

FISCAL AUDIT

**CITY INFORMATION SYSTEMS**

**COMCAST FRANCHISE TRUST FUND (CFTF)**

Report by the  
Office of City Controller

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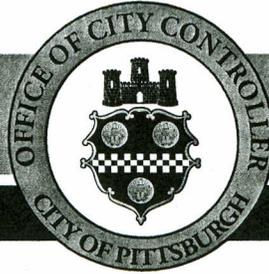
March, 2014

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MICHAEL E. LAMB

CITY CONTROLLER

First Floor City-County Building • 414 Grant Street • Pittsburgh, Pennsylvania 15219

March 26, 2014

To the Honorable: Mayor William Peduto and  
Members of Pittsburgh City Council:

The Office of the City Controller is pleased to present this report of the Fiscal Audit of the **Comcast Franchise Trust Fund** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

### EXECUTIVE SUMMARY

The Comcast Franchise Trust Fund (CFTF) was established in 2010 via Resolution #432 to account for grants received from Comcast Inc., to fund public, educational and governmental (PEG) access channels. The grants restricted by federal law are deposited into the CFTF to be utilized by City Information Systems (CIS) and the Mayor's Office for all expenditures related to the support of the PEG access channels.

Our audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provide a reasonable basis for our findings and conclusion based on our objectives.

The objectives of this audit are to determine if the fund is properly accounted for and administered in accordance with Resolution #432, and to also assess the methodology used for allocating PEG grants received from Comcast. In order to achieve these objectives, we performed certain procedures to evaluate the effectiveness and efficiency of the fund's fiscal operations, and related internal controls.

Our audit identified discrepancies between per subscriber rates used to calculate the annual PEG grants paid to the City with those stipulated in the cable franchise agreement. Substantial portions of the PEG grants were allocated to Pittsburgh Community Television (PCTV), the City's public access channel. Also, it is not clear whether goals outlined in the Strategic Plan relating to oversight over use of PEG resources and cable contract compliance monitoring were actually accomplished.

Our findings and recommendations are further discussed in the Result section of this report. We appreciate the cooperation of the staff involved with the management of the fund during the course of our audit.

Sincerely,

Michael E. Lamb  
City Controller

## INTRODUCTION

This fiscal audit of the **Comcast Franchise Trust Fund** was conducted pursuant to the Controller's powers under Article IV, Section 404(b) of the Pittsburgh Home Rule Charter.

## SCOPE AND METHODOLOGY

This fiscal audit was conducted pursuant to the Article IV, Section 404(b) of the City of Pittsburgh Home Rule Charter. This audit was conducted in accordance with generally accepted auditing standards. Our procedures covered the period September 1, 2010 to December 31, 2012.

The objectives of this audit are to determine if the fund is properly accounted for and administered in accordance with Resolution #432, and to also assess the methodology used for allocating PEG grants received from Comcast. In order to achieve these objectives, we performed necessary procedures to gain an understanding of the fund's operations, processes and internal controls. Specifically we:

- Interviewed City Information Systems personnel involved with the fund to gain an understanding of its operations, processes and internal controls.
- Reviewed the contract between the City and Comcast.
- Reviewed the contract between the City and Pittsburgh Community Television Corp.
- Reviewed procedures relating to the operation of the fund and the collection and deposit of PEG grants received from Comcast.
- Applied procedures to verify PEG grants were received in accordance with the cable franchise agreement.
- Examined supporting documents relating to expenses recorded in the fund.
- Applied procedures to determine whether expenditures were properly documented, authorized and for allowable purpose as stipulated in Resolution #432.
- Performed reconciliations of PEG grants receipts to the City's accounting system.
- Conducted tour of the City Cable Bureau facility.

We performed these procedures during November to December, 2013, and January, 2014.

## OVERVIEW

The Comcast Franchise Trust Fund (CFTF) was established in 2010 via Resolution #432 to account for grants received from Comcast to fund the public, educational and governmental (PEG) access channels set aside by the City to communicate local government information, and to provide television programming opportunities to educational institutions and the general public. The grants restricted by federal law are deposited into the CFTF to be utilized by City Information Systems (CIS) and the Mayor's Office for expenditures related to the PEG access channels support, such as the purchase, acquisition and maintenance of cable network communications equipment including hardware, software, travel, training, and professional services. CIS is responsible for monitoring compliance with the cable franchise contract and also the contract with the public access channel administrator; Pittsburgh Community Television Corporation (PCTV). The government access channel (City Channel Pittsburgh) operated by the City Cable Bureau is also managed under CIS.

In addition to paying franchise fees, (not accounted for in the CFTF), Comcast is also required to provide annual and fixed PEG grants ("PEG grants") as financial support for the PEG access channels under terms of the cable franchise contract with the City. All PEG grants received are accounted for in the CFTF and used by the City to fund its government access channel and its contract with PCTV.

The government access channel provided through the City Cable Bureau is used to broadcast coverage of official activities of elected officials, and city departments including public service announcements (PSAs) by City elected officials and City departments. The channel also broadcasts City based information to the community such as City council meetings and public hearings, and activities of the Mayor's Office. The channel also offers studio programs to City departments as needed.

Pursuant to Resolution #432 authorizing CIS and the Mayor's Office to enter into an agreement relating to operations of the PEG access channels, the City renewed its contract with Pittsburgh Community Television (PCTV), a non-profit corporation to continue to act as its public access channel administrator. The contract, funded by a substantial portion of PEG grant proceeds received from Comcast, is to provide channels for community programming related to public, educational and/or governmental activities. This contract was renewed based on the recommendation of the Pittsburgh Cable Communications Advisory Committee (PCCAC), created to advise the City on the optimal use of cable communications system and charged with the responsibility to develop a two-year strategic plan for the use of the PEG resources received from Comcast. PCCAC is made up of eleven volunteer members. Nine of them are appointed by City Council and two by the Mayor.

The City received a total of \$1,088,613 in PEG Grants from Comcast during the period July 1, 2010 to December 31, 2012 as detailed on Table I below:

<b>Table I – PEG Grants</b>			
<b>For the Period July 1, 2010 to December 31, 2012</b>			
<b>Year</b>	<b>Fixed</b>	<b>Annual</b>	<b>Grand Total</b>
2010	\$ 70,000	\$ -	\$ 70,000
2011	70,000	355,038	425,038
2012	70,000*	47,660	117,660
2012	-	475,915*	475,915
<b>Grand Total</b>	<b>\$ 210,000</b>	<b>\$ 878,613</b>	<b>\$ 1,088,613</b>

\*Represent amounts sent directly to PCTV by Comcast.

The tables below detail the allocation of these grants between City Cable Bureau and PCTV for the same period:

<b>Table II – PEG Grants Allocation to City Cable Bureau</b>			
<b>For the Period July 1, 2010 to December 31, 2012</b>			
<b>Year</b>	<b>Fixed PEG Grant</b>	<b>Annual PEG Grant</b>	<b>Grand Total</b>
2010	\$ 70,000	\$ -	\$ 70,000
2011	-	46,188	46,188
2012	-	47,660	47,660
<b>Grand Total</b>	<b>\$ 70,000</b>	<b>\$ 93,848</b>	<b>\$163,848</b>

<b>Table III – PEG Grants Allocation to PCTV</b>			
<b>For the Period July 1, 2010 to December 31, 2012</b>			
<b>Year</b>	<b>Fixed PEG Grant</b>	<b>Annual PEG Grant</b>	<b>Grand Total</b>
2010	\$ -	\$ 106,844	\$ 106,844
2011	70,000	409,118	479,118
2012	70,000	268,803	338,803
<b>Grand Total</b>	<b>\$ 140,000</b>	<b>\$ 784,765</b>	<b>\$ 924,765</b>

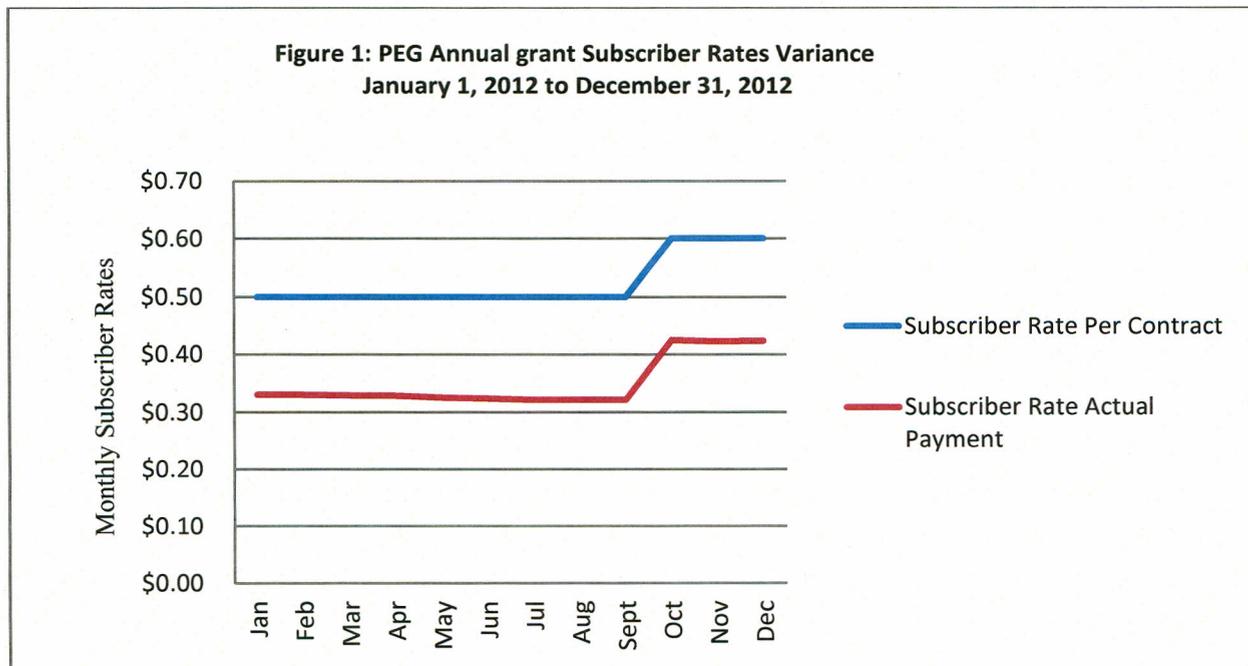
Other than the amounts transferred to PCTV, there were no expenditures charged to the fund for 2010 and 2011. A total of \$124,507 was expended on purchasing cable and video equipment for the City Cable Bureau during 2012.

## RESULT

### Finding #1: Per Subscriber Rates Changes Not formally approved

Our procedures revealed that the actual monthly per subscriber rates based on which the annual PEG grants are calculated, and paid to the City were less than the rates specified in the schedule included in the cable franchise contract with Comcast. The monthly rates were reduced by an average of \$0.17 per subscriber each month which resulted in the City receiving \$151,731 less in annual PEG grants for 2012. The new rates were neither approved nor formally documented. CIS indicated that the contract terms provide for modifications to be made without written amendments that are formally approved. However the language under *Section 14.7* of the Cable Franchise Agreement specifically state those changes cannot be made without written approval by both the City and Comcast.

The chart below illustrates the per subscriber rates variances for 2012:



Source: Auditor-prepared, based on information from CIS and the Comcast Cable Franchise Contract

### Recommendations

Payments of the annual PEG grants should be made based on the original rates stipulated in the contract. Changes to the contract should be properly approved and documented. City Administration should also consider pursuing the reimbursement of the \$151,731 from Comcast.

### Finding #2: PEG Grants Allocation

Substantial amounts of the PEG grants received to support PEG channel programming from Comcast under the Cable Franchise contract are allocated to PCTV. Of the \$ 1,088,613 total received, only \$163,848 was allocated to the City Cable Bureau during the period September 1, 2010 to December 31, 2012 with \$924,765 remitted to PCTV. Also, the terms of the 20 year contract expiring in June 30, 2020 stipulates that the remainder of the fixed grants of \$280,000 is to be paid to PCTV. In addition, PCTV is to receive ninety percent ((90%) of the annual grant for the remainder of the contract term too.

PCCAC in its advisory capacity, highlighted as a priority that the City's Cable Bureau be adequately funded to enable it to provide support for the City's governmental access channels. Recommendations included in its two year Strategic Plan highlight that PEG grants are to be allocated to PCTV only after the City Cable Bureau has been adequately funded.

### **Recommendations**

Provide for a more equitable allocation of PEG grants between the City and PCTV. Reassess revenue allocation procedure to ensure that the City Cable Bureau is adequately funded in the future by allocating to it more of the PEG grants to enable much needed equipment upgrades and efficient operation.

Prior to the release of our audit, City Council passed a resolution amending the distribution of the PEG grants allocating the remaining Fixed PEG Grants in 2013 and 2014 equally between the City Cable Bureau and PCTV. The amended resolution also specified amounts from the annual PEG grants to be paid to the City Cable Bureau first with the remainder allocated to PCTV. Although it is reasonable to estimate the expected annual PEG grants payments based on prior year, this sharing methodology does not guarantee equitable sharing of the grants since amounts are based on number of subscribers which may fluctuate over the years.

### **Finding #3: No Follow Up on Strategic Plan Goals**

PCCAC in its advisory capacity developed a two year strategic plan dated March 2010 outlining goals and objectives relating to oversight over use of PEG resources and monitoring of compliance with the City's cable franchise agreement with Comcast. However it is not clear whether these goals and objectives have been accomplished since no follow up was performed.

### **Recommendations**

Consider performing a follow up to evaluate whether the goals and objectives outlined in the Strategic Plan have been accomplished.