

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

JULY 1, 2008 THROUGH JUNE 30, 2009

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Issued on September 3, 2009

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

BACKGROUND

Every person distributing or selling cigarettes at wholesale in the State of Nebraska is required to pay a special privilege tax to the Nebraska Department of Revenue (Department). This is accomplished by requiring all packages of cigarettes sold within the State to be stamped.

The tax on each package of cigarettes containing not more than twenty cigarettes is sixty-four cents. For each package containing more than twenty cigarettes an additional tax is assessed of one-twentieth of the tax on the first twenty cigarettes on each cigarette in excess of twenty cigarettes in each package. Cigarette wholesale dealers purchase cigarette tax stamps from the Department and affix them to the packages.

The Department deposits the tax with the State Treasurer, who distributes the proceeds as required by State Statute. The tax was distributed to the following funds during the fiscal year ended June 30, 2009.

State of Nebraska General Fund
Nebraska Outdoor Recreation Development Cash Fund
Health and Human Services Cash Fund
Building Renewal Allocation Fund
Municipal Infrastructure Redevelopment Fund
City of the Primary Class Development Fund
City of the Metropolitan Class Development Fund
Nebraska Public Safety Communication System Cash Fund

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

EXIT CONFERENCE

An exit conference was held August 21, 2009, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

NAME	TITLE
Len Sloup	Director – Operations and Administrative Services
Chris Ayotte	Supervisor II
Ron Gottula	Accounting and Finance Manager
Myle Nguyen	Accountant III

Draft copies of this report were furnished to the Department 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@nebraska.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 CIGARETTE TAX RECEIPTS

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Department of Revenue
Lincoln, Nebraska

We have examined the accompanying schedule of cigarette tax receipts of the Nebraska Department of Revenue (Department) for the fiscal year ended June 30, 2009. The Department's management is responsible for the schedule of cigarette tax receipts. 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 schedule of cigarette tax receipts 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 schedule referred to above presents, in all material respects, the cigarette tax receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2009, 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 September 1, 2009, on our consideration of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 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

September 1, 2009

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
SCHEDULE OF CIGARETTE TAX RECEIPTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

July 2008	\$ 6,869,530
August 2008	5,348,387
September 2008	6,167,058
October 2008	5,997,244
November 2008	4,424,376
December 2008	6,658,764
January 2009	4,463,809
February 2009	4,906,403
March 2009	5,835,805
April 2009	4,166,890
May 2009	5,547,454
June 2009	<u>5,862,879</u>
Net Cigarette Tax Receipts (Note 3)	<u><u>\$ 66,248,599</u></u>

The accompanying notes are an integral part of the Schedule.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2009

1. Criteria

The accounting policies of the Nebraska Department of Revenue (Department) 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) (Reissue 2008), 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 2008), 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 receipts was obtained directly from the general ledger information kept on NIS. As transactions occur, the agencies record the accounts receivables in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows.

The Department had no accounts receivable related to Cigarette Tax receipts at June 30, 2009.

2. Reporting Entity

The Nebraska Department of Revenue 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 only the cigarette tax receipts of the Department included in the general ledger.

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

3. Sales Discounts

Cigarette wholesale dealers were allowed a discount of one and eighty-five hundredths percent of the face value of the cigarette tax as commission for affixing and canceling cigarette stamps in accordance with Neb. Rev. Stat. § 77-2608 (Reissue 2003). The total amount of sales discounts for the fiscal year ended June 30, 2009, was \$1,248,700.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE SCHEDULE
(Continued)

4. Refunds/Credits

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

- A. Refunds are allowed when unused cigarette tax stamps are returned to the Department. These stamps will be either reissued to another wholesaler or destroyed.
- B. Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- C. Credits are allowed for cigarettes sold to the U.S. Government or its agencies, as these sales are exempt from tax.

The total amount of refunds and credits allowed on the sale of cigarette tax stamps for the fiscal year ended June 30, 2009, was \$938,293.



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Mike Foley
State Auditor

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

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
EXAMINATION OF THE SCHEDULE OF CIGARETTE TAX
RECEIPTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Nebraska Department of Revenue
Lincoln, Nebraska

We have examined the accompanying schedule of cigarette tax receipts of the Nebraska Department of Revenue for the year ended June 30, 2009, and have issued our report thereon dated September 1, 2009. 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 - Cigarette Tax Receipt's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of cigarette tax receipts, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Revenue - Cigarette Tax Receipt'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 - Cigarette Tax Receipt'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 - Cigarette Tax Receipt's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Department of Revenue - Cigarette Tax Receipt'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 schedule will not be prevented or detected by the Nebraska Department of Revenue - Cigarette Tax Receipt'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 - Cigarette Tax Receipt's financial schedule is 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 audit, 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 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

September 1, 2009

Pat Reding, CPA, CFE
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

STATISTICAL SECTION

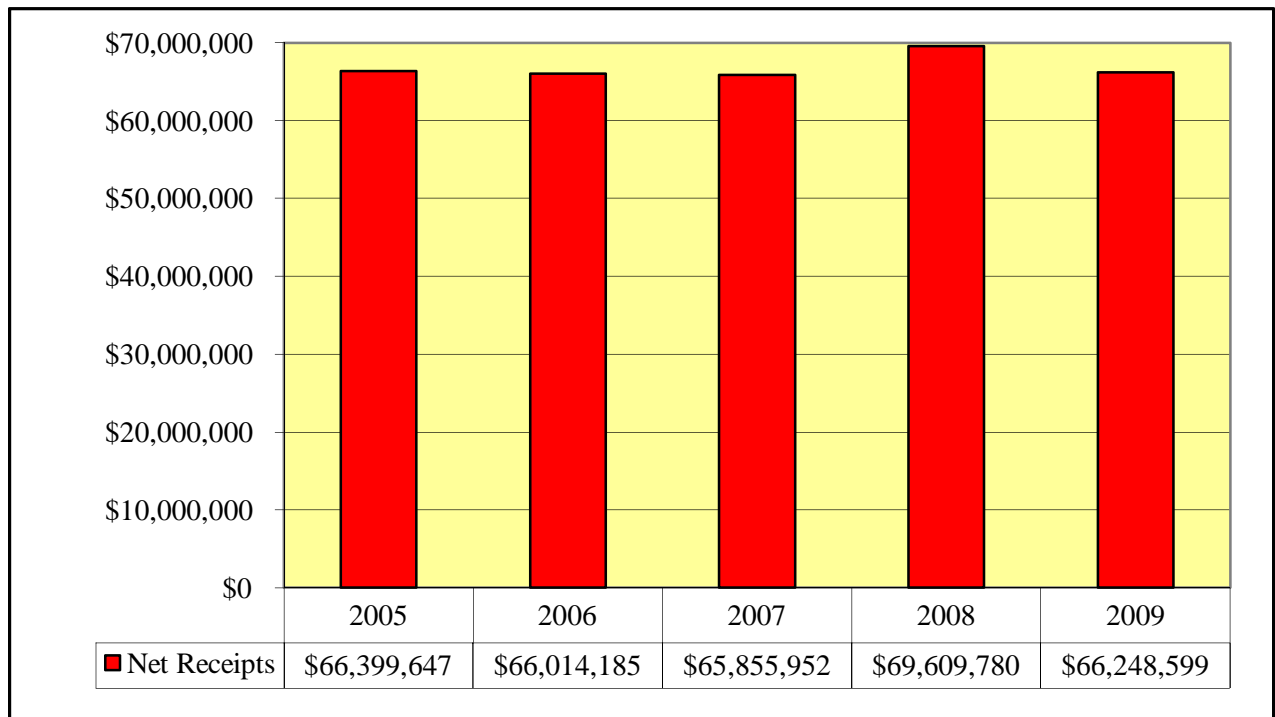
Our examination was conducted for the purpose of forming an opinion on the schedule of cigarette tax receipts. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of cigarette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

NEBRASKA DEPARTMENT OF REVENUE
 CIGARETTE TAX RECEIPTS
NET RECEIPTS
 FOR THE FISCAL YEARS ENDED JUNE 30, 2005 THROUGH 2009

	Fiscal Year				
	2005	2006	2007	2008	2009
Gross Revenue	\$ 67,547,962	\$ 67,258,467	\$ 67,097,251	\$ 70,921,834	\$ 67,497,299
Less: Wholesaler's Discount (Allowance)	\$ 1,148,315	\$ 1,244,282	\$ 1,241,299	\$ 1,312,054	\$ 1,248,700
Net Receipts	\$ 66,399,647	\$ 66,014,185	\$ 65,855,952	\$ 69,609,780	\$ 66,248,599

As Per Neb. Rev. Stat. § 77-2602 (Cum. Supp. 2008).

Tax Rate Per Pack	\$	0.64	\$	0.64	\$	0.64	\$	0.64	\$	0.64
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NEBRASKA DEPARTMENT OF REVENUE
 CIGARETTE TAX RECEIPTS
CIGARETTE TAX RATES FOR ALL STATES
 As of July 1, 2009

STATE	Tax Rate (¢ per pack)	RANK	STATE	TAX RATE (¢ per pack)	RANK
Alabama	42.5	45	Nebraska	64	38
Alaska	200	7	Nevada	80	34
Arizona	200	7	New Hampshire	133	23
Arkansas	115	26	New Jersey	257.5	4
California	87	32	New Mexico	91	31
Colorado	84	33	New York	275	2
Connecticut	200	7	North Carolina	35	48
Delaware	115	26	North Dakota	44	44
Florida	133.9	22	Ohio	125	24
Georgia	37	46	Oklahoma	103	28
Hawaii	260	3	Oregon	118	25
Idaho	57	42	Pennsylvania	135	21
Illinois	98	30	Rhode Island	346	1
Indiana	99.5	29	South Carolina	7	51
Iowa	136	20	South Dakota	153	17
Kansas	79	35	Tennessee	62	39
Kentucky	60	40	Texas	141	19
Louisiana	36	47	Utah	69.5	36
Maine	200	7	Vermont	199	14
Maryland	200	7	Virginia	30	49
Massachusetts	251	5	Washington	202.5	6
Michigan	200	7	West Virginia	55	43
Minnesota	150.4	18	Wisconsin	177	15
Mississippi	68	37	Wyoming	60	40
Missouri	17	50	Dist. of Columbia	200	7
Montana	170	16			

Source: Compiled by National Conference of State Legislatures from various sources.