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**SEMINOLE COUNTY  
INFORMATION TECHNOLOGIES DEPARTMENT  
TELECOMMUNICATIONS DIVISION**

**TCI TKR OF CENTRAL FLORIDA, INC.  
FRANCHISE FEE AUDIT**

The Internal Audit Division of the Office of the Clerk of the Circuit Court has completed an audit of franchise fees paid to the County by TCI TKR OF CENTRAL FLORIDA, INC. (hereafter TCI). Mr. Matt Chesler, the senior franchise coordinator for Seminole County requested this audit.

**PURPOSE**

The purpose of the audit was to determine if the amount of franchise fees remitted by TCI to the County was accurate, complete, and in compliance with the requirements of Seminole County Ordinance No. 83-4. In addition, the audit was performed to determine if the administrative controls are adequate and operating as intended in compliance with applicable laws, regulations, and other Seminole County policies and procedures.

**BACKGROUND**

On January 11, 1983, the Board of County Commissioners (hereafter BCC) enacted Ordinance No. 83-4 under the home rule power of the County. The purpose is to provide the regulations, conditions, and provisions for the installation, operation, and maintenance of Cable Television Systems (CATV) within the unincorporated limits of Seminole County, Florida, in the best interest of the citizens.

As a condition for operating a franchise in Seminole County, TCI is required to follow certain provisions outlined in the ordinance. For the right to use the County streets, easements, and right-of-ways, TCI has to pay the County five percent (5%) of its gross annual receipts. Also, TCI is required to file a statement of estimated quarterly revenues with the County within thirty (30) days after the first, second, and third quarters of TCI's fiscal year, showing the estimated revenue derived from each category of TCI's cable TV operations. There is also a requirement for TCI to file a certified audited revenue statement, prepared by an independent Certified Public Accountant within one hundred twenty (120) days from the end of TCI's fiscal year covering operations and revenues for the preceding calendar year. The total franchise fee owed to the County for the preceding year shall be computed based upon this statement, and any further payment due to the County for the preceding year shall be made within fifteen (15) days from the filing of this statement.

<p>Prepared by: Internal Audit Division Clerk of the Circuit Court</p>
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## SCOPE

The scope of this audit included a review of records from January 1996 to June 1999. During that time, the County received franchise fees of approximately \$391,300.66.

The audit included:

- Review of the procedures being used to ensure compliance with the BCC Ordinance No. 83-4 and compliance with established policies and procedures, Florida State Statutes, and other applicable government regulations;
- Review of internal controls to ensure that franchise fees are accurately billed to customers at the correct amount and rate, and in a timely manner;
- Review of TCI remittances for accuracy and timeliness;
- Review of the payments reported via the company's billing system reports;
- Review of maps and plans of the area being serviced by TCI;
- Review of records being maintained by the County;
- Review of the BCC ordinances for conditions and provisions for payment of the franchise fee;
- Interviews of key personnel; and,
- Other such review procedures considered necessary in the circumstances.

Fieldwork began July 27, 1999, and was completed on August 13, 1999. The audit was performed by Bill Carroll and Pat Tindel.

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## OVERALL EVALUATION

TCI did not remit the full value of the franchise fees due the County. On average, TCI remittances were understated by 1.8 percent for the period tested from January 1996 to June 1999. Consequently, for the period October 1990 through June 1999, we calculated that the company understated its remittances by approximately \$21,130.83. The total amount owed by TCI, including penalties and interest, is \$35,066.14.

For a detailed discussion of the factors contributing to fees owed refer to Finding No. 1 on page 4 of this report.

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**FINDING NO. 1**

**FINDING**

**TCI did not submit all of the franchise fees due the County.**

As payment to the County for the rights to use the County streets, easements and right-of-ways, TCI is required to submit franchise fees to the County each quarter based on its Gross Receipts in unincorporated Seminole County.

Seminole County Ordinance No. 83-4 Article 1 Section 1.3(g) defines Gross Annual Receipts. "Gross Annual Receipts shall include all receipts collected from subscribers within the unincorporated areas of the County within a calendar year, including but not limited to:

- 1) all compensation for installation and line extension charges;
- 2) all compensation for the provision of basic or expanded Cable TV; and,
- 3) all compensation for the provision of pay TV or other pay services that are not included in basic or expanded Cable TV service signals and service.

Gross Annual Receipts shall not include any taxes on the service furnished by the grantee.....or any subscriber revenues prohibited by inclusion in the fee base by State or Federal law or regulation."

There are two conditions that contributed to the under remittance.

- TCI totals the payments collected from its subscribers for the month, deducts for taxes (i.e. Sales Taxes), and multiplies the balance by five percent (5%) to arrive at the franchise fees due the County. Although, TCI collects seven percent (7%) from its subscribers for sales tax, it deducts nine percent (9%) from the base to apply the five percent (5%) franchise fee. Consequently, TCI is applying the five percent (5%) to a smaller base. Thus, the County is not receiving its fair share of the money received from the subscribers.

For the period January 1996 to December 1998, TCI collected \$7,476,405.90 from its subscribers. Subtracting nine percent (9%) results in a base of \$6,859,087.98. By subtracting seven percent (7%) results in a base of \$6,826,318.41.

- TCI did not include all sources of revenue in the franchise fee base. For example, for years 1996, 1997, and 1998, the company collected \$138,729.54 in revenue for late charges, digital and a category of revenue referred to as TVRO. These revenues are simply not included in the franchise fee base.

We calculated that on average, TCI remittances were understated by roughly 1.8%. Consequently, for the period October 1990 through June 1999, the company under remitted franchise fees by approximately \$21,130.83, not including penalties and interest. The total amount owed by TCI, including penalties and interest, is \$35,066.14. However, by limiting the liability to only the last three years, the amount payable to the County equals \$16,261.94.

The following worksheets illustrate the franchise fees owed to the County.

Schedule 1	1996 worksheet of franchise fees
Schedule 2	1997 worksheet of franchise fees
Schedule 3	1998 worksheet of franchise fees
Schedule 4	1999 worksheet of franchise fees
Schedule 5	Summary worksheet
Schedule 6	Calculation of fees owed for back taxes
Schedule 7	Calculation of fees owed for back taxes 1996 -1999