GARLAND

INTERNAL AUDIT

Date: **April 16, 2013**

To: **Honorable Mayor Jones**
Members of the City Council
Members of the Audit Committee

From: **Craig Hametner, City Auditor**

Subject: **Time Warner Franchise Fee Audit - Follow-up**

This is a follow-up of the report "Time Warner Franchise Fee Audit - Follow-up Audit" issued on March 1, 2010. The original audit included testing of procedures assessing management controls, such as reviewing accurate billing, proper revenue reporting, compliance with laws, regulations, City ordinances, and professional service agreements. The follow-up audit was not intended to be a detailed study of every relevant system, procedure, and transaction.

We performed this follow-up under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

This audit follow-up 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 audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our previous recommendations.

Upon completion of our follow-up inquiries, we determined that the previous recommendations were not implemented. Following is a summary of the results of this follow-up.

Audit Follow-Up

Finding #1
Condition (The way it is)
Time Warner is not submitting a summary explaining the basis for the calculation of franchise fees as it is stipulated in Chapter 66.
Recommendation
The Managing Director of Financial Services should communicate to Time Warner that they need to provide a more detailed summary of what makes up the "gross revenues" that they report to us.
Management Response
Financial Services will verify that reported gross revenues are in compliance with Utilities Code Chapter 66 Sec.66.002 (B) (i). Financial Services will request detailed gross revenue data from Time Warner for the current fiscal year and for as many prior years the data is available. Financial Services will have Time Warner's response by May 31, 2010.
Follow-up
We contacted the Director of Finance to obtain and review documentation expected by May 31, 2010. Management was unable to provide required documentation.
Implementation
Not Implemented.

Audit Follow-Up

Finding #2
Condition (The way it is)
Time Warner is not complying with Utilities Code Chapter 66 when reporting "gross revenues." Their reporting method is on the accrual basis and not the cash basis.
Recommendation
Management should ensure that Time Warner reports their "gross revenues" on what was actually received as it is stipulated on Utilities Code Chapter 66 Sec. 66.002 (B) (i).
Management Response
Financial Services will discuss with the City Attorney current reporting practices for gross revenues. Financial Services will then determine appropriate actions in seeking Time Warner's compliance with Utilities Code Chapter 66.Sec. 66.002 (b) (i). Management Financial Services will have Time Warner's response by September 30, 2010.
Follow-up
We contacted the Director of Finance to obtain and review documentation expected by September 30, 2010. Management was unable to provide required documentation.
Implementation
Not Implemented.

Audit Follow-Up

Finding #3
Condition (The way it is)
Time Warner is not complying with Utilities Code Chapter 66 Sec. 66.002 (6) (A) when reporting franchise fees as part of their gross revenues.
Recommendation
Management should ensure that Time Warner reports their franchise fees as part of their gross revenues based on what was billed to the customers.
Management Response
Financial Services will determine appropriate actions in seeking Time Warner's compliance with Utilities Code Chapter 66 Sec.66.002 (6) (A). Management Financial Services will have Time Warner's response by September 30, 2010.
Follow-up
We contacted the Director of Finance to obtain and review documentation expected by September 30, 2010. Management was unable to provide required documentation.
Implementation
Not Implemented.