



TEXAS DEPARTMENT OF INFORMATION RESOURCES

Independent Accountants' Report
On Applying Agreed-upon Procedures

TexasOnline 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 in Attachment I related to the TexasOnline 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. Electronic Filing Service Provider (EFSP) and Texas Department of Criminal Justice (TDCJ) cash of approximately \$12.2 million is included in the reconciliation but is not considered revenue to NIC. 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 transaction revenue subledger to documentation of cash received 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 \$70 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 which was 70% of the gross revenue recorded. We found no exceptions.

5. We selected a sample of 20 local transaction revenue items from the revenue subledger discussed in procedure 2 above, and obtained the associated evidence of cash payment received. 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 the revenue subledger and to documentation of cash received. Gross revenue from each city transaction is recorded as revenue in the subledger with net collected agreeing to the bank statement. Cash collected is less the city revenue share. We found no exceptions.
6. We selected a sample of 10 items from the service revenue subledger, and obtained the associated evidence of cash payment received. We agreed the amount per the revenue subledger to the bank statement. 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 sampled items, we selected items from each of the samples from the monthly subscription fees tracking report and traced to evidence of cash payment received from that one customer. Subscribers' fees are determined by the respective Texas agency and NIC records revenue based on the cash received. We found no exceptions.

7. We selected December 2012, March 2013, and August 2013 and obtained the monthly bank reconciliation and corresponding bank statement for each month. For each monthly bank reconciliation, we verified the mathematical accuracy and noted management review of the reconciliation was documented within 30 days of the respective month end. We found no exceptions.

Operation Costs

8. We obtained the credit card fee subledger for the year ended August 31, 2013 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. For sample items that were



accruals, we noted the reversal of the accrual and the recording of the actual amount paid which was agreed to the cash payment. We found no exceptions.

10. We obtained the schedule calculating the State of Texas revenue share for the year ended August 31, 2013, 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, excluding EFiled revenue less total credit card fees per the Report, excluding EFiled fees, multiplied by 40%. We found no exceptions when recalculating the schedule of revenue share.

Revenue Cut-Off

11. We obtained the sales detail for the month of August 2013 and September 2013. As revenue is recorded monthly, we selected five transactions posted for the month of August 2013 and five transactions posted for the month of September 2013 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 three of the five items sampled for the month of August 2013 and five items for the month of September 2013, we agreed the revenue amount to the DIR Crystal Report noting the transaction dates per the general ledger were in August 2013 and September 2013, 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 2013 samples, an invoice was available for review. We reviewed the transaction date noting it occurred before the end of the 2013 fiscal year. We found no exceptions.

For one of the five August 2013 samples, we reviewed the journal entry as support for interest revenue earned on a late payment associated with April 2013. We found no exceptions.

Expense Cut-Off

12. We obtained the credit card fee detail for the month of August 2013 and September 2013. As credit card fees are booked monthly, we selected five transactions posted for the month of August 2013 and five transactions posted for the month of September 2013 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 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

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, 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 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 bank reconciliations and the corresponding bank statements and note management review was documented within 30 days of the respective month end.

Texas.gov Operations Costs

8. Obtain a schedule summarizing all credit card fee accounts and amounts for the year ended August 31, 2013, 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.

Revenue Cut-Off

11. Obtain sales detail during the last five days of fiscal year 2013 and the first five days of fiscal year 2014. Select sample of 5 revenue streams and agree to supporting documentation to determine if revenue was (not) properly recorded in fiscal year 2013.

Expense Cut-Off

12. Obtain credit card fee detail during the last five days of fiscal year 2013 and first five days of fiscal year 2014. 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 2013.

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, 2013

	Year-to-Date		
	Actual	Budget	Variance
Revenues:			
Transaction revenue	\$ 73,585,500	64,644,599	8,940,901
Service revenue	5,396,161	5,716,916	(320,755)
Credit card fees	(13,135,015)	(12,554,987)	(580,028)
Total revenue	<u>65,846,646</u>	<u>57,806,528</u>	<u>8,040,118</u>
State share	<u>24,896,743</u>	<u>22,080,347</u>	<u>2,816,396</u>
Variable costs:			
Help desk fees	1,952,227	1,247,020	705,207
IVR	164,061	102,386	61,675
Total variable costs	<u>2,116,288</u>	<u>1,349,406</u>	<u>766,882</u>
Professional compensation:			
Management (general and administrative)	2,692,602	3,025,739	(333,137)
Operations	2,836,476	2,481,705	354,771
Product development/tech/engineering	5,151,348	5,764,647	(613,299)
Marketing/outreach	129,814	592,553	(462,739)
Help desk/customer support	—	—	—
Total professional compensation	<u>10,810,240</u>	<u>11,864,644</u>	<u>(1,054,404)</u>
Nonlabor operations costs:			
Data center	986,975	1,004,655	(17,680)
TEX-AN	49,851	59,216	(9,365)
Software licensing	528,276	1,089,404	(561,128)
Marketing/promotion	803,090	989,784	(186,694)
Corporate services	1,367,843	1,114,980	252,863
Other	6,158,265	5,192,643	965,622
Total nonlabor operations costs	<u>9,894,300</u>	<u>9,450,682</u>	<u>443,618</u>
Depreciation costs	<u>2,516,508</u>	<u>3,310,098</u>	<u>(793,590)</u>
Total costs	<u>50,234,079</u>	<u>48,055,177</u>	<u>2,178,902</u>
Net revenue	<u>\$ 15,612,567</u>	<u>9,751,351</u>	<u>5,861,216</u>

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