



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
on Applying Agreed-upon Procedures
TexasOnline Financial Report

August 31, 2011



KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

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 related to the TexasOnline Financial Report as of and for the year ended August 31, 2011 (the Report) for Texas.gov attached hereto as Exhibit A, 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:

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, 2011 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 haphazardly selected a sample of 30 items from the transaction revenue subledger, and obtained the associated customer contract, purchase order, invoice, and evidence of cash payment received, as applicable to that transaction. We traced the amount per the transaction revenue subledger to each of the supporting documents provided except as noted below. 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.

For two sampled items, we noted that the amount per the evidence of cash payment did not agree to the amount associated with that transaction in the daily batch data file by \$19 and \$80, respectively. We found no other exceptions.



4. We haphazardly 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 three items sampled related to monthly revenue recorded for customers that are billed annually. For such items, we also verified mathematical accuracy of the monthly revenue amount recorded based on the annual revenue amount and contractual terms with the customer. We found no exceptions.

We noted that four 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.

5. We obtained the credit card fee subledger for the year ended August 31, 2011 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.
6. We haphazardly 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 18 of the 30 sampled credit card fee items, vendor credit card statements were not available as such items are paid via automatic debit from the bank account. For one item sampled, we noted that credit card fees expense per the subledger for that item were overstated by \$11,314 due to misallocation between a project code contained within the Report and another project that is unrelated to the Report, although the total amount paid to the vendor agreed to the vendor credit card statement.

7. We inquired of NIC management related to controls over the credit card fee process and were informed that NIC performs a monthly variance and trend analysis over credit card fee amounts to monitor the reasonableness of the credit card fees paid.
8. We obtained the revenue subledger for August 2011 and September 2011 and haphazardly selected sample of 5 items from each month to review for proper accrual cutoff at fiscal year-end. We obtained the associated customer contract, invoice, and evidence of cash payment received, as applicable to that transaction, and verified the date of the transaction or service indicated per the supporting documentation corresponded to the month, which revenue was recorded. For online transactions processed for which no invoice exists, we inspected the transaction date within the transaction computer system. We found no exceptions.



9. We obtained the credit card fee subledger for August 2011 and September 2011 and haphazardly selected sample of 5 items from each month to review for proper cutoff at fiscal year-end. 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.
10. 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 haphazardly selected September 2010, January 2011, and May 2011 from the year ended August 31, 2011 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.
11. We obtained the schedule calculating the State of Texas revenue share for the year ended August 31, 2011, 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 39%. We found no exceptions.

* * * * *

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 30, 2012

TexasOnline Financial Report for Texas.gov

Operating Statement

For the Year Ended August 31, 2011

	Year-to-Date		
	Actual	Budget	Variance
Revenues			
Transaction Revenue	\$ 32,792,588	\$ 36,595,901	\$ (3,803,313)
Service Revenue	5,675,561	6,013,705	(338,144)
Credit Card Fees	(9,395,966)	(9,396,196)	230
Total Revenue	29,072,183	33,213,410	(4,141,227)
State Share	11,338,151	12,953,230	(1,615,079)
Variable Costs			
Help Desk Fees	912,940	568,534	344,406
IVR	71,892	44,420	27,472
Total Variable Costs	984,832	612,954	371,878
Professional Compensation			
Management (General & Administrative)	2,207,061	2,942,620	(735,559)
Operations	1,532,291	1,535,609	(3,318)
Product Development/Tech/Engineering	3,273,069	3,280,171	(7,102)
Marketing/Outreach	371,186	340,362	30,824
Help Desk/Customer Support	135,443	257,738	(122,295)
Total Professional Compensation	7,519,050	8,356,500	(837,450)
Non-Labor Operations Costs			
Data Center	1,046,844	1,613,908	(567,064)
TEX-AN	33,791	121,146	(87,355)
Software Licensing	305,512	1,270,612	(965,100)
Marketing/Promotion	601,130	796,420	(195,290)
Corporate Services	390,783	419,849	(29,066)
Other	1,574,482	1,879,124	(304,642)
Total Non-Labor Operations Costs	3,952,542	6,101,059	(2,148,517)
Depreciation Costs	152,047	338,412	(186,365)
Total Costs	23,946,622	28,362,155	(4,415,533)
Net Revenue	\$ 5,125,561	\$ 4,851,255	\$ 274,306