



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
On Applying Agreed-upon Procedures

TexasOnline 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 in Attachment I related to the TexasOnline 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 transaction revenue subledger to each of the supporting documents provided except as noted in the following paragraph.

For three sample items, we agreed the amount per the bank statement evidencing cash receipt to the sampled item, noting variances no greater than \$6 for each of the three items we sampled. 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 of 20 local transaction revenue items from 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.
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 that transaction. We agreed the amount per the revenue subledger to each of the supporting documents provided. We found no exceptions.

We noted that nine items sampled related to estimated monthly subscription fees for multiple customers. For such items, we obtained the associated monthly subscription fees tracking report and traced the total per such report to the amount of the selected item. In addition, rather than obtaining evidence of cash payment received for all customers within such report associated with each of the four sampled items, we selected one item from each of the four samples from the monthly subscription fees tracking report and traced to evidence of cash payment received from that one customer. We found no exceptions.

7. We inquired of NIC management related to controls over the revenue process and were informed that NIC performs monthly bank reconciliations for cash accounts. We selected November 2011, February 2012, and July 2012 from the year ending August 31, 2012 and obtained the monthly bank reconciliation and corresponding bank statement for each month. For each monthly bank 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 no reconciling items existed. We found no exceptions.

Operation Costs

8. We obtained the credit card fee subledger for the year ending August 31, 2012 and agreed the total amount to the Report without exception. We added the individual amounts in the credit card fee subledger and compared the resultant total with the amount in the trial balance for each account without exception.



9. We selected a sample of 30 credit card fee items from the credit card fee subledger and obtained the associated vendor credit card statement and evidence of cash payment. We agreed the amount per the credit card fee subledger to each of the supporting documents provided except as noted below.

For one of the 30 sampled credit card fee items, a vendor credit card statement was not available. September 28, 2012, NIC changed their policy and began to retain the credit card statements. The one sample item was dated September 2011. Data is only available from the data processor for one year from the transaction date; therefore the data for the month of September was not available.

10. We obtained the schedule calculating the State of Texas revenue share for the year ending August 31, 2012, verified the mathematical accuracy and agreed the resultant amount per the schedule to the Report. The schedule calculates total revenue share as total revenue per the Report less total credit card fees per the Report multiplied by 40%. We found no exceptions.

Revenue Cut-Off

11. We obtained the sales detail for the month of August 2012 and September 2012. As revenue is recorded monthly, we selected five transactions posted for the month of August 2012 and five transactions posted for the month of September 2012 for different revenue streams. We then obtained supporting documentation, such as the associated invoice or system transaction date, to determine if the revenue was recorded in the appropriate fiscal year.

For four of the five items sampled for the month of August 2012 and September 2012, we agreed the revenue amount to the DIR Crystal Report noting the transaction dates per the general ledger were in August 2012 and September 2012, respectively. For these online daily transactions processed for which no invoice exists, we inspected the system transaction date as support for the date of service. We found no exceptions.

For one of the five August 2012 and September 2012 samples, an invoice was available for review. We reviewed the transaction dates included in the invoice to determine if the revenue was recorded in the appropriate fiscal year. We found no exceptions.

Expense Cut-Off

12. We obtained the credit card fee detail for the month of August 2012 and September 2012. As credit card fees are booked monthly, we selected five transactions posted for the month of August and five transactions posted for the month of September 2012 for different revenue streams. We obtained the associated vendor credit card statement and evidence of cash payment, and verified the date of the transaction indicated per the supporting documentation corresponded to the month which the credit card fee was recorded. We found no exceptions.

Management and Oversight

13. 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

Texas.gov 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 items from the revenue subledger and agree the amount to the schedule of cash receipts and the associated documentation of bank deposit. 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. 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.

Texas.gov Operations Costs

8. Obtain a schedule summarizing all credit card fee accounts and amounts for the year ended August 31, 2012, and agree amounts in each account to the trial balance.
9. Select a sample of 30 credit card fee items and obtain the associated vendor invoice and cash payment. Agree amount per the credit card fee listing to each of the supporting documents obtained.
10. 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.

Revenue Cut-Off

11. Obtain sales detail during the last five days of fiscal year 2012 and the first five days of fiscal year 2013. Select sample of 5 revenue streams and agree to supporting documentation to determine if revenue was (not) properly recorded in fiscal year 2012.

Expense Cut-Off

12. Obtain credit card fee detail during the last five days of fiscal year 2012 and first five days of fiscal year 2013. Select a sample of 5 revenue streams and agree to supporting documentation to determine if credit card fees were (not) properly recorded in fiscal year 2012.

Management & Oversight

13. Select two months and verify that NIC Accounting Management reviewed the Texas.gov Monthly Financial Report prior to submitting to DIR.

Texasonline Financial Report for Texas.gov

Operating Statement

Year ended August 31, 2012

	Year-to-Date		
	Actual	Budget	Variance
Revenues:			
Transaction revenue	\$ 36,454,442	37,024,856	(570,414)
Service revenue	5,838,514	5,231,550	606,964
Credit card fees	(9,930,908)	(12,208,186)	2,277,278
Total revenue	32,362,048	30,048,220	2,313,828
State share	12,944,818	11,760,368	1,184,450
Variable costs:			
Help desk fees	1,399,282	965,200	434,082
IVR	118,838	43,682	75,156
Total variable costs	1,518,120	1,008,882	509,238
Professional compensation:			
Management (general and administrative)	1,804,895	2,553,441	(748,546)
Operations	1,220,895	1,645,819	(424,924)
Product development/tech/engineering	2,564,338	2,979,805	(415,467)
Marketing/outreach	135,498	583,847	(448,349)
Help desk/customer support	—	108,925	(108,925)
Total professional compensation	5,725,626	7,871,837	(2,146,211)
Nonlabor operations costs:			
Data center	644,136	857,915	(213,779)
TEX-AN	47,881	65,231	(17,350)
Software licensing	245,415	286,981	(41,566)
Marketing/promotion	802,371	836,996	(34,625)
Corporate services	545,933	426,163	119,770
Other	1,583,957	1,656,570	(72,613)
Total nonlabor operations costs	3,869,693	4,129,856	(260,163)
Depreciation costs	209,375	399,153	(189,778)
Total costs	24,267,632	25,170,096	(902,464)
Net revenue	\$ 8,094,416	4,878,124	3,216,292

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