



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
On Applying Agreed-upon Procedures
Master Work Order Financial Report Texas.gov
For the year ended August 31, 2014



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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 Financial Report for Texas.gov as of and for the year ended August 31, 2014 (the Report) 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 the specified parties 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, 2014 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, 2014 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. For two items, the transaction selected was an adjustment to reflect cash received versus accounts receivable accrued. 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. 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.

For one of the samples selected, the sample related to SmartBuy lease sales to a vendor invoiced for \$437,881 on June 20, 2014 for future lease payments. We obtained the detail invoice and noted that the sample amount of \$22,407 was included in the invoice. However, we were unable to conclude as to whether the total payment of \$147,725 reflected any portion of the sample amount as the vendor did not include purchase order numbers. Additionally the SmartBuy program ceased to exist on May 31, 2014.

An additional sample item for \$4,606 dated May 31, 2014 was also related to SmartBuy and was written off on August 31, 2014 when the revenue was reversed; therefore, we were unable to vouch to cash received.

6. We selected November 2013, April 2014, and August 2014 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 27 to 33 days of month end.

Operations Costs

7. 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, 2014 without exception and agreed the total amounts in each category to the Report without exception.
8. We obtained the operations costs subledger for the year ended August 31, 2014 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.
9. 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 shared service allocations. For these items, we obtained the Shared Services TexasOnline Allocation for the respective month, recalculated the amount applied to Vital Stats and Smartbuy, and agreed the total costs charged to the journal entry detail. Furthermore, we selected one invoice from the total cost charged and agreed it to the accrual or invoice and check noting no exceptions.

We noted that six 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 three 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 twelve items sampled related to subcontractor payments to a vendor based on the invoices received for expenses incurred by the vendor. For these twelve items, we obtained the invoices and agreed the hourly rates to the Master Work Order Employee Roster for the respective period of time. We found no exceptions.

For five sample items for credit card fees, we obtained the associated vendor credit card statements as invoices are not applicable. We found no exceptions.

10. We obtained the depreciation cost 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.

11. We obtained the schedules calculating the State of Texas revenue share for the year ended August 31, 2014, 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 expense per the Report, the difference of which is multiplied by 20%. We found no exceptions when recalculating the Total Revenue Share schedule. There was no bad debt expense to deduct from 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, 2014 less Cash from Operations for the year ended August 31, 2014 plus Investment in Other Assets and Liabilities. We found no exceptions when recalculating the Net Revenue Share schedule.

12. 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. 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 was for nontechnical services for which the rate is calculated based on the monthly project revenue as a percentage of total revenue. The additional two 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 Payable and Accrued Liabilities

- 13. We obtained the check register/wire transfer report for the month of September 2014 and noted no checks or wire transfers over \$75,000.

Management and Oversight

- 14. We selected April 2014 and August 2014 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, Texas Governor’s Office, Texas Legislative Budget Board, Texas Legislative Audit Committee, Texas State Auditor, Texas Comptroller of Public Accounts, the Texas Sunset Advisory Commission, Texas state agencies who participate in Texas.gov, the Texas presiding officer of each house of the Texas Legislature, the Texas chair of each committee in the Texas Legislature with primary jurisdiction over the Texas Department of Information Resources, and Texas members of each house of the Texas Legislature and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

July 17, 2015

Master Work Order Monthly Financial Report for Texas.gov Procedures

Revenue

1. Obtain a schedule summarizing all transaction and service revenue accounts and amounts for the year ended August 31, 2014, and agree amounts in each account to the trial balance and the Master Work Order Financial Report for Texas.gov for the year ended August 31, 2014.
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, 2014 to a schedule of the associated cash received within +/- \$500 or 2% of total cash received.
4. Select a sample of 30 non-local revenue items from the transaction revenue subledger and agree the amount to the cash activity report and the associated documentation of bank deposit within +/- \$500. An item is defined as a selected business day 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 10 invoices from the service revenue subledger, and obtain the associated evidence of cash payment received. Agree amount per the revenue subledger to the invoiced amount and to the bank statement.
6. Obtain and review three monthly reconciliations of accounts receivable. Verify mathematical accuracy note and management review was documented within 30 days of the respective month end.

Master Work Order Operations Costs

7. Obtain a schedule summarizing all master work order operations costs accounts and amounts for the year ended August 31, 2014, and agree amounts in each account to the trial balance. Agree the summary operating costs to the Master Work Order Financial Report for Texas.gov for the year ended August 31, 2014.
8. Obtain the master work order operating costs subledger, sum the individual cost amounts shown in the subledger, and compare the resultant total with the amount in the trial balance.
9. 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.

Attachment I

10. 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 value, useful life, and salvage life noted in the NIC fixed asset ledger.
11. Obtain the schedule calculating revenue share, verify mathematical accuracy, and agree the amount per the schedule to the Master Work Order Financial Report for Texas.gov for the year ended August 31, 2014.
12. Obtain the payroll expense subledger and agree the amount per the schedule to the summary of cost accounts. Select a sample of 30 items and recalculate payroll expense based on contractual rate and hours incurred per time tracking document.

Accounts Payable and Accrued Liabilities (Cutoff Focus)

13. 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 noting service period. For items with a service period prior to year end, agree item to the accounts payable subledger or the accrued expenses subledger.

Management & Oversight

14. Select two months and verify that NIC Accounting Management completed the Quality Control Review form for the respective Master Work Order Financial Report for Texas.gov.

Master Work Order
Schedule of Operations
For the year ended August 2014

	For the year ended August 31, 2014
Master work order revenue:	
Transaction revenue	\$ 10,305,553
Service revenue	8,232,279
Total master work order revenue	18,537,832
Master work order operations costs:	
Total revenue share	3,658,467
Variable cost	387,636
Team cost	4,961,207
Depreciation cost	899,426
Bad debt expense	-
Discontinued asset expense	444,808
Total operations costs	10,351,544
Net recovery of investment	\$ 8,186,288

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

Master Work Order
 Unrecovered or (Recovered) Investment Schedule
 For the year ended August 31, 2014

	August 31, 2014
Capital assets	
Beginning of year investment in capital assets	\$ 22,194,637
Current year investment in capital assets	196,504
Cumulative investment in capital assets	22,391,141
Cumulative earnings	
Cumulative gain since inception	38,064,552
Accumulated depreciation and discontinued assets	20,829,420
Earnings plus depreciation	58,893,972
Current year earnings	8,186,288
Depreciation and discontinued asset expense	1,344,234
Less cash from operations	68,424,494
Investment in other assets and liabilities (see note 1)	(516,822)
Texas NICUSA unrecovered or (recovered) investment	\$ (46,550,175)
Net revenue share	\$ 23,275,087
Less amounts previously paid	23,142,188
Current month net revenue share due to State	\$ 132,900

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.

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