

**AUDIT REPORT
OF THE
NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS**

JULY 1, 1998 THROUGH JUNE 30, 1999

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

BACKGROUND

Every person engaged in distributing or selling cigarettes at wholesale in the state of Nebraska is required to pay a tax to the Department for each package of cigarettes they sell within the State. This is accomplished by requiring all cigarettes sold within the State to be stamped.

The money received by the Department from the sale of the stamps and from tax meter impressions is deposited with the State Treasurer who distributes the proceeds as required by State Statute.

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Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

INDEPENDENT AUDITORS' REPORT

We have audited the financial statement of the Nebraska Department of Revenue – Cigarette Tax Receipts for the fiscal year ended June 30, 1999, as listed in the Table of Contents. This financial statement is the responsibility of the Department's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statement presents only the Nebraska Department of Revenue - Cigarette Tax Receipts, and is not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

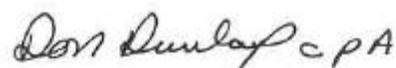
In our opinion, the financial statement referred to above present fairly, in all material respects, the Cigarette tax receipts for the fiscal year ended June 30, 1999, on the basis of accounting described in Note 1.

The Year 2000 Issues supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that Nebraska Department of Revenue - Cigarette Tax Receipts is or will become year 2000 compliant, that Nebraska Department of Revenue - Cigarette Tax Receipt's year 2000 remediation efforts will be successful in whole or in part, or that parties with which Nebraska Department of Revenue - Cigarette Tax Receipts does business are or will become year 2000 compliant.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 1999, on our consideration of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

The accompanying schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. Such information, except for schedule 2 marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.

October 20, 1999



Manager

NEBRASKA DEPARTMENT OF REVENUE
STATEMENT OF CIGARETTE TAX RECEIPTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999

Net Sales per Month (see Note 2)

July, 1998	\$ 4,068,932
August, 1998	3,913,074
September, 1998	4,044,668
October, 1998	3,884,680
November, 1998	3,820,576
December, 1998	3,713,699
January, 1999	2,789,055
February, 1999	3,522,080
March, 1999	3,614,174
April, 1999	3,366,109
May, 1999	3,080,191
June, 1999	<u>4,336,544</u>

Net Cigarette Tax Receipts	<u><u>\$ 44,153,782</u></u>
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See Notes to the Statement of Cigarette Tax Receipts.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE STATEMENT OF CIGARETTE TAX RECEIPTS

June 30, 1999

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as described in the Nebraska Accounting System Manual.

A. Reporting Entity

Cigarette Tax Receipts are a part of the Nebraska Department of Revenue, a State agency established and governed by the laws of the State of Nebraska. The Department of Revenue is part of the primary government for the State of Nebraska's reporting entity. The Statement includes only the cigarette tax receipts and is not intended to present fairly the receipts of the Nebraska Department of Revenue as a whole.

B. Basis of Accounting

The accounting records for the Nebraska Department of Revenue's statement of cigarette tax receipts was prepared on the basis of cash receipts. Under this method, revenues are recognized when received. This presentation differs from generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual.

2. A. Sales Discounts Allowed

Wholesale dealers of cigarettes are allowed a discount of three and four-tenths percent of the face value of the cigarette tax as a commission for affixing and canceling such cigarette stamps in accordance with State Statute Section 77-2608, R.R.S. 1996. The total amount of sales discounts allowed for the fiscal year was \$1,579,034.

B. Refunds/Credits

Refunds and Credits are allowed on the sale of cigarette stamps for the following reasons:

- 1) Cigarette tax stamps are returned to the Department of Revenue unused. These stamps will either be reissued to another wholesaler or destroyed.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE STATEMENT OF CIGARETTE TAX RECEIPTS
(Continued)

2. B. Refunds/Credits (Concluded)

- 2) Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- 3) Credits are allowed for cigarettes sold to the U.S. Government or its agencies as these sales are exempt from tax.

The total amount of refunds/credits allowed on the sale of cigarette tax stamps for the fiscal year was \$577,686.

3. Contingencies

The potential amount of liability involved in litigation pending against the Department could not be determined at this time. However, final settlement of those matters should not have an adverse effect on the Department's ability to administer current programs. Any judgment against the Department would have to be processed through the State Claims Board and be approved by the Legislature.

NEBRASKA DEPARTMENT OF REVENUE
 CIGARETTE TAX RECTIPS
TAX RATES, TOTAL REVENUE AND DISCOUNTS
 FISCAL YEARS 1995 THROUGH 1999

Schedule 1

	Fiscal Year				
	1995	1996	1997	1998	1999
Tax Rate (per Pack)	0.34	0.34	0.34	0.34	0.34
Gross Revenue	\$ 47,836,050	\$ 47,346,183	\$ 47,363,845	\$ 46,154,083	\$ 45,707,849
Less: Wholesaler's Discount (Allowance)	\$ 1,626,426	\$ 1,609,770	\$ 1,610,371	\$ 1,569,239	\$ 1,554,067
Net Revenue	\$ 46,209,624	\$ 45,736,413	\$ 45,753,474	\$ 44,584,844	\$ 44,153,782

NEBRASKA DEPARTMENT OF REVENUE
 CIGARETTE TAX RECEIPTS
STATE CIGARETTE TAX RATES
FOR ALL STATES AS OF
 July 1, 1999
UNAUDITED

Schedule 2

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
Alabama (1)	16.5	43	Nebraska	34	26
Alaska	100	1	Nevada	35	25
Arizona	58	14	New Hampshire (4)	52	17
Arkansas	31.5	29	New Jersey (1)	80	5
California	87	3	New Mexico	21	36
Colorado	20	37	New York (1)	56	16
Connecticut	50	19	North Carolina	5	49
Delaware	24	32	North Dakota	44	21
Florida	33.9	27	Ohio	24	32
Georgia	12	46	Oklahoma	23	35
Hawaii	100	1	Oregon (3)	68	10
Idaho	28	31	Pennsylvania	31	30
Illinois (1)	58	14	Rhode Island	71	9
Indiana	15.5	44	South Carolina	7	48
Iowa	36	24	South Dakota	33	28
Kansas	24	32	Tennessee (1)(2)	13	45
Kentucky (2)	3	50	Texas	41	23
Louisiana	20	37	Utah	51.5	18
Maine	74	8	Vermont	44	21
Maryland	66	11	Virginia (1)	2.5	51
Massachusetts	76	6	Washington	82.5	4
Michigan	75	7	West Virginia	17	41
Minnesota	48	20	Wisconsin	59	13
Mississippi	18	39	Wyoming	12	46
Missouri (1)	17	41	Dist. of Columbia	65	12
Montana	18	39			
			U.S. Median	34.0	

Source: Compiled by the Federation of Tax Administrators from various sources.

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; TN, 1¢; and VA, 2¢ to 15¢.
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and 0.05¢ in TN. In AR, a fee of \$1.25/1,000 cigarettes fee is imposed.
- (3) In Oregon, the tax rate will decrease to \$0.58 per pack effective 1/1/00.
- (4) The tax rate reported went into effect on July 6, 1999 (formerly, the rate was 37 cent/pack).

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Issues. Many computer-based financial, information and operational systems may not be able to properly interpret and apply some dates before and following December 31, 1999 (commonly referred to as the Year 2000 problem or the Y2K problem). If not corrected, malfunction of these systems could adversely impact information processing and system operations.

Statewide systems

The State recognized this problem prior to 1995 and has been working on a resolution of the issue since that time. A formal plan was developed and has been revised and expanded, as additional information has become available. One Statewide system has been identified as critical to the Nebraska Department of Revenue - Cigarette Tax Receipts. (1) It is the accounting system (commonly referred to as NAS). This system has been evaluated, repaired and tested for the ability to process transactions in the year 2000 and beyond.

Agency specific systems

The Nebraska Department of Revenue - Cigarette Tax Receipts has identified the Nebraska Online Validation (NOV) System, General processing System (GPS), and the Deposit System as computer systems critical to its operations. As of June 30, 1999, the Department is in the following stages of work in process or completion to make their computer systems Year 2000-compliant:

Awareness Stage – Encompasses establishing a budget and project plan for dealing with the year 2000 issue. The Department has completed this stage.

Assessment Stage – The actual process of identifying all systems (preparing and inventory) and individual components of the systems. The Department has completed this stage.

Remediation Stage – The stage when changes to systems and equipment had actually been made. The Department has completed this stage for the NOV system and is at this stage for the GPS and Deposit systems.

Validation/Testing Stage – The stage when changes made during the conversion process have been validated and tested. The Department is at this stage for the NOV system.

It is important to note the completion of these stages is NOT a guarantee that system and equipment will be year 2000 compliant.

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statement of the Nebraska Department of Revenue - Cigarette Tax Receipts as of and for the year ended June 30, 1999, and have issued our report thereon dated October 20, 1999. The report notes the financial statement was prepared on the basis of cash receipts. The report was also modified to emphasize that the financial statement presents only the Nebraska Department of Revenue - Cigarette Tax Receipts and an explanatory paragraph was added disclaiming an opinion on Required Supplementary Information-Year 2000 issues. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue - Cigarette Tax Receipts' financial statement is free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

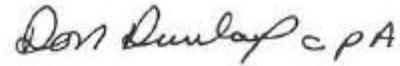
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nebraska Department of Revenue - Cigarette Tax Receipts' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to

provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and state regulatory agencies. However, this report is a matter of public record and its distribution is not limited

October 20, 1999


Manager