



Office of the Comptroller
March 21, 2007

W. Martin Morics, C.P.A.
Comptroller

Michael J. Daun
Deputy Comptroller

John M. Egan, C.P.A.
Special Deputy Comptroller

Craig D. Kammholz
Special Deputy Comptroller

To the Honorable
Common Council of the
City of Milwaukee

Re: AT&T Wisconsin Interim Operating Agreement

Dear Council Members:

The City Attorney's March 16, 2007 submittal of a proposed AT&T agreement for your consideration states that the agreement closely tracks the existing Time Warner agreement to assure that both companies will be similarly treated. Nevertheless, we wish to point out that the AT&T agreement has some significant differences in financial reporting and auditing requirements. We appreciate that the City Clerk sought our review and forwarded our comments to the City Attorney for consideration. At that time we raised these issues, but based on our review of the proposed agreement they were not addressed. We are therefore transmitting this letter as a matter of disclosure to assure you are fully informed as you consider the proposed agreement.

Like the Chapter 99 Cable Ordinance, the AT&T agreement requires quarterly license fee payments to the City in the amount of five percent of defined gross revenue. Chapter 99 also requires Time Warner to submit quarterly and annual financial reports containing a descriptive and comprehensive breakout of gross revenue, reconciled to the franchise fee payments. Chapter 99 requires that the annual gross revenue reports be audited by a certified public accountant. There are no similar financial reporting and annual auditing requirements in the AT&T agreement. Rather than a requirement for annually audited financial reports, Section 8 of the AT&T agreement allows the City to audit the fees only once at contract expiration. Such an audit would be not only untimely but problematic, given the absence of financial reports. This means that rather than auditing AT&T's quarterly and annual gross revenue reports, the auditors would have to construct such reports from an examination of AT&T's books and records. A three year audit is also not timely in that a contract renewal or extension decision will have already been made by the time the audit report is available.

The financial controls, reporting and audit requirements currently a part of the Chapter 99 Cable Ordinance have identified and resulted in substantial additional

franchise fee revenue for the City. Moreover, such requirements constitute fair and full disclosure and as such are in our judgment properly includable in the AT&T agreement.

Our Office has consistently recommended that contracts involving significant payments to the City require CPA audited annual financial reports. Such audits verify that all payments to the City comply with the contract terms. This requirement is not only in the Time Warner franchise agreement, but also in the contracts for Waste Management, collection of City accounts, citation processing and other major contracts. Approving the AT&T agreement without these provisions may hamper the City's ability to require them in future contracts.

We thank the City Clerk for allowing us with the opportunity to review this important agreement and we are available to answer any further questions.

Sincerely,

A handwritten signature in cursive script that reads "Michael F. Dan". The signature is written in black ink and is positioned above the printed name of the signatory.

W. MARTIN MORICS
Comptroller

c: Major Tom Barrett
City Clerk Ron Leonhardt
City Attorney Grant Langley