

FISCAL AUDIT

CITY INFORMATION SYSTEMS

VERIZON FRANCHISE TRUST FUND (VFTF)

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 **Verizon Franchise Trust Fund** conducted pursuant to the Controller's powers under Section 404(b) of the Pittsburgh Home Rule Charter.

EXECUTIVE SUMMARY

The Verizon Franchise Trust Fund (VFTF) was established in 2009 via Resolution #552 to account for grants received from Verizon Pennsylvania Inc., to fund public, educational and governmental (PEG) access channels. The grants restricted by federal law are deposited into the VFTF 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 #552, and to also assess the methodology used for allocating all grants received from Verizon. 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 inconsistencies between how grants received from Verizon were allocated between the City Cable Bureau and 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 grant 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 **Verizon 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 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, 2009 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 #552, and to also assess the methodology used for allocating PEG grants received from Verizon. 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 Verizon.
- 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 Verizon.
- 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 #552.
- 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 Verizon Franchise Trust Fund (VFTF) was established in 2009 via Resolution #552 to account for grants received from Verizon 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 VFTF 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 VFTF), Verizon is required to provide support in the form of Cable Bureau grant, Fixed and Annual grants (PEG Grants) as financial support for the PEG access channels under terms of the cable franchise contract with the City. The Cable Bureau grant and all the PEG grants received are accounted for in the VFTF 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 broadcast 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 #552 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 Verizon 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 Verizon. 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 \$873,524 in total Grants from Verizon during the period September 1, 2009 to December 31, 2012 as detailed on Table I below:

Table I – Verizon Grants				
For the Period September 1, 2009 to December 31, 2012				
Year	Cable Bureau Grant	Fixed PEG Grant	Annual PEG Grant	Grand Total
2009	\$ 70,000	\$ 70,000	\$ 5,987	\$ 145,987
2010	70,000	70,000	65,600	205,600
2011	70,000	70,000	96,530	236,530
2012	70,000	70,000	\$ 145,407	285,407
Grand Total	\$ 280,000	\$ 280,000	\$ 313,524	\$ 873,524

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

Table II – PEG Grants Allocation to City Cable Bureau				
For the Period July 1, 2010 to December 31, 2012				
Year	Cable Bureau Grant	Fixed PEG Grant	Annual PEG Grant	Total
2009	\$ 70,000	\$ -	\$ -	\$ 70,000
2010	-	-	6,560	6,560
2011	-	-	9,652	9,652
2012	-	-	24,235	24,235
Total	\$ 70,000	\$ -	\$ 40,447	\$ 110,447

Table III – Total Grants Allocation to PCTV				
For the Period July 1, 2010 to December 31, 2012				
Year	Cable Bureau Grant	Fixed PEG Grant	Annual PEG Grant	Total
2009	\$ -	\$ 70,000	\$ 5,987	\$ 75,987
2010	70,000	70,000	59,040	199,040
2011	70,000	70,000	86,877*	226,877
2012	70,000*	70,000	121,173*	261,173
Total	\$ 210,000	\$ 280,000	\$ 273,077	\$ 763,077

*Represent amounts sent directly to PCTV by Verizon.

Other than the amounts transferred to PCTV, there were no expenditures charged to the fund during 2009. A total of \$75,035 was expended on purchasing cable and video equipment for the City Cable Bureau during 2010 and 2012.

RESULT

Finding #1: Cable Bureau Grant Allocation

According to Section 5.6 of the cable franchise agreement, Verizon is required to provide a Cable Bureau Grant for support of government access facilities and equipment administered by the City Cable Bureau in the amount of \$350,000, to be paid over five years in installments of \$70,000. Our procedures revealed that of the \$280,000 paid by Verizon during September 1, 2009 to December 31, 2012, the City Cable Bureau received only \$70,000. CIS allocated the remainder, or \$210,000 to PCTV under the terms of the City's contract with PCTV entered into in 2011. This imbalance in resource allocation provides for only nominal capital improvements to the City Cable Bureau's facilities with many of its materials and equipment obsolete.

Recommendations

Ensure compliance with all cable franchise agreements so that the City receives all benefits from the cable franchising agreement as originally intended.

Finding #2: PEG Grants Allocation

In addition to the City not receiving the Cable Bureau grant as described above, significant portion of the PEG grants received to support PEG channel programming from Verizon under the Cable Franchise contract are allocated to PCTV. Of the \$553,076 Fixed and Annual total received, only \$40,447 in annual grant was allocated to the City Cable Bureau during the period September 1, 2009 to December 31, 2012 with \$512,629 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 \$70,000 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 Verizon. 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.