



TEXAS DEPARTMENT OF INFORMATION RESOURCES

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

August 31, 2013



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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 ended August 31, 2013 (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. 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 ended August 31, 2013 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 ended August 31, 2013 to a schedule of the associated cash received and related 30% 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 evidence of cash payment received. 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 the revenue subledger and to the supporting documentation of cash received. 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, which was 70% of the gross revenue recorded. We found no exceptions.

5. There was no new local revenue transactions recorded in 2013; therefore no sampling was performed.
6. We selected a sample of 10 items from the service revenue subledger discussed in procedure 2 above, and obtained the associated evidence of cash payment received. We agreed the amount per the revenue subledger to the invoiced amount and to the bank statement. We found no exceptions.
7. We selected December 2012, March 2013, and August 2013 and obtained the accounts receivable reconciliation and associated supporting documentation. For each reconciliation, we verified the mathematical accuracy and noted management review of the reconciliation was documented within 30 days of the respective month end. The reconciliations were performed within 30 to 32 days of month end.

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 ended August 31, 2013 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 ended August 31, 2013 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 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. We also reviewed evidence that the Director of Finance approved all expense transactions prior to payment and the Chief Accounting Officer or Chief Financial Officer approved transactions greater than \$10,000 prior to payment. The following procedures were performed as noted below.

We noted that four items sampled related to purchases recorded in the Report as the invoiced cost plus a 10.25% procurement processing fee. For these items, 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 four items sampled related to the monthly amortization recorded for a prepaid expense. For these items, we also verified the mathematical accuracy of the amortization expense recorded based on the term of the service noted by NIC. These items were comprised of multiple



invoices and therefore, we inspected each invoice, noting that the period per the invoice related to a future service. We found no exceptions.

We noted that two items sampled related to Vital Statistics. As Vital Statistics is allocated a specific percentage of the invoice based on the relative number of servers used by each program, we obtained the NIC allocation schedule and verified the mathematical accuracy of the percentage allocated to Vital Statistics. We found no exceptions.

We noted that seventeen items sampled related to subcontractor payments to a vendor based on the invoices received for expenses incurred by the vendor. For these seventeen items, we obtained the invoices and agreed the hourly rates to the Master Work Order Employee Roster for the respective period of time. For one item the hourly rate used of \$152.50 should have been \$180.92 thus an understatement of \$1,051.54 was charged to the project for the 37 labor hours.

For three sample items for credit card fees, we obtained the associated vendor credit card statements as invoices are not applicable. 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, noted in the NIC fixed asset ledger. We found no exceptions. 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.

12. We obtained the schedules calculating the State of Texas revenue share for the year ended August 31, 2013, 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 when recalculating the Total Revenue Share schedule.

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, 2013 less Cash from Operations for the year ended August 31, 2013 plus Investment in Other Assets and Liabilities. We found no exceptions when recalculating the Net Revenue Share schedule.

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 the 25 items sampled where employees directly charged 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 incurred. We traced the hours incurred 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. For one sampled item, we noted that 20.5 hours were undercharged to an employee's timesheet. The result is an understatement of \$355 to payroll expense.



Five items sampled related to indirect payroll expense allocated to the Master Work Order project. One of the five indirect payroll expense items was for nontechnical services for which the rate is calculated based the monthly project revenue as a percentage of total revenue. The additional four items were for technical services for which the rate is determined based on the relative number of servers utilized by each project. The Director of Technology judgmentally determines the technical service rate based on the number of servers and amount of time provided by the servers 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, 2013 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 per the internal supporting documentation was prior to August 31, 2013. 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. There was one accrual at August 31, 2013 for CPA Online Ordering (Smartbuy) and the amount was recalculated without exception based on the prior month revenue amount.

Accounts Payable and Accrued Liabilities

16. We obtained the client check register/wire transfer report for the month of September 2013 and noted no checks and wire transfers over \$75,000.

Management and Oversight

17. We selected March 2013 and August 2013 monthly financial reports 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

July 21, 2014

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, 2013, and agree amounts in each account to the trial balance and the Report.
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, 2013 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 accounts receivable and note management review was documented within 30 days of the respective month end.

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, 2013, and agree amounts in each account to the trial balance. Agree to Master Work Order August 31, 2013 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. For accrual items selected, differences between accrual and actual expense amount should not exceed the greater of +/- \$500 or 2% of actual invoice amount.

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 based on the asset life, date of service, and salvage life noted in the NIC fixed asset ledger.
12. Obtain the schedule calculating revenue share and agree the amount per the schedule to the summary of cost accounts.
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, 2013, and review the underlying invoice support to determine if the revenue was properly recorded in fiscal year 2013.
15. Obtain accounts revenue detail, and compare the “over the counter” (OTC) accrual to a system report from the Department of Public Safety or compare the CPA Online Ordering (Smartbuy) accrual to the prior month actual.

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.

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

For the year ended August 31, 2013

	For the year ended August 31, 2013	Budget 2013
Master Work Order revenue:		
Transaction revenue	\$ 9,846,134	9,172,986
Service revenue	14,871,815	8,410,747
Total master work order revenue	<u>24,717,949</u>	<u>17,583,733</u>
Master Work Order operations costs:		
Total revenue share	4,869,608	3,469,047
Variable cost	500,486	453,678
Team cost	7,453,956	7,066,182
Depreciation cost	1,467,243	1,442,328
Bad debt expense	465	—
Discontinued asset expense	—	—
Total operations costs	<u>14,291,758</u>	<u>12,431,235</u>
Net recovery of investment	<u>\$ 10,426,191</u>	<u>5,152,498</u>

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

Master Work Order

Unrecovered or (Recovered) Investment

For the year ended August 31, 2013

	<u>August 31, 2013</u>	<u>Budget 2013</u>
Capital assets:		
Beginning of year investment in capital assets	\$ 22,194,637	21,892,180
Current year investment in capital assets	<u>—</u>	<u>—</u>
Cumulative investment in capital assets	<u>22,194,637</u>	<u>21,892,180</u>
Cumulative earnings:		
Cumulative gain since inception	27,638,361	45,945,531
Accumulated depreciation and discontinued assets	<u>19,362,175</u>	<u>—</u>
Earnings plus depreciation	47,000,536	45,945,531
Current year earnings	10,426,191	5,152,498
Depreciation and discontinued asset expense	<u>1,467,245</u>	<u>1,442,328</u>
Less cash from operations	58,893,972	52,540,357
Investment in other assets and liabilities (see note)	<u>3,393,815</u>	<u>1,452,908</u>
Texas NICUSA unrecovered or (recovered) investment	<u>\$ (33,305,520)</u>	<u>(29,195,269)</u>
Net revenue share	\$ 16,652,760	14,597,635
Less amounts previously paid	<u>(16,067,502)</u>	<u>(11,300,222)</u>
Current month net revenue share due to State	<u>\$ 585,258</u>	<u>3,297,413</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.