducting an audit of Cablevision's advertising revenue. The results of that audit will be covered in a separate report.

Objectives

Our audit objectives were to determine whether Cablevision-Bronx:

- maintained adequate internal controls over recording and reporting of gross revenues;
- accurately reported its total gross revenues, and calculated and paid the City 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 required liability insurance and security fund deposit, and made all required non-franchise fee payments to the New York State Public Service Commission and the Community Access Organization).

Scope and Methodology

This audit covered the period January 1, 2001, through December 31, 2002. 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 Cablevision-Bronx had over its revenue reporting functions. To obtain an understanding of Cablevision-Bronx's internal controls, we interviewed its Assistant Divisional Controller and other key personnel. We documented the results through flowcharts and memoranda, determining which areas required further testing. We reviewed the consistency of the gross revenue reported by Cablevision-Bronx by performing an analytical review of its quarterly gross revenue statements for the period January 1, 2001, through December 31, 2002.

Subscriber Revenue

For the audit period, subscriber revenue for Cablevision-Bronx accounted for approximately 94 percent of total reported gross revenue. To determine whether Cablevision-Bronx accurately reported its gross revenue from subscribers, we traced the amounts reported on Cablevision's Quarterly Gross Revenue Statements to the City to its monthly "Schedule for Franchise Fees" and to the corresponding DST Innovis reports for 2001 and 2002. We also determined whether journal entries in Cablevision's general ledger were accurate and appropriate, and whether deductions from revenue were accurate and were made in compliance with the terms of the franchise agreement. Finally, to determine whether Cablevision-Bronx actually made its payments to the City, we reviewed Department of Finance payment records and DoITT franchise fee payment schedules.

To determine whether we could rely on the subscriber revenue reports generated by DST Innovis, we reviewed an "Independent Service Auditor's Report" prepared by PriceWaterhouse Coopers LLP for DST Innovis, as it applied to DST Innovis's data processing and applications. The report, in part, stated:

"Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of DST Innovis' controls that may be relevant to a user organization's internal controls as it relates to an audit of financial statements, (2) the controls included in

the description were suitably designed to achieve the control objectives specified in the description . . . In our opinion, the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified were achieved during the period from October 1, 2001, to October 31, 2002.” [13 months.]

Non-Subscriber Revenue

To determine whether non-subscriber revenue for Cablevision-Bronx was fairly stated, we traced the amounts reported on Cablevision’s “Schedule for Franchise Fees” for the period January 1, 2001, through December 31, 2002, to its trial balance, general ledger details, and year-end adjusting entries. Furthermore, to determine the reasonableness of the amounts Cablevision-Bronx included in its gross revenue for “free service,” we compared the “free service” rates to its rate cards and verified the number of employees and apartment managers receiving “free service” by reviewing the DST Innovis reports. We then traced the related dollar values to various Cablevision-Bronx “Free Service” schedules.

Contract Compliance Issues

To determine whether Cablevision-Bronx complied with certain non-revenue-related conditions of its agreement, we determined whether Cablevision-Bronx had the required insurance coverage by reviewing the original insurance certificates. We also determined whether Cablevision had made the required security deposit and made the required payments to the PSC 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. The audit was performed in accordance with the audit responsibilities of the City Comptroller 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 Cablevision-Bronx and DoITT officials during and at the conclusion of this audit. A preliminary draft report was sent to Cablevision-Bronx and DoITT officials on October 17, 2003. On October 27, 2003, we received written notice from Cablevision officials waiving their right to an exit conference. On November 7, 2003, we submitted a draft report to Cablevision-Bronx and DoITT officials with a request for comments.

We received written responses from Cablevision and from DoITT officials on December 1, 2003. Both Cablevision and DoITT agreed with the audit findings and recommendations. Cablevision enclosed a check for \$18,232 with its response to cover the audit assessment.

The full texts of Cablevision’s and DoITT’s comments are included as addenda to this final report.

FINDINGS

Cablevision had an adequate system of internal controls over its recording and reporting of gross revenues. Cablevision accurately reported its revenues to the City, and accurately calculated and paid its fees to the City on time. In addition, Cablevision maintained the required \$50 million insurance coverage, which named the City as an additional insured; remitted the appropriate security deposit to the Comptroller's Office; and made all required payments to the PSC and the CAO.

However, Cablevision overstated its allowable sales tax deductions by \$341,020 on its Quarterly Gross Revenue Statements to the City for 2001. Consequently, Cablevision owes the City \$18,232 in additional franchise fees and calculated interest for the period, January 1, 2001, through December 31, 2002, as shown in Table I:

Table I

Schedule of Additional Franchise Fees and Interest Owed
January 1, 2001, through December 31, 2002

Revenue Category	Amounts Deducted From Gross Revenues Reported to the City	Audited Amount	Difference
Sales Tax Deductions	\$496,952	\$155,932	\$341,020
Franchise Fees Due on Overstated Deductions @ 5%			\$ 17,051
Interest Owed the City (see Appendix II)			\$ 1,181
Total Franchise Fees and Interest Due			\$ 18,232

Specifically, for 2001, Cablevision-Bronx collected sales taxes of \$155,932 for installation work conducted during the year. However, it deducted \$496,952 in sales taxes from revenue on its Quarterly Gross Revenue Statements to the City for 2001, resulting in an overstated deduction of \$341,020. Consequently, Cablevision owes the City an additional \$17,051 in franchise fees for 2001.

In addition, based on the franchise fees due, Cablevision-Bronx owes the City \$1,181 in interest. (See Appendix II.) Section 9.4 of its franchise agreement with the City requires that Cablevision 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 the 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 [JP Morgan Chase Bank] for commercial loans.”

RECOMMENDATIONS

We recommend that Cablevision:

1. Pay the \$18,232 in additional franchise fees and interest due from January 1, 2001, through December 31, 2002.

Cablevision's Response: Cablevision officials stated that they agreed with the audit findings and recommendations and remitted a check for \$18,232 to cover the audit assessment.

2. Deduct only actual amounts of sales taxes collected from reported revenue on its Quarterly Gross Revenue Statements to the City.

Cablevision's Response: Cablevision officials stated that: "Cablevision will deduct only actual amounts of sales taxes collected from reported revenues on its Quarterly Gross Revenue Statements to the City."

We recommend that DOITT:

3. Ensure that Cablevision complies with audit report's recommendations.

DoITT's Response: DoITT officials responded that they have discussed the audit findings with Cablevision officials and have been assured that this error will not occur again. In addition, DoITT officials stated that payments from Cablevision will continue to be reviewed and monitored.

**Schedule of Cablevision/Bronx
Reported Revenues, NYS/PSC Payments, and Franchise Fee Payments
January 1, 2001, through December 31, 2002**

	Reported Gross Revenue	Franchise Fees Paid	NYS/PSC Payments
2001			
1st Quarter	\$ 45,155,048	\$ 2,206,230	\$ 51,522
2nd Quarter	44,741,075	2,184,990	52,063
3rd Quarter	44,800,493	2,186,587	53,437
4th Quarter	47,021,773	2,298,997	52,092
Subtotal	\$ 181,718,389	\$ 8,876,804	\$ 209,114
2002			
1st Quarter	\$ 46,314,440	\$ 2,267,472	\$ 48,250
2nd Quarter	46,040,262	2,253,723	48,290
3rd Quarter	44,930,724	2,198,495	48,041
4th Quarter	45,077,289	2,205,250	48,615
Subtotal	\$ 182,362,715	\$ 8,924,940	\$ 193,196
Total	\$ 364,081,104	\$ 17,801,744	\$ 402,310



Via FedEx

December 1, 2003

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
Executive Offices
1 Centre Street
New York, NY 10007-2341

Re: Audit Report on the

Compliance of Cablevision Systems
New York City Corporation for the
Franchise Agreement with the Bronx
January 1, 2001 - December 31, 2002
FN03-162A

Compliance of Cablevision Systems
New York City Corporation for the
Franchise Agreement with Brooklyn
January 1, 2001 - December 31, 2002
FN03-163A

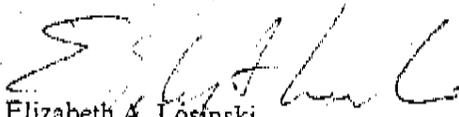
Dear Mr. Brooks:

We are in receipt of the draft reports for the above referenced audit(s). Cablevision Systems New York City Corporation ("Cablevision") has no objections or corrections to the findings in the report(s).

Accordingly, enclosed is check number 878859 in the amount of \$18,232.00 in additional franchise fees and interest due from January 1, 2001 through December 31, 2002 for the Bronx franchise and check number 878860 in the amount of \$14,804.00 for the Brooklyn franchise.

Pursuant to the Recommendations in the report(s), Cablevision will deduct only actual amounts of sales taxes collected from reported revenue on its Quarterly Gross Revenue Statements to the City.

Sincerely,


Elizabeth A. Losinski
Vice President, Cable Policy

Enclosures

cc: Deputy Commissioner Agostino Cangemi, DOITT
Bruce Regal, Esq., Corporation Counsel
Lou Cestra, V.P. Divisional Controller, Cablevision
Tom Johnson, Assistant Divisional Controller, Cablevision

52-35
311

CSC HOLDINGS, INC.
Disbursement Account - Cablevision Systems
(516) 803-1500

THE BANK OF NEW YORK (DELAWARE)
White Clay Center
Newark, Delaware 19711

CHECK DATE	CHECK NUMBER
11-NOV-03	878859
VENDOR NUMBER	AMOUNT
1452588050	***\$18,232.00***

PAY ***Eighteen thousand two hundred thirty two and 00/100 Dollars***

TO THE ORDER OF NYC DEPARTMENT OF FINANCE
25 ELM PL 4TH FL
BROOKLYN, NY 11201-5807



DETACH AT PERFORATION BEFORE DEPOSITING CHECK

CSC HOLDINGS, INC.
Disbursement Account - Cablevision Systems
(516) 803-1500

VENDOR NUMBER: 1452588050

REMITTANCE ADVICE 020000

CHECK NUMBER: 878859

INVOICE NO.	VOUCHER NO.	PO NUMBER	INVOICE DATE	DESCRIPTION	AMOUNT	ENC
0310024			04-NOV-03	2003 NYC AUDIT SETT	18,232.00	
TOTAL:					\$18,232.00	



**DEPARTMENT OF INFORMATION TECHNOLOGY AND
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GINO P. MENCHINI
*Commissioner
Chief Information Officer*

AGOSTINO CANGEMI
*Deputy Commissioner
Franchise Administration and
Planning/General Counsel*

December 1, 2003

Greg Brooks
Deputy Comptroller
Office of the Comptroller
One Centre Street, Room 530
New York, NY 10007-2341

Re: Audit reports on the Compliance of Cablevision Systems New York City Corporation for the Bronx and Brooklyn franchise agreements for the period January 1, 2001 to December 31, 2002.
FN03-162A & FN03-163A

Dear Deputy Comptroller Brooks:

We have discussed the audit findings with Cablevision officials. Cablevision reported that their accountants made an error in calculating sales tax solely for the purposes of deducting them from gross revenues for franchise fee calculations. We have been assured that this error will not occur again. The company has agreed to pay the additional franchise fees and interest due as calculated by the auditors for the period January 1, 2001 through December 31, 2002.

Franchise fee payments will continue to be reviewed and monitored by this agency accordingly. Should you have any questions please contact me at 212-788-6490.

Sincerely,

Marvin E Fields
Executive Director
Franchise Administration

c: Gino Menchini, Commissioner (DoITT)
Agostino Cangemi, Deputy Commissioner/ General Counsel (DoITT)
Margery Brown, Deputy Commissioner (DoITT)
Susan Morrison-Goldfine, Executive Assistant, Office of the Comptroller
Susan Kupferman, Mayors Office of Operations