

**ATTESTATION REPORT  
OF THE  
NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND  
COLLECTION DIVISION**

**JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION  
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NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

**BACKGROUND**

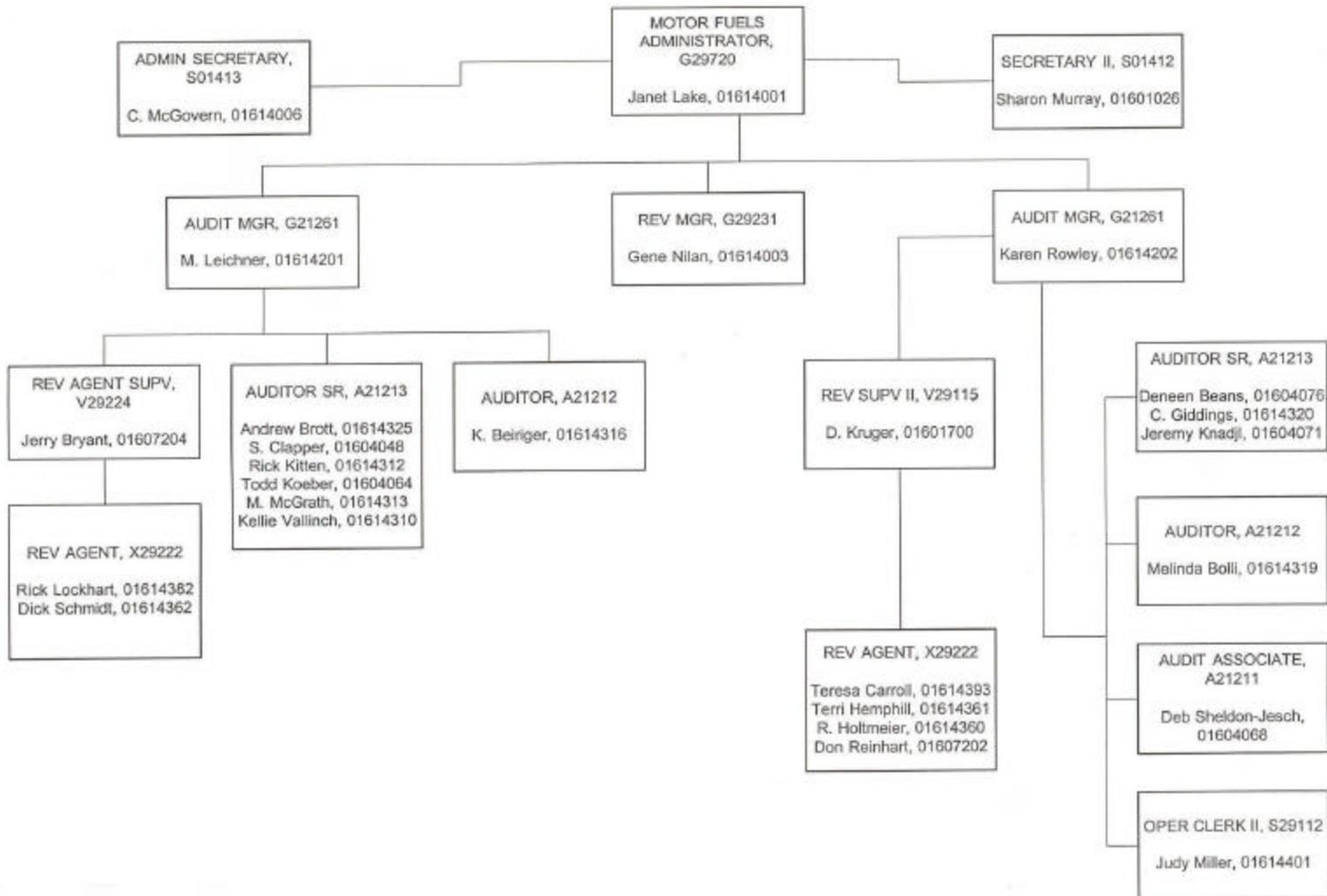
The Motor Fuel Tax Enforcement and Collection Division (Division) was created within the Nebraska Department of Revenue in 1991. The Division's objectives are 1) to administer all motor fuel tax programs, ensuring compliance with State laws; 2) to provide assistance to taxpayers regarding motor fuel tax programs; and 3) to ensure compliance with laws through an increased emphasis on collections, audits, and investigations. Tax programs include Motor Vehicle Fuels, Diesel Fuels, Compressed Fuels, Alternative Fuels, and the Petroleum Release Remedial Action Act. The Division is also responsible for the Ethanol Producers Incentive Program. The Division had 28 employees at June 30, 2003.

**MISSION STATEMENT**

We will serve the public through the administration of the State tax laws in a fair, courteous, and efficient manner.

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**ORGANIZATIONAL CHART**



NEBRASKA DEPARTMENT OF REVENUE  
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**EXIT CONFERENCE**

An exit conference was held December 12, 2003 with the Division to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division were:

<u>NAME</u>	<u>TITLE</u>
Janet Lake	Motor Fuel Administrator
Kim Vu	Accountant
Dick Gettemy	Administrator of Finance and Management Services
Chuck Long	Special Services Manager
Ron Gottula	Budget Officer

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**SUMMARY OF COMMENTS**

During our examination of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Travel Expense Reimbursements:*** We noted unreasonable meal and lodging expenses when testing travel expenditures.
2. ***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.
3. ***Building Rent Allocation:*** The allocation of building rental costs between Revenue Administration and the Division was incorrect because fiscal year 2001 percentages were used instead of current percentages. This resulted in an under allocation of building rental cost to the Division of \$1,855 for the fiscal year.

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 Division 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 been included, the Division 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.

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**COMMENTS AND RECOMMENDATIONS**

**1. Travel Expense Reimbursements**

We tested six travel expenditure documents totaling \$6,669. The Nebraska Department of Revenue Motor Fuel Tax Enforcement and Collection Division (Division) had \$59,590 in travel expenditures for the fiscal year. We noted the following exceptions related to meal and lodging reimbursements.

Nebraska Department of Revenue Travel Policy and Procedures effective October 22, 2001, Section II, Out-of-State guidelines, page 12 states, "When an employee's travel status is less than a full day, the daily Federal meal guideline total can be broken down to 23% - breakfast, 27% - lunch, and 50% - evening dinner." While the Departments' policy only applies to travel status of less than a full day we used the percentages as a reasonable basis to determine the appropriateness of meal reimbursements. Good internal control requires procedures to ensure daily meal costs reimbursed to employees are allowable and are within the Federal per diem guidelines for meal costs. Sound accounting practices require a reasonable amount be reimbursed for each meal. Nebraska Accounting System (NAS) CONC-005, Travel Expense Policies, Section 5, states that meal expenses must be substantiated under the State's Accountable Plan. Internal Revenue Service (IRS) Publication 463 regarding reimbursement for travel expenses states that a restaurant receipt should include, "The name and location of the restaurant." Therefore, the documentation of meals should include the name of the restaurant and the city. NAS Manual CONC-005, Travel Expense Policies, Section 4, states, 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 directly billed to the agency, sales tax would not have to be paid.

During our review of meal and lodging reimbursements we noted the following:

- We noted on the three expense reimbursement documents tested employees were reimbursed unreasonable amounts for individual meals. In addition, the supporting documentation tested lacked the restaurant name. The first employee exceeded the meal percentage guidelines by \$35.09 for two breakfasts and three dinners on a 13-day trip to Salt Lake City, UT. The same employee exceeded the Federal per diem amount by a total of \$14.27 on two separate day's meals. The Federal per diem for Salt Lake City, UT was \$42. The second employee tested claimed \$15.36 over the meal percentage amounts for two dinners on a four-day stay at San Diego, CA. The Federal per diem for San Diego, CA was \$50 per day. The final employee tested claimed \$18.99 over the meal percentage amounts for two breakfasts and seven dinners for an eight-day stay at Walthill, NE. The Federal per diem for Walthill, NE was \$30 per day. The Department of Revenue's policy regarding the percentage allocation of the Federal meal guideline to individual meals officially applies when an employee's travel status is less than a full day. However, the percentage allocation of the Federal per diem meal guideline to each meal is a reasonable basis to determine the reasonableness of reimbursements for individual meals.
- One employee incurred hotel taxes of \$5 when an overnight stay at Ogallala, NE was not direct billed.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Travel Expense Reimbursements (Continued)**

Without a thorough review of expense reimbursement documents there is an increased risk of the Division paying unreasonable or excessive costs.

We recommend the Division review its policies and procedures regarding the reimbursement of meals related to reasonableness and ensure meal reimbursements are within the Federal per diem guidelines and there is a reasonable allocation of the Federal per diem guideline for each meal. In addition, all meal logs should include the name of the restaurant for which reimbursement is claimed. We also recommend all lodging costs incurred within Nebraska be direct billed to the State of Nebraska, if possible.

*Department's Response: The meal percentages in our agency's travel policy are meant as a guide, not a restriction of per meal costs. There is no Federal per diem guideline per meal. Our current meal policy utilizes the Federal per diem standard as a reasonable guideline. However, our agency expands the definition of reasonableness when the employee is in travel status to include a meal guideline amount based on the number of days and the rate. This "trip" meal guideline amount provides our employees with the flexibility to make meal decisions according to their needs or situation. Also, the expense reimbursement claim is processed more efficiently because it is unnecessary to check each meal amount.*

*Under our current meal policy the majority of our employees claim less than the meal guideline amount per trip. For example, the first employee mentioned in your report spent \$396.46 for meals during the trip to Salt Lake City. The trip guideline amount computed under our meal policy was \$470.76. Thus, this employee's expenditure was \$74.30 under the meal guideline amount for the trip and the expenditures were deemed reasonable per our agency meal policy. Indeed, all three of the employee's expenditures mentioned in your report were under our agency meal guideline amount for their trips. Your recommendation that employees be limited on a per meal basis is contrary to the intent of our policy and conflicts with statutory requirements that we reimburse employees for actual expenses incurred which are deemed by our agency to be reasonable. We stress that in order to comply with statutory requirements employees should indicate the actual cost per meal and not attempt to adjust or allocate their reimbursement request for compliance with any per meal figure.*

*The Department of Administrative Services Accounting Administrator does not require the name of the restaurant be documented for meal reimbursement purposes. Section 81-1174 states, "The Accounting Administrator may require less supporting detail for requests covered in this*

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**1. Travel Expense Reimbursements (Concluded)**

*Department's Response, Concluded:*

*section but shall not impose reporting requirements which exceed those listed unless specifically authorized by other provisions of law." You have taken an IRS requirement relating to situations when receipts are required and misconstrued those requirements to apply in situations where receipts are not required.*

*We agree with your recommendation that all lodging costs incurred within Nebraska be direct billed to our agency. However, in the instance cited in your report, the employee had traveled via state vehicle to Salt Lake City, stopping in Wyoming overnight. It was only on the return trip to Lincoln that the employee unexpectedly was able to reach Nebraska before lodging was required. An e-mail was sent to all agency employees on December 31, 2003 reminding them that a Direct Billing Authorization form should be completed whenever possible.*

**Auditors' Response: Meal reimbursements in excess of the Federal per diem guidelines for any given day are not reasonable. Reimbursements for individual meals in excess of a reasonable portion of the per diem guideline are not reasonable. Amounts saved because meals are skipped should not be allowed to be applied toward the purchase of one expensive meal exceeding daily federal per diem guidelines or a reasonable portion of the daily federal per diem guidelines. Based on our discussions with IRS staff relating to documentation requirements for meals being audited, we believe our interpretations are reasonable. Meal logs should include the name of the restaurant. Adequate documentation including the name of the restaurant must be available to ensure alcohol or other unallowable items were not purchased with State funds.**

**2. 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.

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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Nebraska Information System** (Continued)

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 12, 2003. This procedure would have provided control over cash and accurate financial information. The reconciliation should have been done on a monthly basis and has not been done since the implementation of NIS to ensure all financial information is correct in NIS.
- b. As of December 12, 2003, the Annual Budgetary Report and the Comprehensive Annual Financial Report have not been completed for the fiscal year ended June 30, 2003. These reports are to be prepared and presented by the Department of Administrative Services Accounting Division.
- c. A comprehensive written NIS policy and procedures manual has not been prepared. The current Nebraska Accounting System and Nebraska Employees Information System (NEIS) policies and procedures manuals only relate to NAS and NEIS and have not been updated to adjust to changes in NIS.
- d. 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.
- e. A records retention policy has not been implemented to ensure an adequate audit trail is maintained for NIS information. The records retention schedules only state, "Obsolete with implementation of NIS."
- f. The payroll component is not designed to promote an effective segregation of duties.
- g. 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.
- h. Information security procedures - The State has not documented or formalized comprehensive information security procedures for NIS.

NEBRASKA DEPARTMENT OF REVENUE  
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**COMMENTS AND RECOMMENDATIONS**

(Continued)

**2. Nebraska Information System** (Concluded)

- i. 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.

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.

**3. Building Rent Allocation**

Neb. Rev. Stat. Section 66-738 R.S.Supp., 2002 requires the Motor Fuel Tax Enforcement and Collection Division to pay for their pro rata share of functional area costs. Good internal control would require a review to ensure correct percentages are used to allocate building rental costs and would require building rental contracts to be kept on file.

Fiscal year 2001 percentages were used to calculate the allocation of building rental costs between Revenue Administration and the Division for the Kearney area. Building rental costs were allocated 78% to Revenue Administration and 22% to the Division. The correct percentages were 63.64% to Revenue Administration and 36.36% to the Division. This resulted in an under allocation of building rental costs to the Division of \$154.61 for the month of June 2003 and an under allocation of building rental costs of \$1,855 for the fiscal year. In addition, the current building rental contract for the Kearney location was not on file. The contract was subsequently obtained from DAS Building Division.

When current percentages are not used to allocate building rental costs, the Division may pay more or less than their pro rata share of functional area costs.

We recommend the Division implement procedures which ensure amounts billed to divisions for building rental payments are accurate. Additionally, building rental contracts should be kept on file.

*Department's Response: The incorrect percentages used for allocation of building rental costs resulted from a formula error in a spreadsheet used by our agency. This error was not detected by our agency due to the minimal amount involved. The spreadsheet problem has been corrected for the current fiscal year.*

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF REVENUE MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

### Independent Accountant's Report

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) for the fiscal year ended June 30, 2003. The Division'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.

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.

The State of Nebraska implemented two components of a new statewide information system (Nebraska Information System (NIS)) during the fiscal year ended June 30, 2003. The two components were the Human Resources and Payroll component and the Financial component. A significant internal control procedure, a reconciliation of the State Treasurer's cash balances to the cash balances reported on NIS, had not been completed by the State for the fiscal year ended June 30, 2003. Without this reconciliation we were unable to satisfy ourselves as to the accuracy and completeness of the Division's fund balances of \$1,441,764 as of June 30, 2003. Although we extended our audit procedures, it was impracticable to extend our procedures sufficiently to determine the extent to which the fund balances as of June 30, 2003 may have been affected by this procedure not being completed.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on NIS been completed as described in the preceding paragraph, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003, on our consideration of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division'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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

December 12, 2003

NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
For the Fiscal Year Ended June 30, 2003

	Motor Fuel Tax Enforcement Fund 21700	Petroleum Release Remediation Fund 21590	Highway Cash Fund 22710	Investigative Forfeiture Fund 41610	<b>Total (Memorandum Only)</b>
REVENUES:					
Federal Grants & Contracts	\$ 9,365	\$ -	\$ -	\$ -	\$ 9,365
Sales & Charges	-	-	560	-	560
Miscellaneous	97,804	-	-	732	98,536
<b>TOTAL REVENUES</b>	<b>107,169</b>	<b>-</b>	<b>560</b>	<b>732</b>	<b>108,461</b>
EXPENDITURES:					
Personal Services	1,465,045	28,000	-	-	1,493,045
Operating	160,292	-	-	355	160,647
Travel	58,391	-	-	1,199	59,590
Capital Outlay	15,982	-	-	-	15,982
<b>TOTAL EXPENDITURES</b>	<b>1,699,710</b>	<b>28,000</b>	<b>-</b>	<b>1,554</b>	<b>1,729,264</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,592,541)	(28,000)	560	(822)	(1,620,803)
OTHER FINANCING SOURCES (USES):					
Deposits to Common Fund	-	-	(560)	-	(560)
Operating Transfers In	101,000	28,000	-	-	129,000
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>101,000</b>	<b>28,000</b>	<b>(560)</b>	<b>-</b>	<b>128,440</b>
Net Change in Fund Balances	(1,491,541)	-	-	(822)	(1,492,363)
FUND BALANCES, JULY 1, 2002	2,916,144	-	-	17,983	2,934,127
FUND BALANCES, JUNE 30, 2003	<u>\$ 1,424,603</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,161</u>	<u>\$ 1,441,764</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF REVENUE  
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**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2003

**1. Criteria**

The accounting policies of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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 Division 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.

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 Division had accounts receivable included in revenues of \$1,334 from Federal grants and contracts. DAS did not require the Division to record their receivables separate from the NIS system and these amounts are not reflected in revenues or fund balances on the Schedule. The Division had accounts payable for services received but not yet paid of \$561 included in expenditures. The NIS system does not include liabilities for accrued payroll and compensated absences.

NEBRASKA DEPARTMENT OF REVENUE  
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**NOTES TO THE SCHEDULE**  
(Continued)

**1. Criteria (Concluded)**

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

**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.

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

**Federal Grants & Contracts** - Revenue from federal sources including grants and contracts.

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

**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 Division are:

**Personal Services** - Salaries, wages, and related employee benefits provided for all persons employed by the Division.

**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.

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

**Other Financing Sources** - Long-term debt proceeds, operating transfers, and proceeds of fixed asset dispositions.

NEBRASKA DEPARTMENT OF REVENUE  
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**NOTES TO THE SCHEDULE**  
(Continued)

**2. State Agency**

The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) is a program within the Nebraska Department of Revenue. The Nebraska Department of Revenue is a State agency established under and governed by the laws of the State of Nebraska. As such, the Division is exempt from State and Federal income taxes. The schedule includes all funds of the Division.

The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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. Under the cash basis of accounting, revenues are recognized when received and expenditures are recognized when paid for all funds of the Division. Therefore, the beginning fund balances do not include accounts receivables or accounts payable.

**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. Transfers**

Operating Transfers In to the Motor Fuel Tax Enforcement and Collection Cash Fund represent amounts transferred from the Highway Trust Fund as required by Neb. Rev. Stat. Section 39-2215(4) R.R.S. 1998 and 2001 Neb. Laws LB 543, Section 268. These monies are used for the operation of the Division. Operating Transfers In also includes amounts transferred to the Petroleum Release Remedial Action Collection Fund to reimburse the direct costs of collecting and administering the petroleum release remedial action fee per Neb. Rev. Stat. Section 66-1521 R.S.Supp., 2000.

# STATE OF NEBRASKA

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NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION  
**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 - Motor Fuel Tax Enforcement and Collection Division for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. The report was qualified for the effects of such adjustments, if any, as might have been determined to be necessary had a reconciliation between the State Treasurer's cash balances to the cash balances on the Nebraska Information System (NIS) been completed. 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 - Motor Fuel Tax Enforcement and Collection Division'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 also noted an immaterial instance of noncompliance that we have reported to management of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division in the Comments Section of this report as Comment Number 3 (Building Rent Allocation).

### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division'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 - Motor Fuel Tax Enforcement and Collection Division'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 2 (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 - Motor Fuel Tax Enforcement and Collection Division's in the Comments Section of the report as Comment Number 1 (Travel Expense Reimbursements) and Comment Number 3 (Building Rent Allocation).



Assistant Deputy Auditor

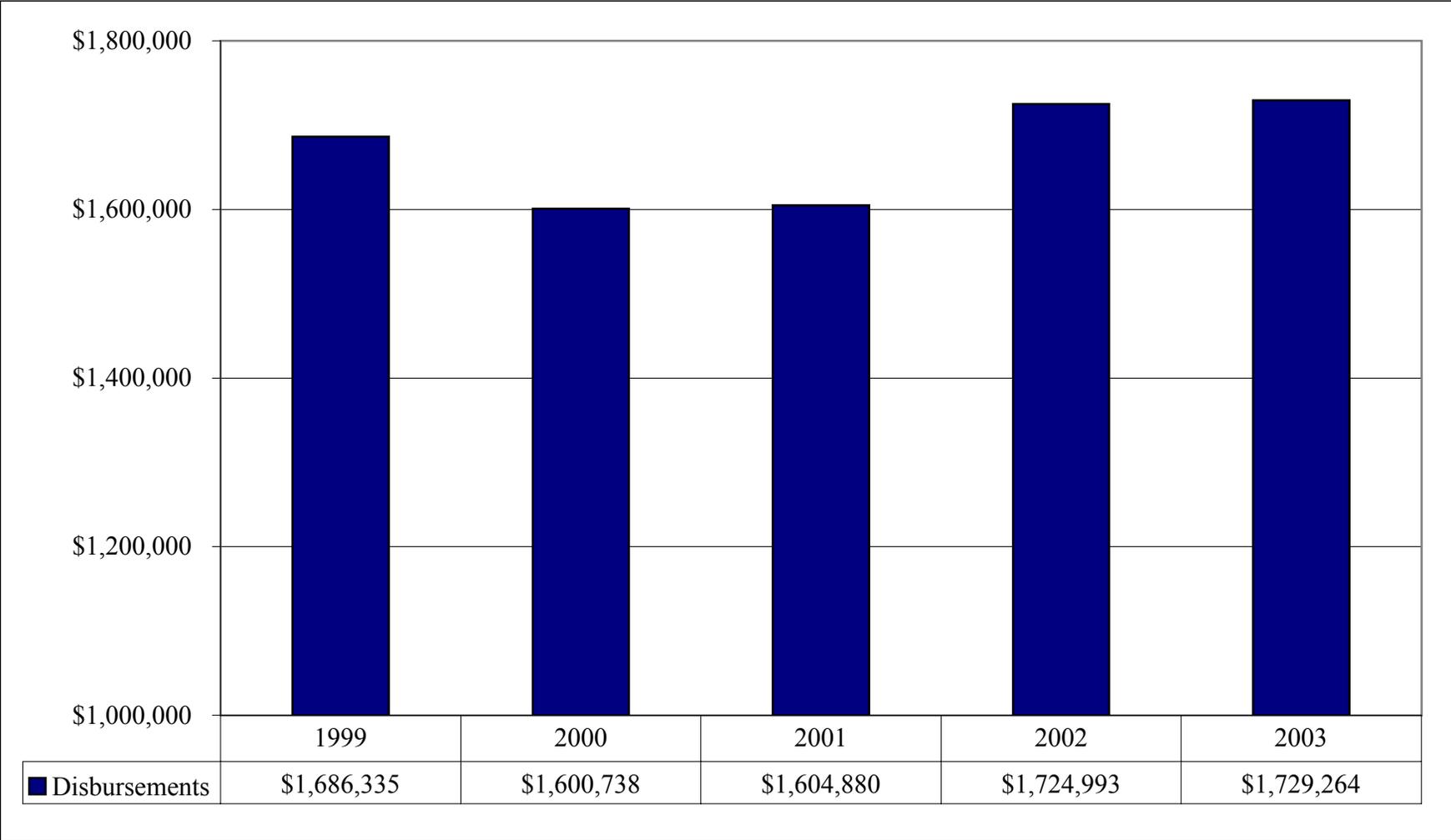
December 12, 2003

NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

**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  
 MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION  
**SCHEDULE OF DISBURSEMENTS**  
 Fiscal Years Ended June 30, 1999 through 2003



NEBRASKA DEPARTMENT OF REVENUE  
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION  
**SCHEDULE OF THE NUMBER OF AUDITS**  
Fiscal Years Ended June 30, 1999 through 2003

