

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

JULY 1, 2006 THROUGH JUNE 30, 2008

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the Auditor of Public Accounts.**

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Issued on September 8, 2008

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

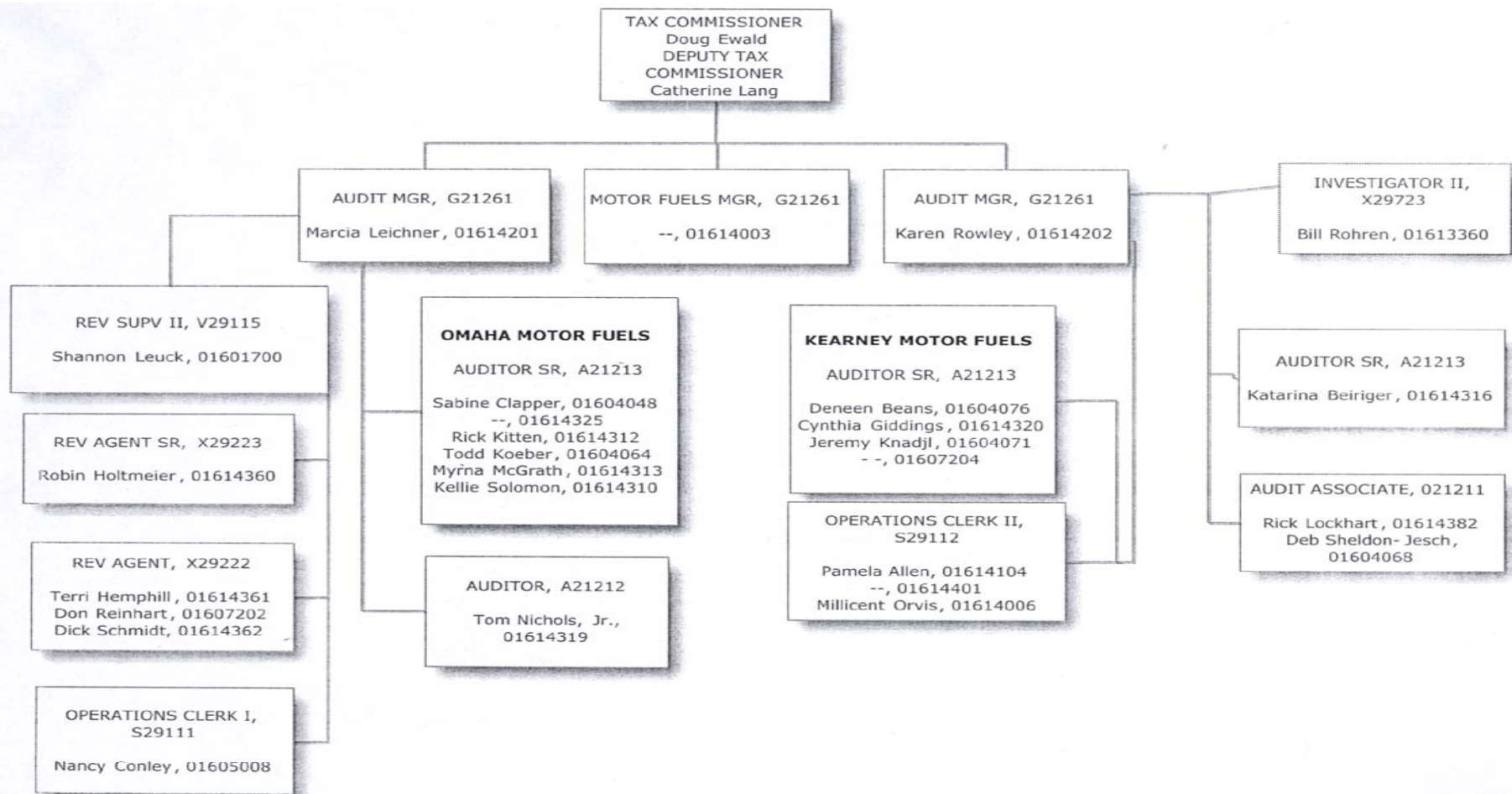
The Motor Fuel Tax Enforcement and Collection Division (Division) was created within the Nebraska Department of Revenue in 1991. The Division's objectives are 1) to administer all motor fuel tax programs, ensuring compliance with State laws; 2) to provide assistance to taxpayers regarding motor fuel 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, Aircraft Fuels, and the Petroleum Release Remedial Action Act. The Division is also responsible for the Ethanol Producers Incentive Program.

MISSION STATEMENT

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

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

ORGANIZATIONAL CHART



MOTOR FUELS 06/30/2008

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

EXIT CONFERENCE

An exit conference was held August 13, 2008, 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>
Doug Ewald	Tax Commissioner
Len Sloup	Director – Operations and Administrative Services
Chuck Long	Manager – Special Services
Ron Gottula	Accounting and Finance Manager

During our examination of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division, we noted no matters involving the internal control over financial reporting and other operational matters.

Draft copies of this report were furnished to the Division to provide them an opportunity to review the report.

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



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF REVENUE MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Revenue
Motor Fuel Tax Enforcement and Collection Division
Lincoln, Nebraska

We have examined the accompanying schedules 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 years ended June 30, 2008, and June 30, 2007. The Division's management is responsible for the schedules 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 attestation engagements 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 schedules 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.

In our opinion, the schedules referred to above present, 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 years ended June 30, 2008, and June 30, 2007, 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 August 28, 2008, 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, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our examination.

This report is intended solely for the information and use of management, the Nebraska State Tax Commissioner, the Division, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 28, 2008

Assistant Deputy Auditor

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, 2008

	Motor Fuel Tax Enforcement Fund 21700	Petro Release Remediation Fund 21590	Investigative Forfeiture Fund 41610	Totals (Memorandum Only)
REVENUES:				
Miscellaneous				
Investment Interest	\$ 42,084	\$ 221	\$ 991	\$ 43,296
TOTAL REVENUES	42,084	221	991	43,296
EXPENDITURES:				
Personal Services	1,614,977	28,000	-	1,642,977
Operating	282,158	-	-	282,158
Travel	61,989	-	-	61,989
Capital Outlay	8,694	-	-	8,694
TOTAL EXPENDITURES	1,967,818	28,000	-	1,995,818
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,925,734)	(27,779)	991	(1,952,522)
OTHER FINANCING SOURCES:				
Sales of Assets	282	-	-	282
Operating Transfers In	2,000,000	27,890	-	2,027,890
TOTAL OTHER FINANCING SOURCES	2,000,282	27,890	-	2,028,172
Net Change in Fund Balances	74,548	111	991	75,650
FUND BALANCES, JULY 1, 2007	898,885	108	20,113	919,106
FUND BALANCES, JUNE 30, 2008	\$ 973,433	\$ 219	\$ 21,104	\$ 994,756
FUND BALANCES CONSIST OF:				
General Cash	\$ 974,308	\$ 219	\$ 21,104	\$ 995,631
Due to Vendors	(875)	-	-	(875)
TOTAL FUND BALANCES	\$ 973,433	\$ 219	\$ 21,104	\$ 994,756

The accompanying notes are an integral part of the schedule.

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, 2007

	Motor Fuel Tax Enforcement Fund 21700	Petro Release Remediation Fund 21590	Investigative Forfeiture Fund 41610	Totals (Memorandum Only)
REVENUES:				
Miscellaneous				
Investment Interest	\$ 35,999	\$ 110	\$ 903	\$ 37,012
TOTAL REVENUES	<u>35,999</u>	<u>110</u>	<u>903</u>	<u>37,012</u>
EXPENDITURES:				
Personal Services	1,677,746	28,000	-	1,705,746
Operating	146,597	-	-	146,597
Travel	61,152	-	-	61,152
Capital Outlay	9,792	-	-	9,792
TOTAL EXPENDITURES	<u>1,895,287</u>	<u>28,000</u>	<u>-</u>	<u>1,923,287</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,859,288)</u>	<u>(27,890)</u>	<u>903</u>	<u>(1,886,275)</u>
OTHER FINANCING SOURCES:				
Sales of Assets	63	-	-	63
Operating Transfers In	2,000,000	27,550	-	2,027,550
TOTAL OTHER FINANCING SOURCES	<u>2,000,063</u>	<u>27,550</u>	<u>-</u>	<u>2,027,613</u>
Net Change in Fund Balances	140,775	(340)	903	141,338
FUND BALANCES, JULY 1, 2006	<u>758,110</u>	<u>448</u>	<u>19,210</u>	<u>777,768</u>
FUND BALANCES, JUNE 30, 2007	<u>\$ 898,885</u>	<u>\$ 108</u>	<u>\$ 20,113</u>	<u>\$ 919,106</u>
FUND BALANCES CONSIST OF:				
General Cash	\$ 898,885	\$ 108	\$ 20,113	\$ 919,106
TOTAL FUND BALANCES	<u>\$ 898,885</u>	<u>\$ 108</u>	<u>\$ 20,113</u>	<u>\$ 919,106</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULES

For the Fiscal Years Ended June 30, 2008, and June 30, 2007

1. Criteria

The accounting policies of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Supp., 2007), 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.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 1999), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of revenues, expenditures, and changes in fund balances was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables and accounts payable in the general ledger. 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 expenditures and related accounts payables recorded in the general ledger as of June 30, 2008, and June 30, 2007, include only those payables posted in the general ledger before June 30, 2008, and June 30, 2007, and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2008, and June 30, 2007, **does not** include amounts for goods and services received before June 30, 2008, and June 30, 2007, which had not been posted to the general ledger as of June 30, 2008, and June 30, 2007.

The Division had no accounts receivable at June 30, 2008, and June 30, 2007. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The fund types established by the State 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.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULES

(Continued)

1. Criteria (Concluded)

40000 – Federal Funds – accounts for the financial activities related to the receipt and disbursement of funds generated from the federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable federal requirements.

The major revenue account classification established by State Accounting used by the Division is:

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

The major expenditure account classifications established by State Accounting 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 accounting classifications and procedures established by State Accounting and used by the Division include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are also included in fund balance and are reported as recorded in the general ledger.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures resulting in a decrease to fund balance.

Other Financing Sources – Operating transfers, proceeds of fixed asset dispositions, and long-term debt proceeds.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULES

(Continued)

2. Reporting Entity

The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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 included in the general ledger.

The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division is part of the primary government for the State of Nebraska.

3. 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.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council that maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Division takes an annual inventory and accounts for all equipment that has a cost of \$1,500 or more at the date of acquisition in the State Accounting System.

For the CAFR, the State requires the Division to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of \$5,000 or more at the date of acquisition and has an expected useful

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULES
(Continued)

5. Capital Assets (Concluded)

life of two or more years is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of three to ten years.

Capital asset activity of the Department recorded in the State Accounting System for the fiscal years ended June 30, 2008, and June 30, 2007, was as follows:

	July 1, 2007 Beginning Balance	Increases	Decreases	June 30, 2008 Ending Balance
Capital Assets				
Equipment	\$ 124,238	\$ 8,694	\$ 29,925	\$ 103,007
Less accumulated depreciation for:				
Equipment				87,116
Total capital assets, net of depreciation				\$ 15,891
	July 1, 2006 Beginning Balance	Increases	Decreases	June 30, 2007 Ending Balance
Capital Assets				
Equipment	\$ 116,351	\$ 7,887	\$ -	\$ 124,238
Less accumulated depreciation for:				
Equipment				104,059
Total capital assets, net of depreciation				\$ 20,179

6. 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. § 39-2215(4) (Cum. Supp. 2006). 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 costs of collecting and administering the petroleum release remedial action fee per Neb. Rev. Stat. § 66-1521 (Cum. Supp. 2006).



NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

Mike Foley
State Auditor

Mike.Foley@apa.ne.gov
P.O. Box 98917
State Capitol, Suite 2303
Lincoln, Nebraska 68509
402-471-2111, FAX 402-471-3301
www.auditors.state.ne.us

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN EXAMINATION OF THE
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Nebraska Department of Revenue
Motor Fuel Tax Enforcement and Collection Division
Lincoln, Nebraska

We have examined the accompanying schedules of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division as of and for the fiscal years ended June 30, 2008, and June 30, 2007, and have issued our report thereon dated August 28, 2008. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 as a basis for designing our procedures for the purpose of expressing our opinion on the schedules of revenues, expenditures, and changes in fund balances, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Department of Revenue - Motor Fuel

Tax Enforcement and Collection Division's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's financial schedules that is more than inconsequential will not be prevented or detected by the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedules will not be prevented or detected by the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's financial schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Nebraska State Tax Commissioner, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 28, 2008

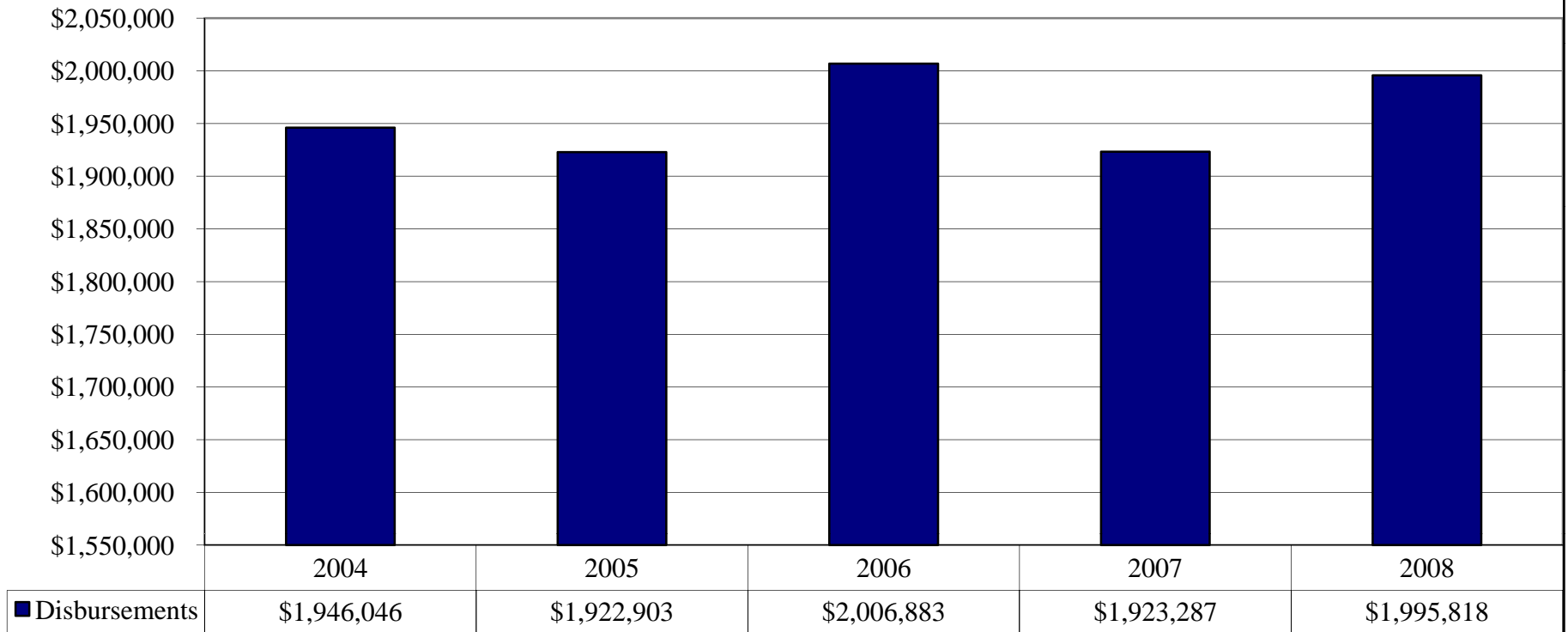
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

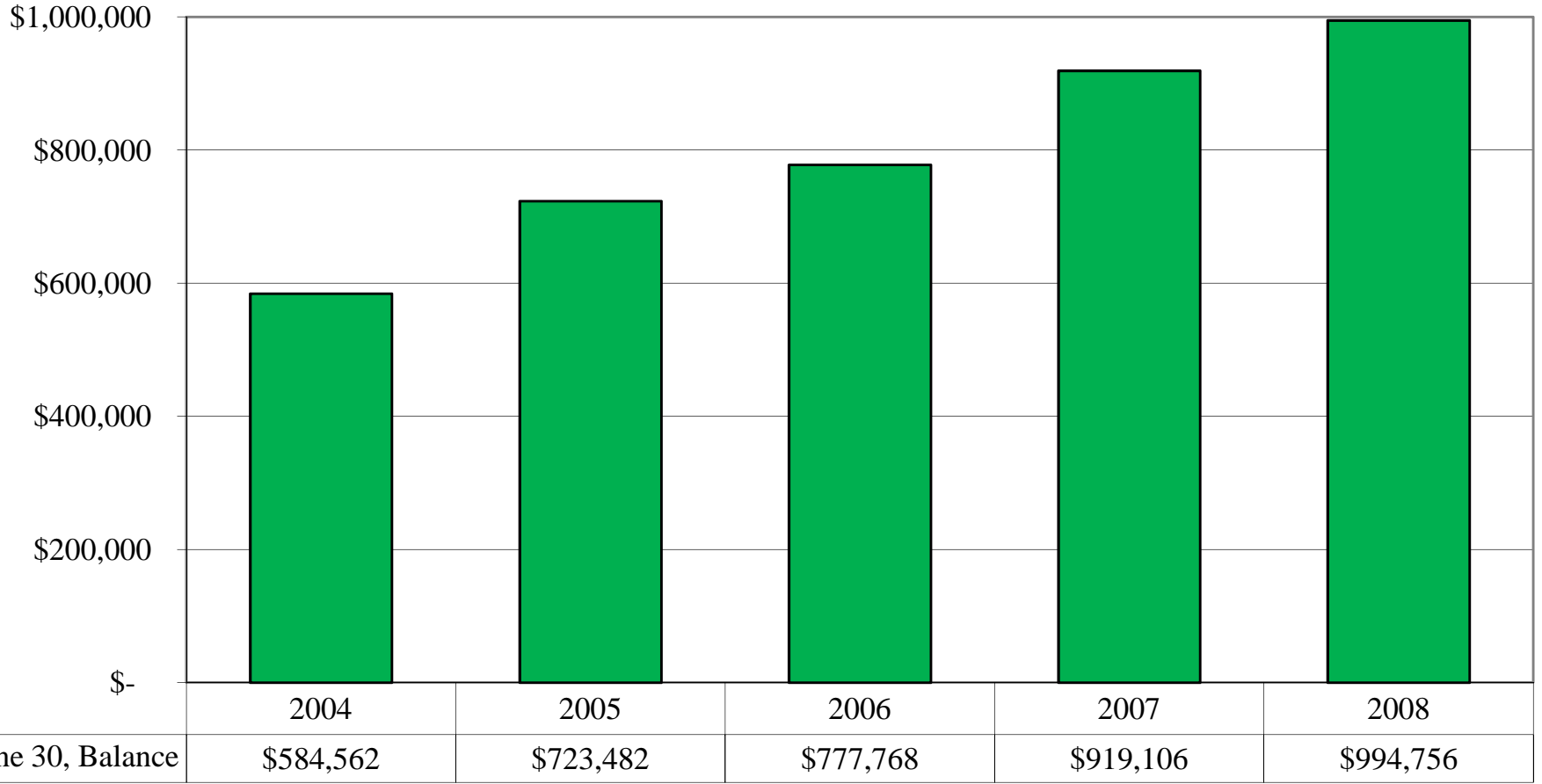
STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedules 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 schedules of revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

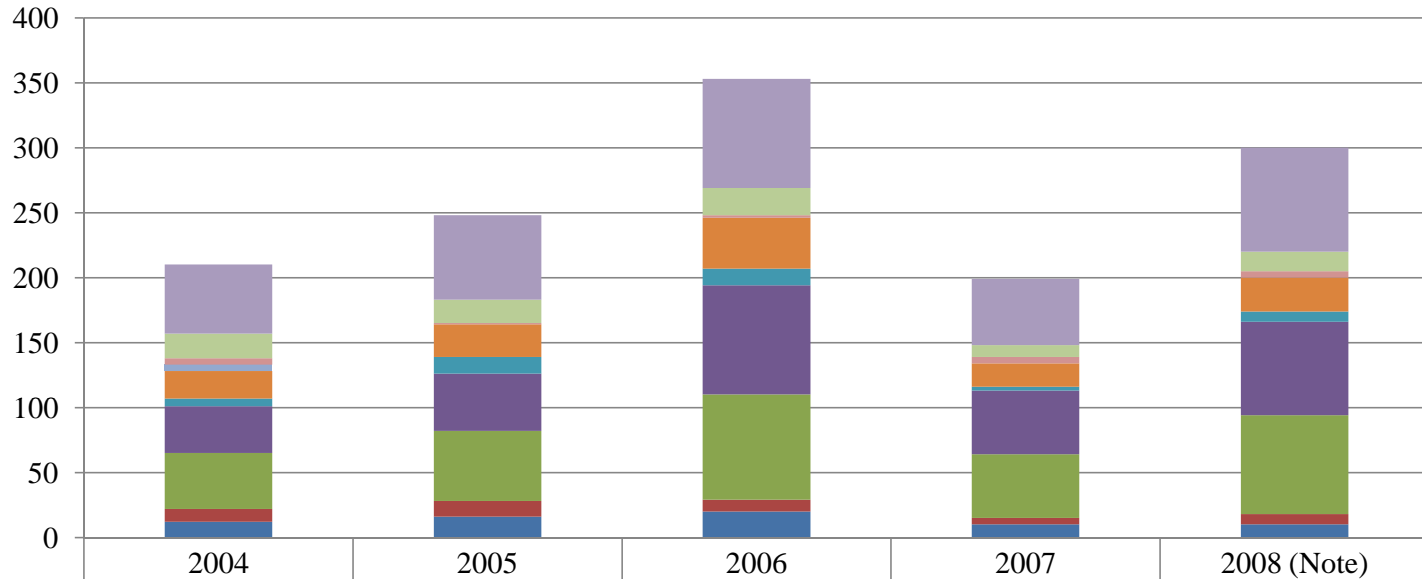
NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF DISBURSEMENTS
For the Fiscal Years Ended June 30, 2004 through 2008



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF JUNE 30, FUND BALANCE
For the Fiscal Years Ended June 30, 2004 through 2008



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF NUMBER OF AUDITS
For the Fiscal Years Ended June 30, 2004 through 2008



	2004	2005	2006	2007	2008 (Note)
Sp Fuels/Diesel	53	65	84	51	80
Retailers	19	18	21	9	15
Gas Tax Credit	5	1	2	5	5
Terminals	5	0	0	0	0
Compressed Fuels	21	25	39	18	26
Aircraft Fuels	6	13	13	3	8
PRF *	36	44	84	49	72
Motor Vehicle Fuels	43	54	81	49	76
Liquid Fuel Carriers	10	12	9	5	8
Consumers Use	12	16	20	10	10

Note: These numbers are preliminary
* PRF - Petroleum Release Remediation Fund