

**ATTESTATION REPORT
OF THE
NEBRASKA DEPARTMENT OF REVENUE**

JULY 1, 2002 THROUGH JUNE 30, 2003

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NEBRASKA DEPARTMENT OF REVENUE

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NEBRASKA DEPARTMENT OF REVENUE

BACKGROUND

The 1969 Legislature created the Department of Revenue to execute the revenue laws of the State. The Department has indirect authority over all State revenues and directly administers all major State tax revenues except liquor, insurance taxes, and property taxes. As of July 1, 1999, the Property Tax Division separated from the Department of Revenue and the Nebraska Department of Property Assessment and Taxation was created.

The Department's administration includes the State Tax Commissioner, the Director of Legislative Policy, and the Personnel Administrator. The Department is divided into the divisions of Audit, Charitable Gaming, Finance and Information Services, Investigation, Legal, Lottery, Motor Fuels, Research, Revenue Operations, Special Services, and Taxpayer Services.

Audit - The Audit Division conducts compliance audits for all Department-administered tax programs except those administered by the Charitable Gaming, Lottery, and Motor Fuels Divisions. Audits are conducted at the location of the taxpayer's business records. The Division also conducts an annual audit of the Nebraska Auditor of Public Accounts.

Charitable Gaming - The Charitable Gaming Division administers, regulates, and enforces bingo, pickle cards, raffle, and keno. The Division oversees these gaming activities to ensure they are conducted fairly and properly and that the proceeds raised are spent only in a manner that is provided by law.

The **Athletic Commission** is within the Charitable Gaming Division. The Commission regulates professional wrestling, professional boxing, amateur boxing, and all sparring matches through licensing.

Finance and Information Services - The Finance section prepares the State budget request in conjunction with the State Tax Commissioner, accounts for day-to-day Department expenditures, and prepares monthly reports for management. Finance is responsible for establishing and implementing internal accounting controls and performing the cashiering function for all cash and checks received by the Department. Information Services coordinates, designs, and manages all computer functions within the Department.

Investigation - Investigative Services conducts all investigations and on-site inspections relating to the State lottery, charitable gaming, and taxpayer services. The Division conducts background investigations of potential charitable gaming licensees. The Division also is responsible for overseeing the physical security and the uniformed security contractor relating to the State lottery.

Legal - The Legal Division represents the Department at all formal hearings. All revenue-related bankruptcy and mortgage foreclosure cases are the responsibility of this Division. It also coordinates the implementation of new revenue laws.

NEBRASKA DEPARTMENT OF REVENUE

BACKGROUND

(Continued)

Lottery - The Nebraska Lottery was created in 1993 and is a cash-funded Division. The Lottery sells scratch tickets and on-line lottery tickets through a statewide retailer network. The Lottery is responsible for recruitment and screening of lottery retailers, lottery product development, and lottery revenue collection.

Motor Fuels - The Motor Fuels Division was established in 1991. The Motor Fuels Division administers the following motor fuels tax programs: Motor Vehicle Fuels, Diesel Fuels, Compressed Fuels, Alternative Fuels, Aircraft Fuels, and the Petroleum Release Remedial Action Act. The division is also responsible for the Ethanol Producers Incentive Program.

Research - Research Services prepares revenue estimates and cash flow projections for use by the State Tax Commissioner and the Legislature. This information is used by the Nebraska Economic Forecasting Advisory Board.

Revenue Operations - The Revenue Operations Division processes the tax programs administered by the Department, except those processed by the Lottery, Charitable Gaming, and Motor Fuels Divisions. The Division processes revenue and refund requests including all tax returns, permit applications, required reports, and refund claims.

Special Services - Special Services provides day-to-day support services for the Department. These include forms design and management, word processing, Web site design and maintenance, communications, departmental mailings, purchasing, and security.

Taxpayer Services - The Taxpayer Services Division provides taxpayer assistance, education, enforcement, and tax collection services. It coordinates communication between taxpayers and the Department through offices in six Nebraska cities.

NEBRASKA DEPARTMENT OF REVENUE

MISSION STATEMENT

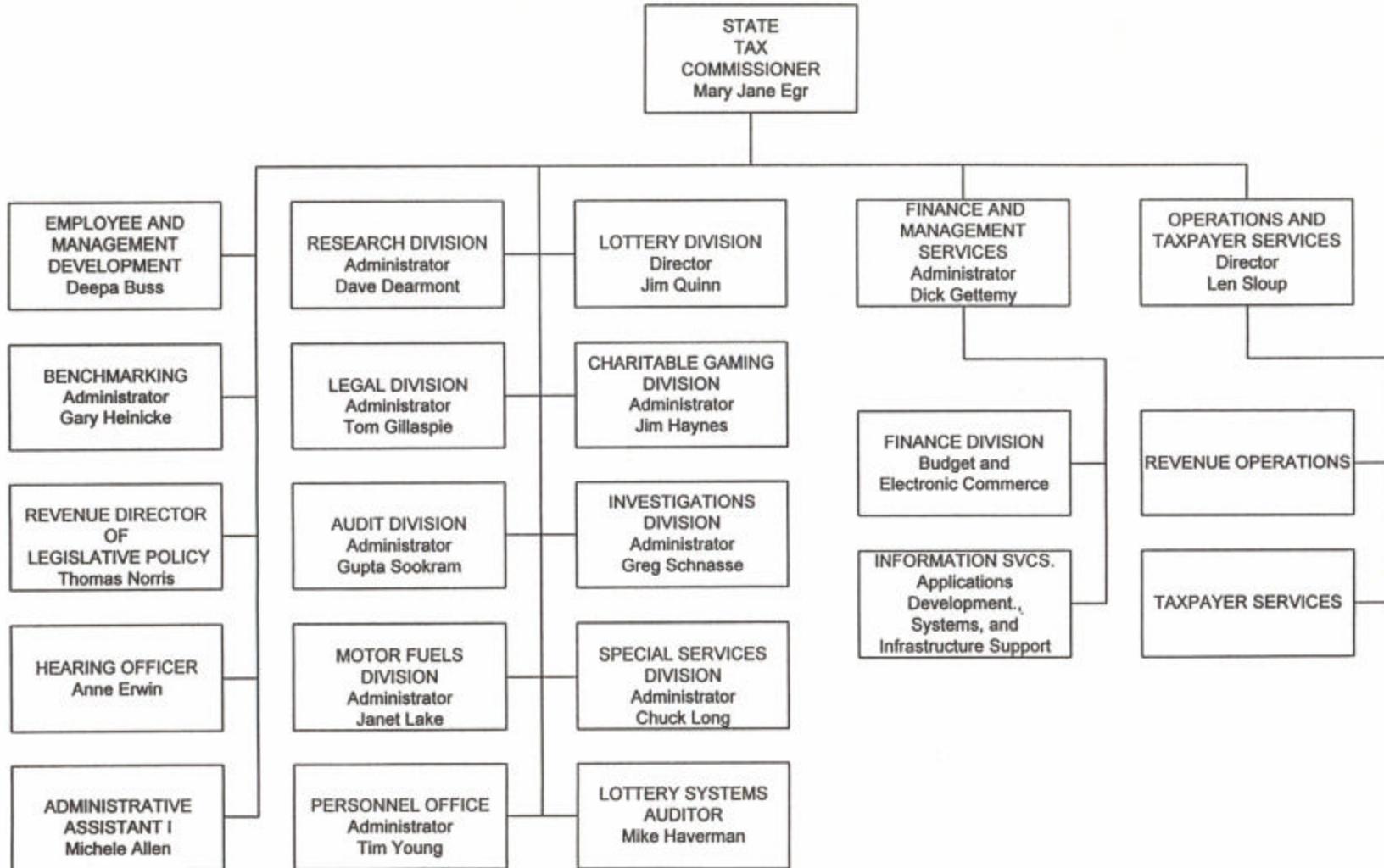
The purpose of the Department is to administer the revenue and lottery laws of the State through a centralized collection of revenue in the most efficient and effective manner possible.

VISION STATEMENT

The Department of Revenue will strive to administer the revenue and lottery laws of the State in the most efficient and effective manner possible using current technology to more efficiently collect revenues via electronic means.

NEBRASKA DEPARTMENT OF REVENUE

ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF REVENUE

EXIT CONFERENCE

An exit conference was held May 20, 2004 with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

NAME	TITLE
Dick Gettemy	Administrator of Finance and Management Services
Ron Gottula	Budget Officer
Tim Young	Personnel Administrator
Kim Vu	Accountant
Chuck Long	Special Services Manager

NEBRASKA DEPARTMENT OF REVENUE

SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Revenue, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System:*** During the fiscal year ended June 30, 2003, the State of Nebraska implemented two significant components of a new information system called the "Nebraska Information System" (NIS). From examinations and procedures completed we have identified concerns and areas where improvement to NIS is needed.
2. ***Personnel and Payroll Issues:*** Various payroll issues were noted including missing employee benefit deduction forms, a missing I-9 employment eligibility verification form, no documentation an employee had declined benefits, no retirement withheld on a termination payment, an incorrectly calculated leave balance at June 30, 2003, an unsupported adjusted service date, and no written policy related to the carryover of vacation balances in excess of 280 hours.
3. ***Segregation of Duties Over Payroll:*** The Department lacked an adequate segregation of duties over payroll. There was no review to ensure changes had not been made to payroll between the time payroll was completed and the time payroll was posted by DAS.

ATHLETIC COMMISSION

1. ***Segregation of Duties:*** The Commission lacked adequate procedures to ensure a detailed review of the General Ledger was completed to verify all transactions posted to the Commission's business units were accurate and complete.
2. ***Travel Expenses:*** The Commission lacked meal receipts or a meal log to support one reimbursement tested. In addition, no breakdown of meal expenses by meal was noted and the name of the restaurant was not documented. The standard Department of Administrative Services (DAS) expense reimbursement form was not used, lodging exceeded the Federal General Services Administration (GSA) rate, no receipt was available to support the lodging expense, and the motel expense for lodging in Nebraska was not direct billed to the Commission, thus incurring sales and lodging taxes.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

Draft copies of this report were furnished to the Department to provide them an opportunity to review the report and to respond to the comments and recommendations included in this report. All formal responses received have been incorporated into this report. Where no response has

NEBRASKA DEPARTMENT OF REVENUE

SUMMARY OF COMMENTS

(Continued)

been included, the Department declined to respond. Responses have been objectively evaluated and recognized, as appropriate, in the report. Responses that indicate corrective action has been taken were not verified at this time but will be verified in the next examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System

Good internal control requires a plan of organization, procedures, and records, designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data, and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the "Nebraska Information System" (NIS). Two major components were the Payroll component, which went live on January 3, 2003, and the Financial component, which went live on March 1, 2003. All Nebraska Accounting System (NAS) financial data from July 1, 2002 through February 28, 2003 (excluding payroll from January through February as NIS payroll went live January 3, 2003) was converted to NIS as of March 1, 2003. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA has identified other concerns related to NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. The following are the more significant concerns or areas where improvement is needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the NAS/NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the Department of Administrative Services (DAS) Accounting Division performed some reconciliation procedures. As of April 28, 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records. The monthly reconciliations during the audit period and subsequent months indicate fluctuations in the variance amounts. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be done timely and on a monthly basis to ensure all financial information is correct in NIS.
- b. Two key financial reports to be prepared and presented by the DAS Accounting Division were not completed in a timely manner. The Annual Budgetary Report as of June 30, 2003 was not completed until January 2004. The Comprehensive Annual Financial Report has yet

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System (Continued)

to be completed for the fiscal year ended June 30, 2003. Timely reporting of the State's financial information is key to all users of such information, especially State policy makers, when making informed policy decisions.

- c. As of June 30, 2003 a comprehensive written NIS policy and procedures manual had not been prepared. Subsequent to June 30, 2003, DAS Accounting Division has made some progress in updating the prior Nebraska Accounting System (NAS) and Nebraska Employees Information System (NEIS) policy and procedures manuals to incorporate NIS policies. However, as of the date of this report these policy updates are not complete. With hundreds of users of NIS, it becomes imperative the State has a comprehensive policy and procedure manual to help ensure consistent and accurate accounting of the State's financial transactions.
- d. Labor distribution - The NIS payroll application is not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This applies to most agencies' funds, programs, and grants.
- e. A detailed analysis has not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. Training provided for the implementation of NIS was limited to navigational training and did not include explanatory informational training.
- f. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only states, "Obsolete with implementation of NIS."
- g. The payroll component is not designed to promote an effective segregation of duties.
- h. Critical function access rights - Access to sensitive General Accounting functions has been provided to individuals who may not require such access as a part of their job responsibilities.
- i. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.
- j. Business continuity planning - The State has not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure.

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System (Concluded)

The issues identified above are the responsibility of the Department of Administrative Services Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to the Department of Administrative Services, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

2. Personnel and Payroll Issues

Title 273 Nebraska Classified System Personnel Rules, Chapter 11, Personnel Records, Section 002, Maintenance of Records, states, "Each agency covered by the State Classified Personnel System shall maintain certain personnel records. These records may be retained at the agency level or at any organizational level determined appropriate by the agency head. Agency heads may prescribe the maintenance of additional records." The required records defined in Section 002.04 are copies of documents initiated by the employee that affect pay (W-4's, authorized deductions, etc.). Sound accounting practices would require documentation to support an employee had declined benefits. The U.S. Department of Justice Immigration and Naturalization Service Employment Eligibility Verification Form I-9 is required to be completed and maintained on file for all employees hired after November 6, 1986. Good internal control requires all termination payments be reviewed in detail to ensure proper retirement deductions are being withheld. Good internal control also requires leave balances be reviewed to determine they have been calculated correctly and are accurate and complete. Adequately maintained personnel files should include documentation to support employees' service dates. Good internal control requires written policies regarding leave carryover approval when approving vacation amounts in excess of the DAS - established 280 hour maximum.

We noted the following related to personnel and payroll:

- Deduction forms were not on file for three of ten employees tested. A savings bond deduction sheet was not on file for one employee. A health insurance form for single coverage and a credit union deduction sheet was not on file for another employee. A deferred compensation form was not on file for another employee.
- An I-9 Employment Eligibility Verification Form was not on file for one of ten employees tested.
- We noted one employee with no benefit deductions. There was no documentation to support the employee had been offered benefits and had declined them.
- Retirement was not withheld on one of five termination payments tested. The amount which should have been withheld was \$19. This also resulted in no State retirement contribution being made for these wages.

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. **Personnel and Payroll Issues** (Continued)

- One of ten leave balances tested was incorrect at June 30, 2003. The vacation balance recorded on NIS was three hours higher than the vacation balance recorded on the employee's timesheet. The correctly calculated vacation balance at June 30, 2003 was 52 hours instead of the 55 hours recorded on NIS.
- One of eight adjusted service dates tested did not agree to the employee's personnel file. The employee's adjusted service date was September 30, 1996 per NIS. The employee's date of hire was June 1996. There was no documentation to support the adjusted service date.
- No written policy was in place to support the authority to carry over vacation balances in excess of 280 hours.

Without proper procedures in place to ensure employee deduction and I-9 forms are maintained, termination payments are correct, leave balances are correct, adjusted service dates are supported by documentation, and written policies support leave carryovers, the risk of improper or incorrect payments to employees increases.

We recommend the Department implement procedures for documenting all employee deductions by maintaining the proper deduction authorization forms in the employee's personnel file. I-9 Employment Eligibility Verification Forms should be kept on file for all employees hired after the 1986 inception date. If employees decline benefits, documentation of this should be maintained on file. Termination payments should be reviewed to ensure proper withholdings/deductions have been made. Leave balances at June 30, 2003 should be reviewed for all employees to ensure ending balances are correct. Adjusted service dates should be reviewed to ensure there is adequate documentation to support them. Vacation leave carryover policies should be documented in writing.

Department's Response: Our practice is to make changes only with the deduction forms. Missing forms would indicate a filing error. Beginning with the October 2004 Open Enrollment, all employees will complete electronic deductions forms for all benefits they are taking or declining. Only retirement and miscellaneous deduction forms will need to be filed. It is our practice to obtain the I-9 form on all new hires. We will include this as part of the orientation checklist in the future. We have not required employees to return benefit deduction forms in the past if no insurance was selected. We will do so in the future through the Employee Self Service program. Procedures are now in place for ensuring that the proper deductions are made in termination situations. Interims are generated by Personnel and reviewed by Finance. We were aware of leave balance discrepancies and were working on bringing them into balance. As of

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

2. Personnel and Payroll Issues (Concluded)

Department's Response, Concluded:

May 20, 2004, all leave earnings balanced between time sheets and NIS. Regarding the adjusted service date, a copy of the employee's original hire letter has been obtained from the previous agency. The letter indicates the employee was hired into a regular position by the state effective September 30, 1996. This was the date in the NEIS system which transferred to the NIS system. The employee had been hired as a temporary in June 1996. In the future, when an employee is receiving credit for prior state service, we will request hire and termination date documentation from the prior employing agencies. We will implement procedures to allow the carryover of vacation of less than 4 hours. This reduces the need for time consuming adjustments for small amounts.

3. Segregation of Duties Over Payroll

Good internal control requires a plan of action so that no one individual is in the position to both perpetuate and conceal errors and irregularities.

The Department did not have an adequate segregation of duties over payroll. A documented review of the final posted payroll to the original rates, hours, etc. was not completed. A Finance Division employee ran the pre-payroll register. Personnel office staff reviewed the payroll register to ensure all amounts were correct. The information was then forwarded to the Finance Division. A Finance Division employee compared amounts to the prior period and checked for reasonableness. The Budget Officer III was notified to run the payroll journal entries. The Budget Officer III notified DAS the payroll was ready to post. There was a time lag between the time DAS was notified payroll was ready to post and when payroll was actually posted. An individual with proper access could have reset the payroll and re-entered and calculated different amounts for employees. No one at the Department was reviewing the amount of payroll posted to ensure the amount was correct and no changes had been made to employees' pay rates, leave balances, etc.

Without a proper segregation of duties in place the risk of concealed errors or irregularities is increased.

We recommend the Department implement procedures to ensure an adequate segregation of duties is in place over payroll. Individuals should not be in the position to adjust employee information without a separate documented review by an individual outside of the payroll process. We further recommend an individual at the Department outside of the payroll process review a sample of employees each pay period and verify their pay rates, amounts paid, and leave

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

3. Segregation of Duties Over Payroll (Concluded)

balances are correct on the final posted payroll. In addition, the amount of payroll journal entries prepared by the Department for the period should be verified each pay period to the General Ledger to ensure the amounts agree.

Department's Response: Our Department was unaware that any time lag between our notification to DAS and the actually posting of payroll could pose problems. Our understanding was that payroll was locked down, preventing any changes. Our agency has hundreds of employees making the payroll reset scenario that you suggest extremely time consuming and highly unlikely. However, since this matter has been brought to our attention, we are now including the date and time of our payroll journal report in our notification so that DAS can verify that no changes have been made since that time. It is our belief that the system should prohibit changes being made after approval. If DAS is unable to verify that no changes have been made, then we believe this system finding should be addressed under NIS rather than as an agency finding. In the future, the posted payroll total will be compared to the agency approved total.

ATHLETIC COMMISSION

The Athletic Commissioner is appointed by the Governor for a two year term. The Commission has sole control over professional wrestling, boxing, amateur boxing, elimination bout tournaments, sparring matches, and other boxing exhibitions within the State. The Athletic Commission is not considered to be a code agency but is an independent agency subject to the Governor's direct control. The Athletic Commission offices are to be located within the Charitable Gaming Division of the Department of Revenue as required by Neb. Rev. Stat. 81-8,128 R.R.S. 2003.

1. Segregation of Duties

Good internal control requires a review of the General Ledger detail to ensure the Commission is aware of all transactions that have posted to their business units. In addition, good internal control requires a separate individual other than the individual preparing documents to review the General Ledger detail to ensure all transactions posted to the Commission's business units are accurate and complete.

No review of the General Ledger detail was performed by the Athletic Commission and a lack of segregation of duties existed. The Administrative Assistant II did not review the General Ledger detail for all transactions posted to their business units. In addition, the Athletic Commissioner completed no review of the General Ledger. Athletic Commission payment vouchers were prepared by the Athletic Commission, Administrative Assistant II on NIS and then sent to the Finance Division. A Revenue Operations Analyst II pre-audited the voucher batches, and a Revenue Budget Officer approved and

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

ATHLETIC COMMISSION, Continued

1. Segregation of Duties (Concluded)

posted the voucher batches. After the Department processed the voucher batches, they were returned to the Athletic Commission along with the supporting documentation. The Athletic Commission, Administrative Assistant II verified the amount posted on the General Ledger Post Report agreed to the supporting documentation. The documentation was then filed in the payables file.

Without a proper segregation of duties in place the risk of concealed errors or irregularities is increased.

We recommend the Commission implement procedures for a documented review of the General Ledger detail to ensure the Commission is aware of all transactions that have posted to their business units. We also recommend the Athletic Commissioner review the General Ledger detail so he is aware of all transactions that have been posted to the Athletic Commission's business units. In addition, we recommend the Athletic Commission work with the Department to ensure all expenditures are properly reviewed and approved before they are processed for payment.

2. Travel Expenses

We tested one expense reimbursement document of the Athletic Commission totaling \$237. In relation to the expense reimbursement document tested, we noted the following:

NAS Manual CONC-005, Travel Expense Policies stated, "Adequate accounting generally requires the use of a documentation record such as an account book, expense diary or log, or similar record near the time of incurrence of the expense. Such log should list the date, amount, place (e.g. city) or description, and purpose for each expense or meal/food cost. A combination of receipts and detailed itemization is permitted. To satisfy the requirement of our accountable plan, the employee should utilize a documentation record to transfer cost information to the expense reimbursement form so reimbursement can be made." NAS Manual CONC-005, Travel Expense Policies further stated that meal expenses must be substantiated under the State's Accountable Plan. The Internal Revenue Service's (IRS) Publication 463 regarding reimbursement for travel expenses under the State's Accountable Plan states that a restaurant receipt should include, "The name and location of the restaurant." Therefore, detail of meals, such as what meal and the name of the restaurant and city, must be included in the documentation. Good internal control requires procedures to ensure appropriate policies are followed. Neb. Rev. Stat. Section 81-1177 R.R.S. 1999 states, "The Director of Administrative Services is required to have prepared a uniform traveling expense account form to be

NEBRASKA DEPARTMENT OF REVENUE

COMMENTS AND RECOMMENDATIONS

(Continued)

ATHLETIC COMMISSION, Continued

2. Travel Expenses (Concluded)

used by all State officers and employees when making a request for payment or reimbursement for traveling expenses. No traveling expense request shall be approved for payment unless it is made on the form prescribed and furnished by the director.” Good internal control requires procedures to ensure lodging costs reimbursed to employees are allowable and are within the Federal per diem guidelines. Per memo to all State agencies dated December 15, 2000, DAS uses the Federal per diem rates as a reasonable guideline for lodging. NAS Manual CONC-005 stated, “If claimed on an expense reimbursement, original receipts for lodging are required to be filed with the claim.” NAS Manual CONC-005, Travel Expense Policies, Section 4, stated, in part, sales to the State of Nebraska and its agencies are exempt from Nebraska sales, use, and lodging tax. Therefore, if in-state lodging expenses are direct billed to the agency, sales and lodging tax would not have to be paid. Good accounting practice requires lodging be direct billed to avoid sales and lodging tax.

No meal receipts or a meal log for meals were on file to support the amount of meal expenses claimed, there was no breakdown of meal expenses by meal and the names of restaurants were not documented, the standard DAS expense reimbursement form was not used, the lodging amount claimed was over the Federal Per Diem for lodging, and no original receipt for lodging was attached. In addition, sales and lodging tax was incurred by the Commission for lodging in Nebraska because the lodging was not direct billed.

The risk of incorrect or improper payments being paid is increased without proper procedures in place to ensure expenses claimed are supported by adequate documentation and are in compliance with applicable policies.

We recommend the Athletic Commission review all travel reimbursements to ensure meal expenses claimed are supported by adequate documentation including meal receipts/meal logs, the name of each restaurant, and the breakdown of the meals. We further recommend the standard DAS expense reimbursement form or a form approved by DAS be used. We also recommend the Athletic Commission review lodging amounts to ensure the daily Federal per diem allowance per place of travel is not exceeded and lodging in Nebraska is direct billed to avoid paying sales and lodging tax. Since the Department of Revenue pre-audits, approves, and posts the Athletic Commission’s travel expense documents, we recommend the Athletic Commission work with the Department of Revenue to ensure they are in compliance with all State travel policies and procedures.

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NEBRASKA DEPARTMENT OF REVENUE

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INDEPENDENT ACCOUNTANT'S REPORT

Deann Haeffner, CPA
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue (Department) for the fiscal year ended June 30, 2003. The Department's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Don Dunlap, CPA
Asst. Deputy Auditor
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue for the fiscal year ended June 30, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

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In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2004, on our consideration of the Nebraska Department of Revenue's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

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Handwritten signature of Timothy J. Channer, CPA.

Assistant Deputy Auditor

May 20, 2004

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	General Fund 10000	Lottery Operation Revolving Fund 21560	MJ & Cont Subst Tax Admin Fund 21570	Waste Red/ Recycling Incen Fund 21580	Petro Rel Rem Action Coll Fund 21590	Litter Fee Collection Fund 21610	Severance Tax Adm Fund 21630
REVENUES:							
Appropriations	\$ 64,549,158	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	2,312,392,746	-	(8,029)	-	-	-	15,486
Intergovernmental	-	-	-	-	-	-	-
Sales & Charges	468,196	-	-	-	15,000	-	-
Miscellaneous	39,399	48,805	3,459	142	148	140	11,621
TOTAL REVENUES	<u>2,377,449,499</u>	<u>48,805</u>	<u>(4,570)</u>	<u>142</u>	<u>15,148</u>	<u>140</u>	<u>27,107</u>
EXPENDITURES:							
Personal Services	14,439,730	1,291,872	-	10,885	28,000	8,210	6,552
Operating	4,420,595	11,933,845	-	8,032	-	-	-
Travel	108,018	52,183	-	-	-	838	-
Capital Outlay	156,485	44,702	-	-	-	-	-
Government Aid	45,424,330	-	-	-	-	-	-
TOTAL EXPENDITURES	<u>64,549,158</u>	<u>13,322,602</u>	<u>-</u>	<u>18,917</u>	<u>28,000</u>	<u>9,048</u>	<u>6,552</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,312,900,341</u>	<u>(13,273,797)</u>	<u>(4,570)</u>	<u>(18,775)</u>	<u>(12,852)</u>	<u>(8,908)</u>	<u>20,555</u>
OTHER FINANCING SOURCES (USES):							
Sales of Assets	3,768	186	-	-	-	-	-
Deposits to General Fund	(2,312,827,758)	-	-	-	-	-	-
Deposits to / from Common Fund	-	-	-	-	-	-	-
Operating Transfers In	-	14,000,000	-	15,000	13,000	10,000	-
Operating Transfers Out	(76,351)	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,312,900,341)</u>	<u>14,000,186</u>	<u>-</u>	<u>15,000</u>	<u>13,000</u>	<u>10,000</u>	<u>-</u>
Net Change in Fund Balances	-	726,389	(4,570)	(3,775)	148	1,092	20,555
FUND BALANCES, JULY 1, 2002	-	876,838	83,355	5,216	1,620	1,972	270,293
FUND BALANCES, JUNE 30, 2003	<u>\$ -</u>	<u>\$ 1,603,227</u>	<u>\$ 78,785</u>	<u>\$ 1,441</u>	<u>\$ 1,768</u>	<u>\$ 3,064</u>	<u>\$ 290,848</u>
FUND BALANCES CONSIST OF:							
Cash	\$ -	\$ 1,601,565	\$ 78,785	\$ 1,441	\$ 1,768	\$ 3,064	\$ 290,098
Petty Cash	-	2,000	-	-	-	-	750
Deposit With Vendors	-	-	-	-	-	-	-
Accounts Receivable	-	(300)	-	-	-	-	-
Accounts Payable	-	(38)	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 1,603,227</u>	<u>\$ 78,785</u>	<u>\$ 1,441</u>	<u>\$ 1,768</u>	<u>\$ 3,064</u>	<u>\$ 290,848</u>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Miscellaneous Receipts Fund 21650	Charitable Gaming Oper Fund 21660	Tobacco Products Admin Fund 21670	Employment & Investment Fund 21680	Motor Fuel Tax Enforc Fund 21700	Quality Jobs Fund 21760	Invest Nebraska Fund 21770
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	2,288,602	4,219,152	-	-	-	-
Intergovernmental	-	-	-	-	9,365	-	-
Sales & Charges	123	105,258	517	27,500	-	-	5,000
Miscellaneous	7,536	58,125	133,122	216	97,804	484	1,216
TOTAL REVENUES	7,659	2,451,985	4,352,791	27,716	107,169	484	6,216
EXPENDITURES:							
Personal Services	4,063	1,560,900	11,524	29,746	1,465,045	1,116	-
Operating	-	224,817	23,793	-	160,292	-	-
Travel	-	72,728	-	-	58,391	-	-
Capital Outlay	-	54,510	-	-	15,982	-	-
Government Aid	-	-	-	-	-	-	-
TOTAL EXPENDITURES	4,063	1,912,955	35,317	29,746	1,699,710	1,116	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,596	539,030	4,317,474	(2,030)	(1,592,541)	(632)	6,216
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Deposits to / from Common Fund	-	-	-	-	-	-	-
Operating Transfers In	-	-	-	-	101,000	-	-
Operating Transfers Out	-	(342,000)	(5,422,728)	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	(342,000)	(5,422,728)	-	101,000	-	-
Net Change in Fund Balances	3,596	197,030	(1,105,254)	(2,030)	(1,491,541)	(632)	6,216
FUND BALANCES, JULY 1, 2002	177,829	757,772	3,490,315	4,816	2,916,144	11,784	25,784
FUND BALANCES, JUNE 30, 2003	\$ 181,425	\$ 954,802	\$ 2,385,061	\$ 2,786	\$ 1,424,603	\$ 11,152	\$ 32,000
FUND BALANCES CONSIST OF:							
Cash	\$ 181,425	\$ 959,992	\$ 2,385,061	\$ 2,786	\$ 1,423,830	\$ 11,152	\$ 32,000
Petty Cash	-	3,000	-	-	-	-	-
Deposit With Vendors	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	1,334	-	-
Accounts Payable	-	(8,190)	-	-	(561)	-	-
TOTAL FUND BALANCES	\$ 181,425	\$ 954,802	\$ 2,385,061	\$ 2,786	\$ 1,424,603	\$ 11,152	\$ 32,000

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Nebr Health Care Fund 22640	Highway Cash Fund Fund 22710	Athletic Comm Cash Fund 24310	Nat Res Water Quality Fund 25540	Oil & Gas Cons Fund 25710	Grade Cross Const Fund 26710	Waste Red/ Recycling Incen Fund 28390
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	20,128	445	379,400	3,153,133	2,268,539
Intergovernmental	-	-	-	-	-	-	-
Sales & Charges	-	560	5,896	-	-	-	-
Miscellaneous	-	-	1,171	-	-	-	-
TOTAL REVENUES	-	560	27,195	445	379,400	3,153,133	2,268,539
EXPENDITURES:							
Personal Services	17,607	-	27,212	-	-	-	-
Operating	837	-	5,784	-	-	-	-
Travel	-	-	3,966	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-
TOTAL EXPENDITURES	18,444	-	36,962	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(18,444)	560	(9,767)	445	379,400	3,153,133	2,268,539
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	-	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Deposits to / from Common Fund	18,444	(560)	-	(445)	(379,400)	(3,153,133)	(2,253,539)
Operating Transfers In	-	-	-	-	-	-	-
Operating Transfers Out	-	-	-	-	-	-	(15,000)
TOTAL OTHER FINANCING SOURCES (USES)	18,444	(560)	-	(445)	(379,400)	(3,153,133)	(2,268,539)
Net Change in Fund Balances	-	-	(9,767)	-	-	-	-
FUND BALANCES, JULY 1, 2002	-	-	31,215	-	-	-	-
FUND BALANCES, JUNE 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
FUND BALANCES CONSIST OF:							
Cash	\$ -	\$ -	\$ 21,420	\$ -	\$ -	\$ -	\$ -
Petty Cash	-	-	-	-	-	-	-
Deposit With Vendors	-	-	28	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Litter Reduct & Recycle Fund 28400	Petro Release Cash Fund 28490	Investigative Forfeiture Fund 41610	Miscellaneous Services Fund 51620	Highway Trust Fund 61240	State Lottery Operation Fund 61610	State Lottery Prize Fund 61620
REVENUES:							
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	1,377,769	10,911,371	-	-	285,724,861	-	-
Intergovernmental	-	-	-	-	-	-	-
Sales & Charges	-	-	-	470	-	46,584,882	-
Miscellaneous	-	-	732	5,735	55,960	296,373	61,335
TOTAL REVENUES	1,377,769	10,911,371	732	6,205	285,780,821	46,881,255	61,335
EXPENDITURES:							
Personal Services	-	-	-	-	-	-	-
Operating	-	-	355	5,130	-	-	13,762,243
Travel	-	-	1,199	-	-	-	-
Capital Outlay	-	-	-	-	-	-	-
Government Aid	-	-	-	-	-	-	-
TOTAL EXPENDITURES	-	-	1,554	5,130	-	-	13,762,243
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,377,769	10,911,371	(822)	1,075	285,780,821	46,881,255	(13,700,908)
OTHER FINANCING SOURCES (USES):							
Sales of Assets	-	-	-	10	-	-	-
Deposits to General Fund	-	-	-	-	-	-	-
Deposits to / from Common Fund	(1,367,769)	(10,898,371)	-	-	(285,780,821)	-	-
Operating Transfers In	-	-	-	-	-	-	14,030,000
Operating Transfers Out	(10,000)	(13,000)	-	-	-	(48,128,664)	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,377,769)	(10,911,371)	-	10	(285,780,821)	(48,128,664)	14,030,000
Net Change in Fund Balances	-	-	(822)	1,085	-	(1,247,409)	329,092
FUND BALANCES, JULY 1, 2002	-	-	17,983	13,732	-	5,302,524	873,807
FUND BALANCES, JUNE 30, 2003	\$ -	\$ -	\$ 17,161	\$ 14,817	\$ -	\$ 4,055,115	\$ 1,202,899
FUND BALANCES CONSIST OF:							
Cash	\$ -	\$ -	\$ 17,161	\$ 14,817	\$ -	\$ 4,054,815	\$ 1,225,491
Petty Cash	-	-	-	-	-	300	-
Deposit With Vendors	-	-	-	-	-	-	-
Accounts Receivable	-	-	-	-	-	-	-
Accounts Payable	-	-	-	-	-	-	(22,592)
TOTAL FUND BALANCES	\$ -	\$ -	\$ 17,161	\$ 14,817	\$ -	\$ 4,055,115	\$ 1,202,899

The accompanying notes are an integral part of the schedule.

(Continued)

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2003

	Municipal Equalization Fund 61630	Permanent School Fund 63340	Revenue Distribution Fund 71620	Aircraft Fuels Tax Fund 77590 (Note 6)	Severance Tax Fund 77610 (Note 6)	Total (Memorandum Only)
REVENUES:						
Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 64,549,158
Taxes	-	-	607,503	-	-	2,623,351,106
Intergovernmental	-	-	-	-	-	9,365
Sales & Charges	7,215,877	-	-	-	-	54,429,279
Miscellaneous	73,177	2,850	-	-	-	899,550
TOTAL REVENUES	7,289,054	2,850	607,503	-	-	2,743,238,458
EXPENDITURES:						
Personal Services	-	-	-	-	-	18,902,462
Operating	-	-	-	-	-	30,545,723
Travel	-	-	-	-	-	297,323
Capital Outlay	-	-	-	-	-	271,679
Government Aid	13,548,762	-	-	-	-	58,973,092
TOTAL EXPENDITURES	13,548,762	-	-	-	-	108,990,279
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,259,708)	2,850	607,503	-	-	2,634,248,179
OTHER FINANCING SOURCES (USES):						
Sales of Assets	-	-	-	-	-	3,964
Deposits to General Fund	-	-	-	-	-	(2,312,827,758)
Deposits to / from Common Fund	-	(2,850)	-	-	-	(303,818,444)
Operating Transfers In	7,682,204	-	-	-	-	35,851,204
Operating Transfers Out	(1,422,496)	-	-	-	-	(55,430,239)
TOTAL OTHER FINANCING SOURCES (USES)	6,259,708	(2,850)	-	-	-	(2,636,221,273)
Net Change in Fund Balances	-	-	607,503	-	-	(1,973,094)
FUND BALANCES, JULY 1, 2002	-	-	17,335,332	-	-	32,198,331
FUND BALANCES, JUNE 30, 2003	\$ -	\$ -	\$ 17,942,835	\$ -	\$ -	\$ 30,225,237
FUND BALANCES CONSIST OF:						
Cash	\$ -	\$ -	\$ 17,942,835	\$ -	\$ -	\$ 30,249,506
Petty Cash	-	-	-	-	-	6,050
Deposit With Vendors	-	-	-	-	-	28
Accounts Receivable	-	-	-	-	-	1,034
Accounts Payable	-	-	-	-	-	(31,381)
TOTAL FUND BALANCES	\$ -	\$ -	\$ 17,942,835	\$ -	\$ -	\$ 30,225,237

The accompanying notes are an integral part of the schedule.

(Concluded)

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2003

1. Criteria

The accounting policies of the Nebraska Department of Revenue are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the State of Nebraska Director of Administrative Services duties include “The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances for the Department was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2003 includes only those payables posted to NIS before June 30, 2003 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2003 **does not** include amounts for goods and services received before June 30, 2003 which had not been posted to NIS as of June 30, 2003.

NIS also records certain liabilities. The assets in these funds will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of these liabilities reduces the fund equity.

Prior to the implementation of NIS, the State utilized the Nebraska Employees Information System (NEIS) and the Nebraska Accounting System (NAS) to record transactions. NEIS was converted to NIS effective January 1, 2003, and NAS was converted to NIS effective March 1, 2003.

The Department had accounts receivable included in revenues of \$1,034 and had accounts receivable not included in the Schedule of \$281,061,926 from tax balances due, taxpayer assessed revenue, and due from local governments. DAS did not require the Department to record all receivables on the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The Department had accounts payable consisting of amounts Due to Vendors, Jackpot Prizes Payable, and State Withholding of \$31,381 included in expenditures. The Department also had accounts payable not included in the Schedule of \$246,213,477 consisting of taxpayer assessed refunds and other tax payable. The NIS system does not include liabilities for accrued payroll and compensated absences.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Continued)

The fund types established by NIS that are used by the Department are:

10000 – General Fund – accounts for all financial resources not required to be accounted for in another fund.

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

50000 – Revolving Funds – account for the operation of state agencies which provide goods and services to other departments or agencies within state government.

60000 – Trust Funds – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

70000 – Distributive Funds – account for assets held by the State as an agent for individuals, private organizations, other governments, and/or other funds.

The major revenue object account codes established by NIS used by the Department are:

Appropriations – Appropriations are granted by the Legislature to make expenditures and to incur obligations. The amount of appropriations reported as revenue is the amount of expenditures.

Taxes – Compulsory charges levied by a government for the purpose of financing services performed for the common benefit. Significant taxes recorded as revenue for the Department include Individual Income Tax, Corporate Income and Franchise Tax, Sales and Use Tax, Consumers Use Tax, Cigarette Tax, Tobacco Products Tax, Estate Tax, Gasoline Taxes, and Lodging Tax.

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

1. Criteria (Concluded)

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Department are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Department.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any state officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Government Aid – Payment of Federal and/or State money to governmental subdivisions, State agencies, local health and welfare offices, individuals, etc., in furtherance of local activities and accomplishment of State programs.

Other significant object account codes established by NIS and used by the Department include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, and receivable accounts. Accounts receivable are recorded as an increase to revenues and an increase to fund balance on the schedule. Cash accounts and deposits with vendors are also included in fund balance.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance. The activity of the liability accounts is not recorded on the Schedule of Revenues, Expenditures, and Changes in Fund Balances as this activity is not recorded through revenue and expenditure accounts. The material activity of the liability accounts is summarized in Note 6.

Other Financing Sources – Operating transfers and proceeds of fixed asset dispositions.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

2. State Agency

The Nebraska Department of Revenue (Department) is a State agency established under and governed by the laws of the State of Nebraska. As such, the Department is exempt from State and Federal income taxes. The schedule includes all funds of the Department.

The Nebraska Department of Revenue is part of the primary government for the State of Nebraska.

3. Beginning Balance

As noted above, the official accounting system of the State was converted during the fiscal year from NEIS and NAS to NIS. NEIS and NAS were strictly cash basis accounting except certain liability transactions were recorded. Therefore, the beginning fund balances do not include accounts receivable or accounts payable, but do include the liability accounts that were recorded on NAS. Thus, the beginning fund balance, when a fund has recorded a liability balance, does NOT represent the cash fund balance.

4. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

5. Capital Assets

Under NIS, capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as expenditures in governmental funds. Capital assets, which would include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) would be reported for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). Depreciation expenses would be reported in the CAFR for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend asset life is not capitalized. The Department changed their capitalization policy from items with a purchase cost of \$100 to items with a purchase cost of \$1,500 during the fiscal year. Items with a purchase cost of less than \$1,500 were deleted from the capital assets listing which explains the large decrease in capital assets for the fiscal year.

Capital asset activity of the Department for the fiscal year ended June 30, 2003 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital Assets:				
Equipment	\$ 3,688,273	\$ 193,081	\$ 2,191,225	\$ 1,690,129
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

6. Liability Account Transactions

Certain liability transactions are recorded directly to a fund's liability accounts rather than through a revenue or expenditure account. These transactions represent funds received by the Department, which are owed to some individual, organization, or other government agency, or are deposits that will be returned on completion of some specified requirement.

The Department's liability account activity for the audit period consists mainly of aircraft fuels taxes collected pursuant to Neb. Rev. Stat. Section 3-148 R.R.S. 1997; severance taxes collected pursuant to Neb. Rev. Stat. Section 57-705 R.S.Supp., 2003; and the withholding and payment of Federal and State taxes for Nebraska Lottery prize winners and monies received from the Multistate Lottery Association (MUSL) for Lottery grand prize winners and the payment of these monies to the grand prize winners.

Liability account activity for the fiscal year ending June 30, 2003

	Balance July 1, 2002	In	Out	Balance June 30, 2003
<u>Due to Vendor Activity</u>				
Lottery Operations Revolving Fund 21560	\$ -	\$ 4,464,285	\$ 4,464,247	\$ 38
Charitable Gaming Operation Fund 21660	-	141,481	133,290	8,191
Motor Fuel Tax Enforcement Fund 21700	-	59,204	58,643	561
<u>Jackpot Prizes Payable Activity</u>				
State Lottery Prize Fund 61620	4,683	5,030,000	5,030,000	4,683
<u>State Withholding Activity</u>				
State Lottery Prize Fund 61620	16,090	487,326	485,507	17,909
<u>Federal Withholding</u>				
State Lottery Prize Fund 61620	(15,391)	2,633,333	2,617,942	-
<u>Due to Fund Activity</u>				
Aircraft Fuels Tax Fund 77590	-	1,785,974	286,730	1,499,244
Severance Tax Fund 77610	-	1,801,580	19,376	1,782,204

The Aircraft Fuels Tax and Severance Tax monies are received by the Department and deposited into the Due to Fund account. These are common funds and the balance shown at June 30, 2003 is not considered the Department's.

NEBRASKA DEPARTMENT OF REVENUE

NOTES TO THE SCHEDULE

(Continued)

7. Transfers

Material transfers include transfers out from the State Lottery Operation Fund 61610 to the State Lottery Prize Fund 61620, the Lottery Operation Revolving Fund 21560 and to the beneficiary funds as required by Neb. Rev. Stat. Section 9-812 R.S.Supp., 2003; transfers out of the Tobacco Products Admin Fund 21670 as required by Neb. Rev. Stat. Section 77-4025 R.S.Supp., 2003; and transfers in and out of the Municipal Equalization Fund 61630 as required by Neb. Rev. Stat. Section 77-913 R.R.S. 2003 and 2003 Neb. Laws LB 622, Section 1.

8. Deposits to/from Common Funds

Common funds are funds that are shared by more than one agency. Monies may be collected and deposited by one agency but be under the control of another agency. Receipts are recorded on the Nebraska Information System (NIS) under one agency but fund balances are shown under another. Common funds of the Department included the Nebraska Health Care Fund 22640, Highway Cash Fund 22710, Natural Resources Water Quality Fund 25540, Oil & Gas Conservation Fund 25710, Grade Crossing Construction Fund 26710, Waste Reduction and Recycling Incentive Fund 28390, Litter Reduction and Recycling Fund 28400, Petroleum Release Cash Fund 28490, Highway Trust Fund 61240, Permanent School Fund 63340, Aircraft Fuels Tax Fund 77590, and the Severance Tax Fund 77610.

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NEBRASKA DEPARTMENT OF REVENUE REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue for the fiscal year ended June 30, 2003, and have issued our report thereon dated May 20, 2004. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related 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's schedule of revenues, expenditures, and changes in fund balances, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our examination, 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*. We noted certain immaterial instances of noncompliance that we have reported to management of the Nebraska Department of Revenue in the Comments Section of this report as Comment Number 2 (Personnel and Payroll Issues) and Athletic Commission Comment Number 5 (Travel Expenses).

Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Revenue's internal control over financial reporting in order to

determine our procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Revenue's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System).

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 schedule being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the Nebraska Department of Revenue in the Comments Section of the report as Comment Number 2 (Personnel and Payroll Issues), Comment Number 3 (Segregation of Duties Over Payroll), Athletic Commission Comment Number 4 (Segregation of Duties), and Athletic Commission Comment Number 5 (Travel Expenses).



Assistant Deputy Auditor

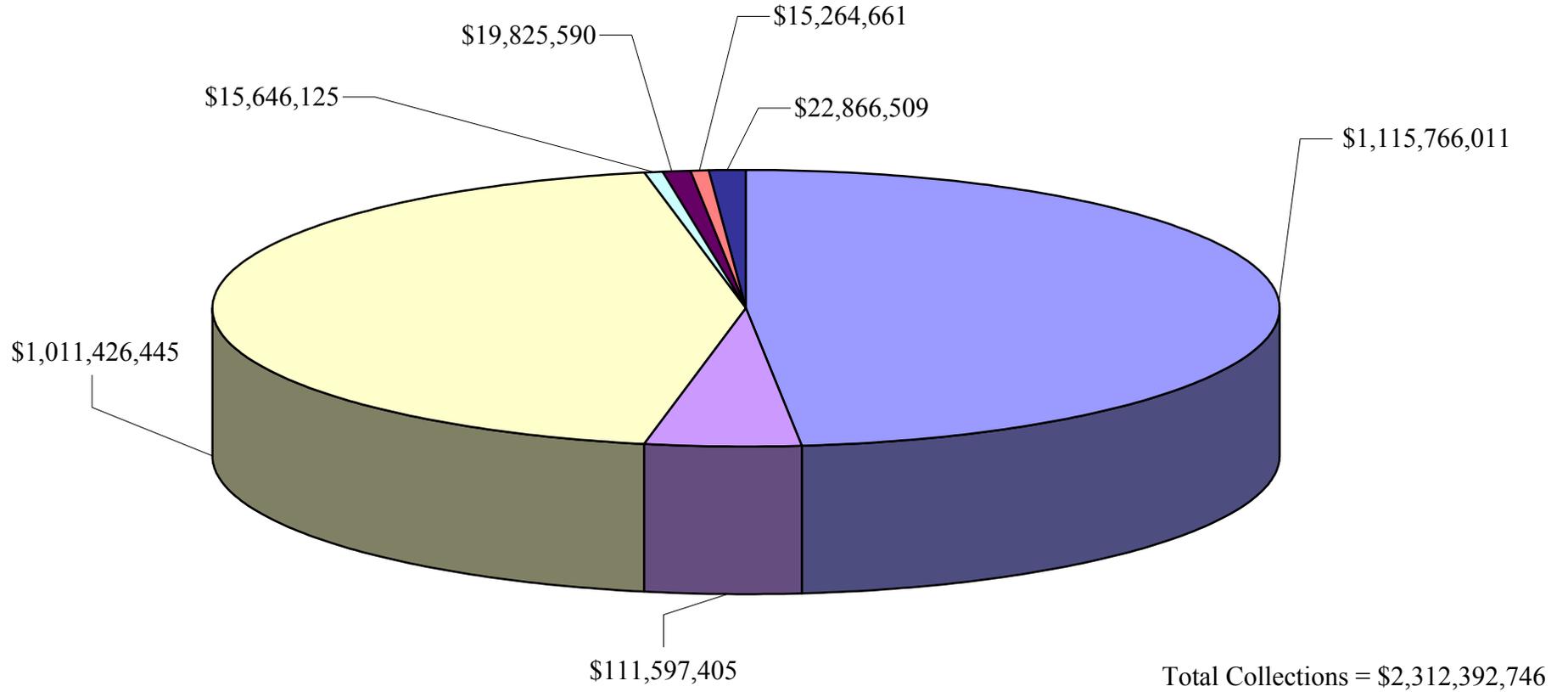
May 20, 2004

NEBRASKA DEPARTMENT OF REVENUE

STATISTICAL SECTION

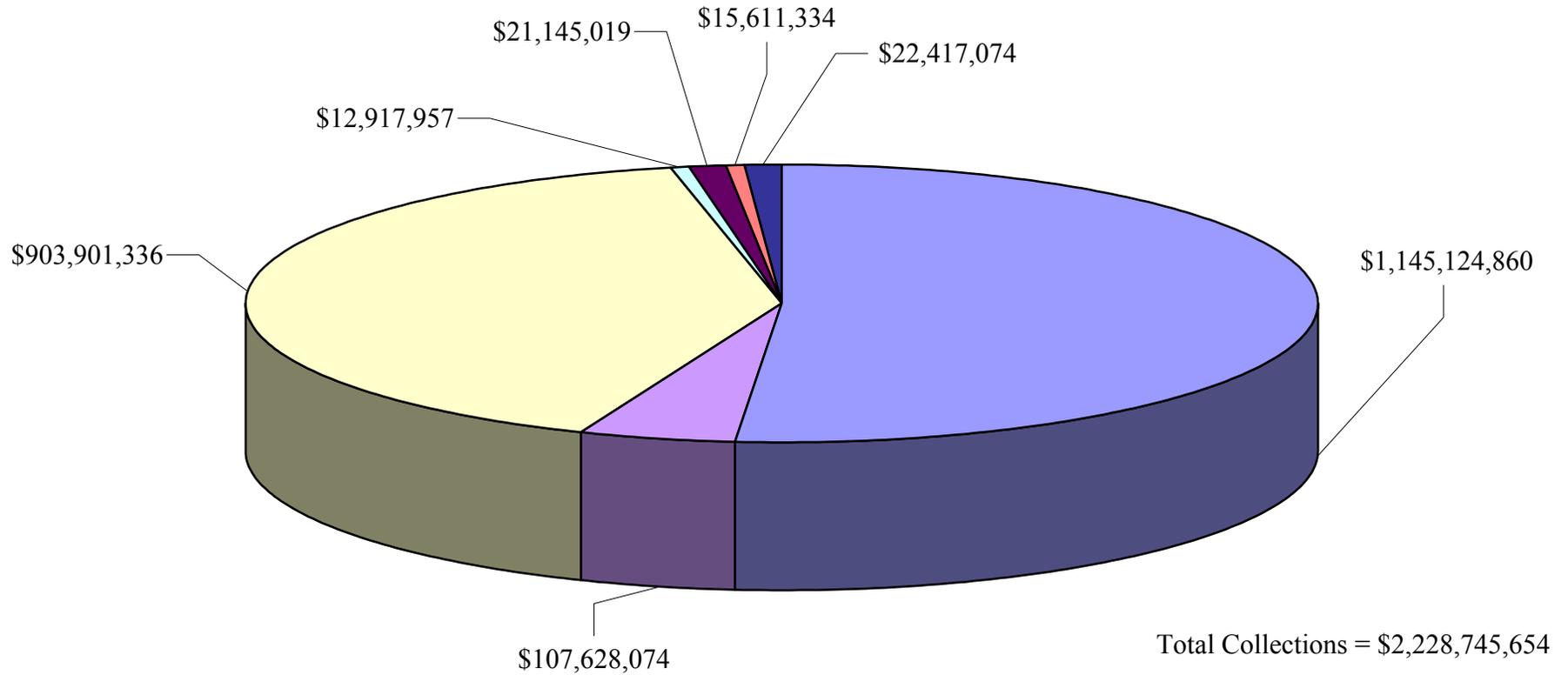
Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF REVENUE
GENERAL FUND TAX RECEIPTS AND OTHER REVENUES
 For Fiscal Year 2003



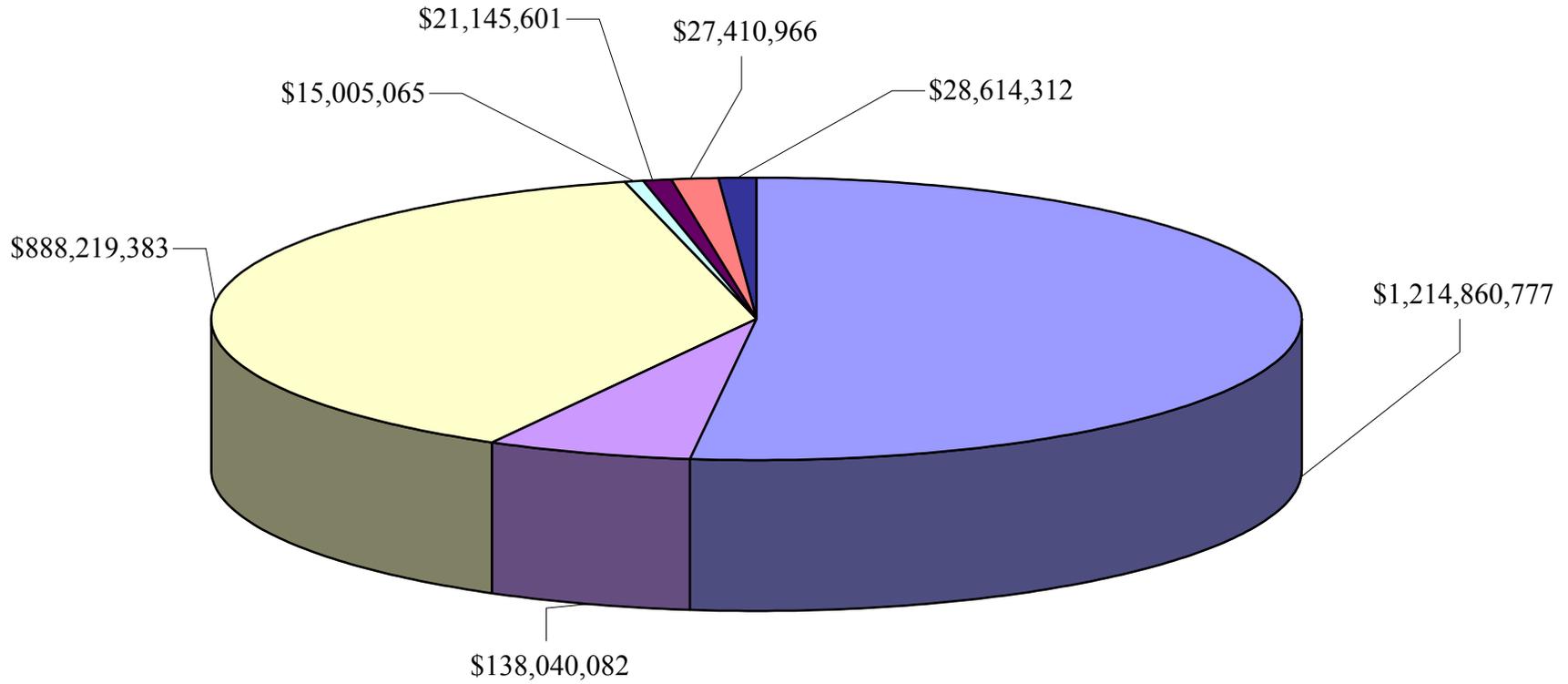
■ Individual Income Tax
 ■ Corporate Income & Franchise Tax
 ■ Sales Tax
 ■ Consumers Use Tax
 ■ Cigarette Tax
 ■ Estate Tax
 ■ Other

NEBRASKA DEPARTMENT OF REVENUE
GENERAL FUND TAX RECEIPTS AND OTHER REVENUES
 For Fiscal Year 2002



■ Individual Income Tax
 ■ Corporate Income & Franchise Tax
 ■ Sales Tax
 ■ Consumers Use Tax
 ■ Cigarette Tax
 ■ Estate Tax
 ■ Other

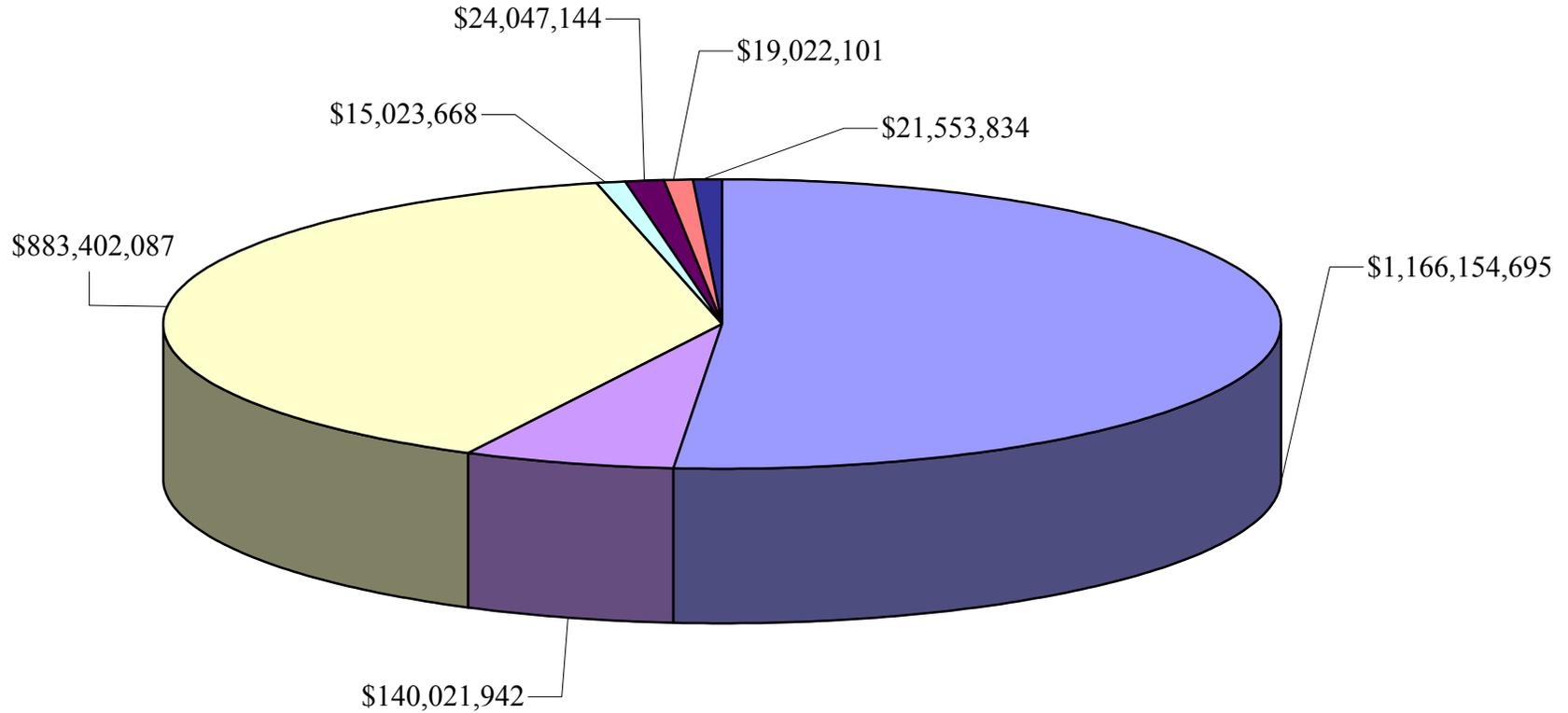
NEBRASKA DEPARTMENT OF REVENUE
GENERAL FUND TAX RECEIPTS AND OTHER REVENUES
 For Fiscal Year 2001



Total Collections = \$2,333,296,186

■ Individual Income Tax
 ■ Corporate Income & Franchise Tax
 ■ Sales Tax
 ■ Consumers Use Tax
 ■ Cigarette Tax
 ■ Estate Tax
 ■ Other

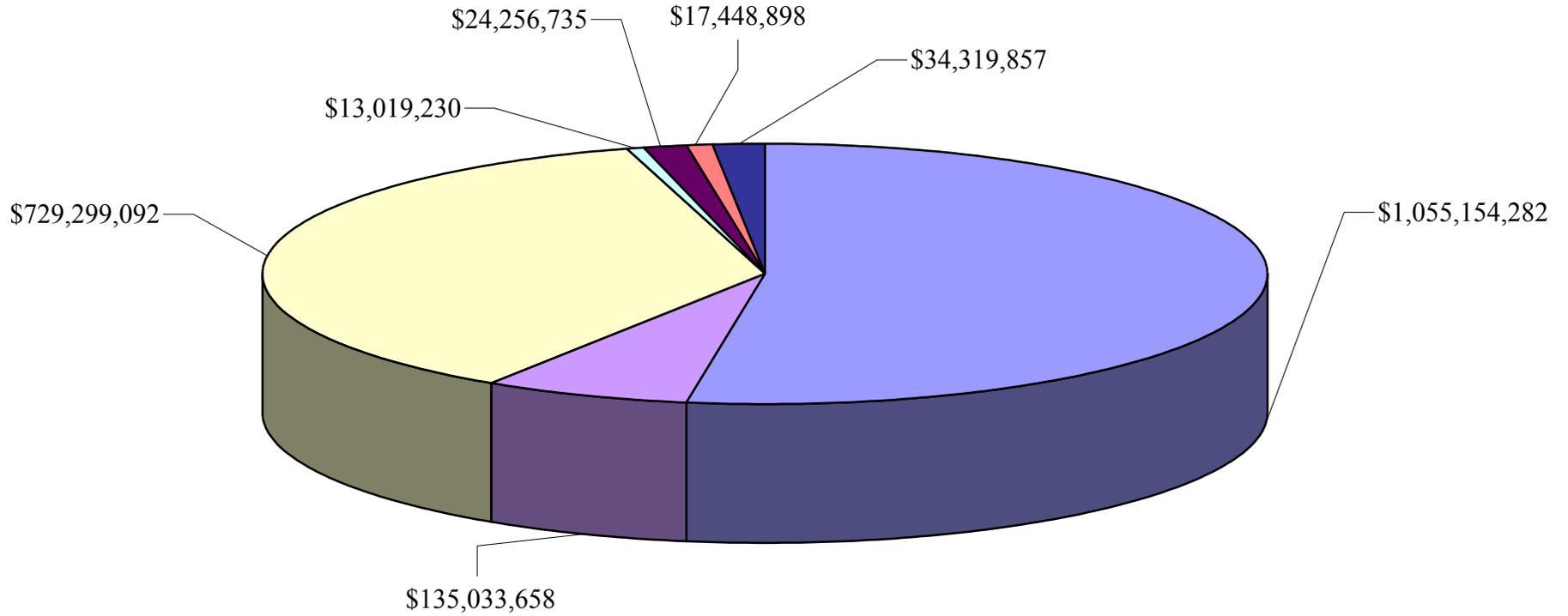
NEBRASKA DEPARTMENT OF REVENUE
GENERAL FUND TAX RECEIPTS AND OTHER REVENUES
 For Fiscal Year 2000



Total Collections = \$2,269,225,471

■ Individual Income Tax
 ■ Corporate Income & Franchise Tax
 ■ Sales Tax
 ■ Consumers Use Tax
 ■ Cigarette Tax
 ■ Estate Tax
 ■ Other

NEBRASKA DEPARTMENT OF REVENUE
GENERAL FUND TAX RECEIPTS AND OTHER REVENUES
 For Fiscal Year 1999



Total Collections = \$2,008,531,752

■ Individual Income Tax
 ■ Corporate Income & Franchise Tax
 ■ Sales Tax
 ■ Consumers Use Tax
 ■ Cigarette Tax
 ■ Estate Tax
 ■ Other

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF GENERAL FUND REVENUES FOR FISCAL YEARS 2003, 2002, 2001, 2000, and 1999

Revenue Type	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Individual Income Tax	\$1,115,766,011	\$1,145,124,860	\$1,214,860,777	\$1,166,154,695	\$1,055,154,282
Corporate Income & Franchise Tax	111,597,405	107,628,074	138,040,082	140,021,942	135,033,658
Sales Tax	1,011,426,445	903,901,336	888,219,383	883,402,087	729,299,092
Consumers Use Tax	15,646,125	12,917,957	15,005,065	15,023,668	13,019,230
Cigarette Tax	19,825,590	21,145,019	21,145,601	24,047,144	24,256,735
Estate Tax	15,264,661	15,611,334	27,410,966	19,022,101	17,448,898
Other	22,866,509	22,417,074	28,614,312	21,553,834	34,319,857
TOTAL	<u>\$2,312,392,746</u>	<u>\$2,228,745,654</u>	<u>\$2,333,296,186</u>	<u>\$2,269,225,471</u>	<u>\$2,008,531,752</u>

FY - Fiscal Year

NEBRASKA DEPARTMENT OF REVENUE
SCHEDULE OF OTHER FUNDS TAX AND FEE REVENUES FOR FISCAL YEARS 2003, 2002, 2001, 2000, and 1999

Type of Collection	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Bingo, Lottery, and Distributor Taxes	\$ 2,288,602	\$ 2,316,319	\$ 2,239,121	\$ 2,365,787	\$ 2,346,306
Tobacco Products Taxes	4,219,152	3,336,376	3,143,492	2,958,923	2,756,588
Fertilizer & Soil Conditioner Fee (Note 2)	445	1,000	758,182	2,349,291	2,191,402
Railroad Excise Tax	3,153,133	2,877,639	2,599,251	3,167,427	2,785,355
Waste Reduction and Recycling Fees	2,268,539	2,248,752	2,291,477	2,369,708	465,327
Petroleum Release Remedial Action Fees	10,911,371	10,823,136	10,401,329	10,712,317	10,491,808
Gasoline Taxes (Note 1)	285,724,861	285,176,770	266,408,227	256,276,597	235,932,129
Sales Tax on Motor Vehicles	24,760,565	25,101,777	20,901,789	22,855,267	20,086,936
Lodging Tax	6,679,113	6,545,561	6,570,501	6,390,854	6,067,227
Total	\$ 340,005,781	\$ 338,427,330	\$ 315,313,369	\$ 309,446,171	\$ 283,123,078

Note 1 - Neb. Rev. Stat Section 66-676 R.R.S. 2003 changed the manner in which motor vehicle gasoline and gasohol fuels were taxed. Prior to January 1, 2000 the revenue was recorded in a Special Fuels Tax Account while after January 1, 2000 the revenue was recorded in the Gasoline Tax Account. For schedule purposes the two accounts were combined into one.

Note 2 - Neb. Rev. Stat. Section 77-4401 R.R.S. 1993 required a fee of four dollars per ton upon the gross tonnage of all sales, use, or other consumption in this State of commercial fertilizers. The fee was imposed January 1, 1997 and was to continue through December 31, 2000.

FY - Fiscal Year

Note: Only material tax and fee receipts are shown.