



**TEXAS DEPARTMENT OF INFORMATION RESOURCES**

Independent Accountants' Report  
On Applying Agreed-upon Procedures  
Master Work Order Financial Report

August 31, 2012



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## **Independent Accountants' Report on Applying Agreed-upon Procedures**

The Board of Directors and Management  
Texas Department of Information Resources:

We have performed the procedures enumerated below and noted in Attachment I related to the Master Work Order Monthly Financial Report as of and for the year ending August 31, 2012 (the Report) for Texas.gov attached hereto as Attachment II, which were agreed to by the managements of the Texas Department of Information Resources (DIR) and Texas NICUSA, LLC, a wholly owned subsidiary of NIC Inc. (NIC), solely to assist you in evaluating the Report. Management of NIC is responsible for the Report and related accounting records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of DIR and NIC. Consequently, we make no representations regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

### **Revenue**

1. We obtained a summary of transaction and service revenue accounts and agreed the amounts to the trial balance maintained by NIC as of and for the year ending August 31, 2012 without exception and agreed the total amount to the Report without exception.
2. We obtained the transaction revenue and service revenue subledgers and agreed the total to the revenue summary schedule discussed in procedure 1 above. We added the individual amounts in the transaction revenue and service revenue subledgers and compared the resultant total with the amount in the trial balance. We found no exceptions.
3. We obtained a summary reconciliation comparing revenue recognized for the year ending August 31, 2012 to a schedule of the associated cash received and related cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas. We traced the amount of revenue recognized to the revenue summary schedule discussed in procedure 1 above. We traced the total amount of cash received and cash withheld by the Texas Comptroller of Public Accounts as part of the revenue sharing arrangement with the State of Texas to a detail cash activity report generated by NIC's accounting system within +/- \$500 or 2%. We found no exceptions.
4. We selected a sample of 30 nonlocal transaction revenue items from the revenue subledger discussed in procedure 2 above, and obtained the associated customer contract, purchase order, invoice and evidence of cash payment received, as applicable to that transaction. The 30 items were stratified by



revenue stream dollar totals for the fiscal year. For each sample, we traced the amount per the detail cash activity report to each of the supporting documents provided. In addition, we traced the amount per the revenue subledger to each of the supporting documents obtained. We found no exceptions within +/- \$500.

For one sample item, we agreed the amount per the bank statement evidencing cash receipt to the sampled item, noting variances of \$165. NIC represented that a month-end adjustment is made to cover all variances between the revenue recorded and the expected deposit amount.

For sampled items which were processed as part of a batch payment from the Texas Comptroller of Public Accounts, we inspected the daily batch data file containing the sampled item and traced the amount per the transaction revenue subledger to the daily batch data file. In addition, we traced the total amount per the daily batch data file containing each sampled item to evidence of cash payment received from the Texas Comptroller of Public Accounts. We found no exceptions.

5. We selected a sample 20 local transaction revenue items from the revenue subledger discussed in procedure 2 above, and obtained the associated customer contract, purchase order, invoice and evidence of cash payment received, as applicable to that transaction. The 20 items were stratified by revenue stream dollar totals for the fiscal year. For each sample, we traced the amount per the detail cash activity report to each of the supporting documents provided. In addition, we traced the amount per the revenue subledger to each of the supporting documents obtained. We found no exceptions within +/- \$500.

For sampled items which were processed as part of a batch payment from the Texas Comptroller of Public Accounts, we inspected the daily batch data file containing the sampled item and traced the amount per the transaction revenue subledger to the daily batch data file. In addition, we traced the total amount per the daily batch data file containing each sampled item to evidence of cash payment received from the Texas Comptroller of Public Accounts. We found no exceptions.

For sampled items which related to eFiling, we agreed the amount per the bank statement evidencing cash receipt to the sampled item, noting variances no greater than \$46 for each of the three eFiling samples selected as part of the 20 local transaction revenue items. NIC represented that for the eFiling revenue stream, a month-end adjustment is made to cover all variances between the revenue recorded and the expected deposit amount.

6. We selected a sample of 10 items from the service revenue subledger, and obtained the associated customer contract, purchase order, invoice journal entry documentation and evidence of cash payment received, as applicable to the transaction. We agreed the amount per the revenue subledger to each of the supporting documents provided. For one sample item dated May 2012, payment has not been received as of the date of this report. We found no exceptions.
7. We inquired of NIC management related to controls over the revenue process and were informed that NIC performs monthly reconciliations of the accounts receivable account. We selected November 2011, February 2012, and July 2012 from the year ending August 31, 2012 and obtained the accounts receivable reconciliation and associated supporting documentation. For each reconciliation, we verified the mathematical accuracy, noted that management review of the reconciliation was documented within 30 days of the respective month end and noted that reconciling items were identified and supported. We found no exceptions.



## Operation Costs

8. We obtained a summary of operations costs accounts and agreed the amounts in each category to the subtotals per the trial balance maintained by NIC as of and for the year ending August 31, 2012 without exception and agreed the total amounts in each category to the Report without exception.
9. We obtained the operations costs subledger for the year ending August 31, 2012 and agreed the total in each account to the trial balance. We added the individual amounts in the operations cost subledger and compared the resultant total with the amount in the trial balance for each account without exception.
10. We excluded revenue share, payroll expense, depreciation cost, accruals and reversals of accruals from the operations cost subledger, and selected a sample of 30 operations cost items and 3 credit entries to the aforementioned operations costs accounts. For the sample of 30 operations cost items, we obtained the associated vendor invoice and evidence of cash payment, and agreed the amount per the subledger to each of the supporting documents provided, as applicable to that transaction. For 13 sample items, procedure noted above was performed without exception. The following procedures were performed on the remaining items as noted below.

We noted that five items sampled related to purchases that are eligible, per inquiry of NIC management, to be recorded in the Report as the invoiced cost plus a 10.25% procurement processing fee. For this item, we recalculated the total amount recorded as operations costs as the total amount per the invoice plus the 10.25% processing fee. The recalculation was performed without exception.

We noted that one item sampled related to the monthly amortization recorded for a prepaid expense. For this item, we also verified the mathematical accuracy of the amortization expense recorded based on the term of the service. As this item was comprised of multiple invoices, we inspected each invoice, noting that the period related to a future service evidencing classification as a prepaid expense was appropriate. We found no exceptions.

We noted that two items sampled related to credit card fees. As invoices are not available for such transactions, we obtained the associated vendor credit card statement. We found no exceptions.

We noted that three items sampled related to transaction processing fees charged by NIC. We obtained a schedule indicating the total transaction count for that month and verified the mathematical accuracy of the expense amount recorded based on the rate of \$0.20 and \$0.30 per transaction utilized for the three items sampled without exception.

We noted that six items sampled related to subcontractor payments to Deloitte based on the invoice received of expenses incurred by Deloitte. For these six items, we obtained the invoices but no further procedures were performed. We found no exceptions.

For the sample of three credit entries to the operations costs accounts, we obtained the journal entry support related to each item and inquired of management as to the nature of the entry. We found no exceptions.

11. We obtained the depreciation expense subledger and agreed the amount per the subledger to the summary of operations cost accounts discussed in procedure 8 above without exception.



We selected a sample of 10 depreciation items from the subledger and verified the mathematical accuracy of the depreciation expense recorded based on the asset value, useful life and salvage value, if any. For one sampled item, we noted that the asset was capitalized in the fixed asset system in 2008 by the previous vendor as hardware which has a 3-year useful life instead of as software which has a 5-year useful life. Subsequently, the asset class was correctly identified as software but the useful life that was originally assigned was not updated to 5-years. As a result, the asset was fully depreciated prior to fiscal year 2012.

For the remaining nine items sampled, we noted a useful life of five years and three years utilized for software and hardware, respectively, with a salvage value of 10% utilized for hardware and none for software without exception.

12. We obtained the schedules calculating the State of Texas revenue share for the year ending August 31, 2012, verified the mathematical accuracy and agreed the resultant amounts per the schedules to the Report.

The Total Revenue Share schedule calculates total revenue share as total revenue per the Report less total credit card fees and bad debt per the Report, the difference of which is multiplied by 20%. We found no exceptions.

The Net Revenue Share schedule calculates the net revenue share as the Texas NICUSA Recovered Investment multiplied by 50%. The Texas NICUSA Recovered Investment amount is calculated as Cumulative Investment in Capital Assets as of August 31, 2012 less Cash from Operations for the year ending August 31, 2012 plus Investment in Other Assets and Liabilities. We found no exceptions.

13. We obtained the payroll expense subledger and agreed the amount per the subledger to the summary of operations cost accounts discussed in procedure 8 without exception. We selected a sample of 30 payroll expense items from the subledger.

For 25 items sampled related to employees directly charging time to the Master Work Order project, we verified the mathematical accuracy based on the rate per hour used for the associated employee and hours indicated for that item. We traced the hours indicated for each sampled item to the applicable employee timesheet and the rate per hour to the Master Work Order Employee Roster containing hourly rates for each employee. We found no exceptions.

Five items sampled related to indirect payroll expense allocated to the Master Work Order project. Three of the five indirect payroll expense items were for nontechnical services for which the rate is calculated based on the relative monthly revenues of projects. For these items, NIC calculates two allocation rates; the first rate allocates costs shared by only Master Work Order projects based on the relative monthly revenues of Master Work Order projects; the second rate allocates costs shared by all projects based on the relative revenues of all projects across Master Work Order and Texas.gov projects. The additional two items were for technical services for which the rate is determined based on the relative number of servers utilized by each program. The Director of Technology judgmentally determines the technical service rate based on the number of servers and amount of time provided by machines for the projects. For all five items, we obtained a schedule prepared by NIC management calculating the shared service expense allocation and verified the mathematical accuracy without exception.



**Accounts Receivable**

- 14. We obtained an accounts receivable aging report as of August 31, 2012 and agreed the total to the Report without exception. We selected a sample of the five customers with the largest balances from the account receivable aging report, and verified the date of the transaction or service indicated per the internal supporting documentation corresponded to the period which revenue was recorded to review for proper cutoff at fiscal year end. One of the five items was for the Vital Statistics revenue stream which is based on an external report provided by the Department of State Health Services (DSHS) to NIC indicating the number of transactions occurring and the amount owed by DSHS to NIC during the month. We found no exceptions.
- 15. We obtained the accrued revenue detail consisting of accounts receivable amounts not contained in the accounts receivable aging report discussed in procedure 14 above. We inquired of NIC management related to the process for estimating accrued revenue at year end and recalculated the accrual as of August 31, 2012 for the “over the counter” (OTC) and CPA Online Ordering (Smartbuy) amounts based on the NIC methodology. The accrual for the “over the counter” (OTC) revenue stream is from a system report that shows the transactions that have not been vouchered at the Department of Public Safety and the accrual for the CPA Online Ordering (Smartbuy) revenue stream for offline transactions is recorded based on the prior month revenue amount. No exceptions noted.

**Accounts Payable and Accrued Liabilities**

- 16. We obtained the client check register/wire transfer report for the month of September 2012 and selected checks and wire transfers over \$75,000 for testing. For the two items greater than \$75,000, we obtained the invoice and check stub or wire transfer notice and determined which period the service was performed or which period the goods were received. We determined that the disbursement was to pay for a service performed or goods received for the year ending August 31, 2012 and therefore was properly recorded as a liability at year-end, without exception.

**Management and Oversight**

- 17. We inquired of NIC management related to controls over the review of the monthly financial report. We selected February 2012 and August 2012 for the year ending August 31, 2012 and obtained the Quality Control Review form that contained the printed name, signature, and date of review for the preparer, first review, second review, and third review. We found no exceptions.

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We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.



This report is intended solely for the information and use of the Board of Directors and management of the Texas Department of Information Resources, Governor's Office, Legislative Budget Board, Legislative Audit Committee, State Auditor, Comptroller of Public Accounts, the Sunset Advisory Commission, state agencies who participate in Texas.gov, the presiding officer of each house of the legislature, the chair of each committee in the legislature with primary jurisdiction over the Texas Department of Information Resources, and members of each house of the Legislature and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 14, 2013

**Master Work Order Monthly Financial Report Procedures**

***Revenue***

1. Obtain a schedule summarizing all transaction and service revenue accounts and amounts for the year ended August 31, 2012, and agree amounts in each account to the trial balance.
2. Obtain the transaction and service revenue subledgers and agree the total to the revenue summary schedule. Add the individual revenue amounts shown in the revenue subledger, and compare the resultant total with the amount in the trial balance.
3. Obtain a reconciliation of transaction revenue recognized for the year ended August 31, 2012 to a schedule of the associated cash received within +/- \$500 or 2% of total cash received.
4. Select a sample of 30 nonlocal revenue items from the revenue subledger and agree the amount to the schedule of cash receipts and the associated documentation of bank deposit within +/- \$500. An item is defined as a selected business day of the fiscal year associated with an associated revenue stream. The 30 items will be stratified by revenue stream dollar totals for the fiscal year.
5. Select a sample of 20 local revenue items from the revenue subledger and agree the amount to the schedule of cash receipts and the associated documentation of bank deposit within +/- \$500. An item is defined as a selected business day of the fiscal year associated with an associated revenue stream. The 20 items will be stratified by revenue stream dollar totals for the fiscal year.
6. Select a sample of 10 invoices from the service revenue subledger, and obtain the associated customer contract, purchase orders, invoices and cash payment received. Agree amount per the revenue subledger to each of the supporting documents obtained.
7. Obtain and review three monthly reconciliations of revenue to accounts receivable for control purposes.

***Master Work Order Operations Costs***

8. Obtain a schedule summarizing all master work order operations costs accounts and amounts for the year ended August 31, 2012, and agree amounts in each account to the trial balance. Agree to Master Work Order August 31, 2012 Financial Report.
9. Obtain the master work order operations costs subledger and agree the total to the costs summary schedule. Add the individual cost amounts shown in the costs subledger, and compare the resultant total with the amount in the trial balance.
10. Select a sample of 30 expense items, excluding revenue share, payroll expense depreciation cost, accruals, and reversals of accruals, and obtain the associated vendor invoice and cash payment. Agree amount per the expense listing to each of the supporting documents obtained. Ensure invoice was approved for payment by appropriate individual.

11. Obtain the detail schedule calculating depreciation expense and agree the amount per the schedule to the summary of cost accounts. Select a sample of 10 depreciation items and recalculate.
12. Obtain the schedule calculating revenue share and agree the amount per the schedule to the summary of cost accounts. Summarize the method of calculating revenue share amounts.
13. Obtain a detail of payroll expense recorded and verify mathematical accuracy of the listing. Select a sample of 30 items and recalculate payroll expense based on contractual rate and tie hours to time tracking system.

***Accounts Receivable (Cutoff Focus)***

14. Select a sample of 5 customers with the largest balances as of August 31, 2012, and review the underlying invoice support to determine if the revenue was properly recorded in fiscal year 2012.
15. Obtain accounts receivable detail, and select 5 accrued receivables as of August 31, 2012. Agree to underlying support to determine appropriateness of accrual based on established NIC methodology. For accrued revenue, ensure established methodology was followed, which is prior month revenue amount for SmartBuy and a three month average for Vital Stats Offline.

***Accounts Payable and Accrued Liabilities (Cutoff Focus)***

16. Obtain client check registers/ wire transfer report for the one month period subsequent to year end and select checks/ wire transfers over \$75,000. Agree to invoices and check stubs/wire transfer notices and summarize which period service was performed or which period the good was received. Agree items selected to the accounts payable sub-ledger and accrued expenses list. Determine if amount was accrued in accordance with NIC methodology.

***Management & Oversight***

17. Select two months and verify that NIC Accounting Management reviewed the Master Work Order Monthly Financial Report prior to submitting to DIR.

**Master Work Order**  
Statement of Operations  
August 31, 2012

	<b>Year-to-Date August 2012</b>	<b>Budget FY 2012</b>
	<u>                    </u>	<u>                    </u>
Master Work Order revenue:		
Transaction revenue	\$ 39,980,959	38,500,517
Service revenue	13,645,851	10,390,889
	<u>53,626,810</u>	<u>48,891,406</u>
Total Master Work Order revenue		
Master Work Order operations costs:		
Total revenue share	10,393,351	9,233,544
Variable cost	10,424,516	10,505,178
Team cost	13,678,419	14,171,068
Depreciation cost	3,088,094	3,043,470
Bad debt expense	1,902	—
Discontinued asset expense	2,363,826	—
	<u>39,950,108</u>	<u>36,953,260</u>
Total operations costs		
Net recovery of investment	\$ <u>13,676,702</u>	<u>11,938,146</u>

See accompanying independent accountants' report on applying agreed-upon procedures.

**Master Work Order**  
Unrecovered or (Recovered) Investment  
For State Fiscal Years

	<b>YTD 2005</b>	<b>YTD 2012</b>	<b>Budget 2012</b>
Capital assets:			
Beginning of year investment in capital assets	\$ 6,337,156	22,186,242	21,799,096
Current year investment in capital assets	200,672	8,395	—
Cumulative investment in capital assets	<u>6,537,828</u>	<u>22,194,637</u>	<u>21,799,096</u>
Cumulative earnings (loss):			
Cumulative gain (loss) since inception	—	13,961,659	25,886,108
Accumulated depreciation and discontinued assets	—	13,910,255	—
Earnings plus depreciation	—	27,871,914	25,886,108
Current year earnings	—	13,676,702	11,938,145
Depreciation and discontinued asset expense	—	5,451,920	3,043,470
Less cash from operations	—	47,000,536	40,867,723
Investment in other assets and liabilities (see note)	—	1,787,980	1,452,908
Texas NICUSA unrecovered or (recovered) investment	<u>\$ 6,537,828</u>	<u>(23,017,919)</u>	<u>(17,615,719)</u>
Net revenue share	\$ —	11,508,959	8,807,860
Less amounts previously paid	—	10,569,642	1,317,052
Current month net revenue share due to state	<u>\$ —</u>	<u>939,317</u>	<u>7,490,808</u>

## Note 1:

The Investment in Other Assets and Liabilities is the net of Accounts Receivable and Prepaid Expenses less Accounts Payable and Deferred Revenue. The investment in Other Assets and Liabilities has been reduced by the payable due to the State for the distribution of the 50% revenue share.

See accompanying independent accountants' report on applying agreed-upon procedures.