

# AUDIT REPORT



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

## **Audit Report on Cablevision Systems New York City Corporation for Advertising Revenue January 1, 2001–December 31, 2002**

*FN03-164A*

**January 28, 2004**



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

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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 Advertising Revenue (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.

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](mailto: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:** FN03-164A  
**Filed:** January 28, 2004

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

**Audit on Cablevision Systems  
New York City Corporation for  
Advertising Revenue  
January 1, 2001–December 31, 2002**

**FN03-164A**

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**AUDIT REPORT IN BRIEF**

In 1984, Cablevision began selling advertising time for its New York City-based cable outlets in Brooklyn and the Bronx through an exclusive advertising representative and sales agent subsidiary, Rainbow Advertising Sales Corporation (RASCO). RASCO is responsible for the marketing and selling of advertising for Cablevision on more than 30 cable networks.

Section 9.1.01 of Cablevision's franchise agreement requires that it pay the City five percent of its gross revenues. Additionally, §1.31 states that gross revenue "shall also include all advertising revenue which is received directly or indirectly by the Company, or, with respect to Leased Channels, any other Person from or in connection with the distribution of any Service over the System or the provision of any Service Related Activity in connection with the System." Cablevision's franchise agreement does, however, allow it to deduct outside advertising commissions and bad debts from its advertising revenue.

This audit determined whether Cablevision calculated and reported accurately its gross advertising revenue to the City and paid the appropriate franchise fees to the City. For the two-year audit period, January 1, 2001, through December 31, 2002, Cablevision reported gross advertising revenues totaling \$25.5 million and paid the City \$1.3 million in franchise fees (see Appendix I for details). The City's Department of Information Technology and Telecommunications (DoITT) is responsible for monitoring Cablevision's compliance with the terms of its franchise agreement.

**Audit Findings and Conclusions**

Cablevision generally reported its financial data to the City, and paid its corresponding franchise fees in compliance with the terms of the franchise agreement. However, our audit disclosed that Cablevision omitted \$297,932 in revenue on its Quarterly Gross Revenue Statements to the City for the audit period. Specifically, Cablevision did not report \$167,695 in advertising revenue and \$130,237 for the fair market value of trade (barter) revenue. Consequently, Cablevision owes the City \$15,214 in additional franchise fees and calculated interest.

## **Audit Recommendations**

We recommend that Cablevision pay the City \$15,214 for the additional fees and interest due and report all advertising revenue and trade revenue in accordance with its franchise agreement.

## **INTRODUCTION**

### **Background**

In 1984, Cablevision Systems New York City Corporation (Cablevision) began selling advertising time for its New York City-based cable outlets in Brooklyn and the Bronx through its exclusive advertising representative and sales agent subsidiary, Rainbow Advertising Sales Corporation (RASCO). RASCO is responsible for marketing and selling advertising for Cablevision on more than 30 cable networks that include A&E, CNN, ESPN, Fox SportsNet, MSG, MSNBC, MTV, Nickelodeon, NY1, and The Weather Channel.

Cablevision allocates its advertising revenues for New York City between Brooklyn and the Bronx and reports these revenues accordingly on its Quarterly Gross Revenue Statements. Cablevision bases its allocation on the proportionate number of subscribers in the two boroughs. As of December 31, 2002, Cablevision's advertisements reached approximately 564,000 subscribers in Brooklyn and the Bronx.

Section 9.1.01 of Cablevision's franchise agreement requires that it pay the City five percent of its gross revenues. Additionally, §1.31 states that gross revenue "shall also include all advertising revenue which is received directly or indirectly by the Company, or, with respect to Leased Channels, any other Person from or in connection with the distribution of any Service over the System or the provision of any Service Related Activity in connection with the System." Cablevision's franchise agreement does, however, allow it to deduct outside advertising commissions and bad debts from its advertising revenue. Cablevision is 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 JP Morgan Chase Bank.

For the period January 1, 2001, through December 31, 2002, Cablevision reported gross advertising revenues totaling \$25.5 million and paid the City \$1.3 million in franchise fees (see Appendix I for details). The City's Department of Information Technology and Telecommunications (DoITT) is responsible for monitoring Cablevision's compliance with the terms of its franchise agreement.

### **Objective**

Our audit objective was to determine whether Cablevision reported all advertising revenue on its Quarterly Gross Revenue Statements to the City, and calculated and paid the appropriate fees to the City on time, in accordance with its franchise agreement.

## **Scope and Methodology**

This audit covered the period January 1, 2001, through December 31, 2002. To achieve our audit objectives, we reviewed the advertising terms and conditions of Cablevision's franchise agreements. We evaluated Cablevision's and RASCO's internal control structure over revenue as it related to the advertising functions of Cablevision's Brooklyn and Bronx operations. To obtain an understanding of Cablevision's and RASCO's internal controls, we interviewed Cablevision's Assistant Divisional Controller and key RASCO personnel. Specifically, we conducted walkthroughs of RASCO's Sales, Traffic (which is responsible for scheduling and billing all advertising time slots), and Accounting departments. We documented the results through flowcharts and memoranda, determining which areas required detailed testing.

We reviewed the accuracy of the gross advertising revenue reported by Cablevision by performing an analytical review of the revenue amounts reported on Cablevision's Quarterly Gross Revenue Statements for the audit period. To determine the accuracy of Cablevision's reported gross revenue from advertising, we reconciled the amounts reported on Cablevision's Schedule of Franchise Fees to its general ledger. We traced the reported amounts to the corresponding billing detail reports and invoices, and determined whether the invoices were billed at the proper amounts. We also determined whether the deductions for outside advertising commissions were allowable and accurate. Furthermore, we ascertained whether the commercials were aired over the system in Brooklyn and the Bronx by examining RASCO's daily Verification Log, which lists all available commercial time spots and aired commercials.

We determined whether Cablevision recorded and accurately reported its trade revenue (i.e., revenue from bartering or trading open advertising time slots for another company's products or services) and whether the amounts reported represented "fair market value." In that regard, we examined RASCO's detailed billing report that listed the fair market value for trade sales, and then traced those amounts to the revenue reported to the City for calendar years 2001 and 2002.

Finally, to ensure that the required franchise fees were paid, we examined canceled checks and DoITT's related franchise fee payment schedules and reviewed Cablevision's franchise fee payment records at the City's Department of Finance.

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 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 officials during and at the conclusion of this audit. A preliminary draft report was sent to Cablevision and DoITT officials on December 23, 2003. On January 14, 2004, we received written notice from Cablevision officials waiving their right to an exit conference. On January 15, 2004, we submitted a draft report to Cablevision and DoITT officials with a request for comments.

We received a written response from Cablevision officials on January 20, 2004, and from DoITT officials on January 21, 2004. Both Cablevision and DoITT officials agreed with the audit findings and recommendations. Cablevision enclosed a check for \$15,214 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 generally reported its financial data to the City, and paid its corresponding fees in compliance with the terms of the franchise agreement. However, our audit disclosed that Cablevision omitted \$297,932 in revenue on its Quarterly Gross Revenue Statements to the City for the audit period. Specifically, Cablevision did not report \$167,695 in advertising revenue and \$130,237 for the fair market value of trade (barter) revenue. Consequently, Cablevision owes the City \$15,214 in additional franchise fees and calculated interest, as shown in Table I.

**TABLE I**  
Schedule of Underreported Revenue Resulting in  
Additional Franchise Fees and Interest Owed  
January 1, 2001–December 31, 2002

Category	Reported Amount	Audited Amount	Difference
Advertising Revenue	\$25,456,633	\$25,624,328	\$167,695
Trade Revenue	0	130,237	130,237
<b>Total</b>			<b>\$297,932</b>
Franchise Fees Due on Underreported Revenue at 5%			\$14,897
Interest Owed (see Appendix II)			317
<b>Total Franchise Fees and Interest Due</b>			<b>\$15,214</b>

### Underreported Advertising Revenue

Cablevision did not report \$167,695 in advertising revenue. According to its books and records, Cablevision collected \$419,474 from advertisers in August 2002. However, Cablevision reported only \$251,779 on its Quarterly Gross Revenue Statements to the City for that month. As a result, Cablevision owes the City \$8,385 in additional franchise fees.

### Unreported Trade Revenue

For the two-year audit period, Cablevision did not report on its Quarterly Gross Revenue Statements to the City the fair market value, totaling \$130,237, for trade (barter) revenue recorded on its books and records. Trade revenue is generated when commercials are aired in exchange for another organization's goods or services in lieu of cash. The cash value is then recorded on Cablevision's books and records.

Cablevision's franchise agreements require that such revenue be reported to the City. Specifically, §1.31 states that gross revenue shall include "the fair market value of any nonmonetary



(i.e., barter) transactions between the Company and any Person, other than an Affiliated Person, but not less than the customary prices paid in connection with equivalent transactions.” Accordingly, since Cablevision did not report \$130,237 in barter revenue, it owes the City \$6,512 in additional franchise fees.

### **Interest Due**

Section 9.4 of the 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 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 JP Morgan Chase] for commercial loans.”

Based on the additional franchise fees of \$14,897 owed by Cablevision, we calculated that Cablevision owes the City \$317 in interest. (See Appendix II for details.)

## **RECOMMENDATIONS**

We recommend that Cablevision:

1. Pay the City \$15,214 in additional franchise fees and interest due for the audit period.

***Cablevision’s Response:*** Cablevision officials stated that they agreed with the audit findings and recommendations and remitted a check for \$15,214 to cover the audit assessment.

2. Include all advertising revenue and trade revenue on its Quarterly Gross Revenue Statements to the City.

***Cablevision’s Response:*** Cablevision officials stated that: “Cablevision will include all advertising revenue and trade revenue in its Quarterly Gross Revenue Statements to the City.”

We recommend that DoITT:

3. Ensure that Cablevision complies with the report’s recommendations.

***DoITT’s Response:*** DoITT officials responded that they have discussed the audit findings with Cablevision officials, who stated that an error occurred in calculating advertising revenue. In addition, DoITT officials stated that payments from Cablevision will continue to be reviewed and monitored.

Schedule of Cablevision Systems New York City Corporation  
 Reported Advertising Revenues and Franchise Fees Paid  
 January 1, 2001, through December 31, 2002

Period	Reported Advertising Revenues		Total Revenue	Franchise Fees Paid
	Bronx	Brooklyn		
<b>2001</b>				
1st Quarter	\$ 1,208,909	\$ 1,302,331	\$ 2,511,240	\$ 125,562
2nd Quarter	1,687,329	1,804,689	3,492,018	174,601
3rd Quarter	1,527,001	1,625,344	3,152,345	157,617
4th Quarter	1,477,221	1,619,883	3,097,104	154,855
<b>Subtotal</b>	<b>\$ 5,900,460</b>	<b>\$ 6,352,247</b>	<b>\$ 12,252,707</b>	<b>\$ 612,635</b>
<b>2002</b>				
1st Quarter	\$ 1,335,135	\$ 1,478,320	\$ 2,813,455	\$ 140,673
2nd Quarter	1,683,671	1,857,842	3,541,513	177,076
3rd Quarter	1,422,502	1,570,075	2,992,577	149,629
4th Quarter	1,839,701	2,016,680	3,856,381	192,819
<b>Subtotal</b>	<b>\$ 6,281,009</b>	<b>\$ 6,922,917</b>	<b>\$ 13,203,926</b>	<b>\$ 660,196</b>
<b>Total</b>	<b>\$ 12,181,469</b>	<b>\$ 13,275,164</b>	<b>\$ 25,456,633</b>	<b>\$ 1,272,832</b>





Via FedEx

January 16, 2004

Mr. Greg Brooks, Deputy Controller  
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 Cablevision Systems  
New York City Corporation for  
Advertising Revenue  
January 1, 2001-December 31, 2002  
FN03-164A**

Dear Mr. Brooks:

Cablevision Systems New York City Corporation ("Cablevision") has no objections or corrections to the findings in the above captioned report. Accordingly, enclosed is check number 890781 in the amount of \$15,214.00 in additional franchise fees and interest for advertising revenue from January 1, 2001 through December 31, 2002.

Pursuant to the Recommendations in the report, Cablevision will include all advertising revenue and trade revenue in its Quarterly Gross Revenue Statements to the City.

Sincerely,

A handwritten signature in cursive script, appearing to read "Elizabeth A. Losinski".

Elizabeth A. Losinski  
Vice President, Cable Policy

cc: Deputy Commissioner Agostino Cangemi, DOITT  
Marvin Fields, DOITT  
Bruce Regal, Esq., Corporation Counsel  
Lou Cestra, Cablevision  
Tom Johnson, Cablevision

62-35  
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**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
13-JAN-04	890781
VENDOR NUMBER	AMOUNT
1452588050	***\$15,214.00***

**PAY** \*\*\*Fifteen thousand two hundred fourteen and 00/100 Dollars\*\*\*

**TO THE ORDER OF** NYC DEPARTMENT OF FINANCE  
25 ELM PLACE 3RD FL  
BROOKLYN, NY 11201-5807





DEPARTMENT OF INFORMATION TECHNOLOGY AND  
TELECOMMUNICATIONS

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**GINO P. MENCHINI**  
*Commissioner  
Chief Information Officer*

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

January 21, 2004

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 Advertising Revenue  
January 1, 2001-December 31, 2002

Dear Deputy Comptroller Brooks:

We have discussed the audit findings with Cablevision officials. Company officials said they had made an error calculating their advertising revenue. Cablevision has agreed to pay the additional franchise fees and interest due 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