

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

**JULY 1, 2009 THROUGH JUNE 30, 2010**

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**Issued on August 26, 2010**

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 Nebraska 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, 2010.

- State of Nebraska General Fund
- Nebraska Outdoor Recreation Development Cash Fund
- Health and Human Services Cash Fund
- Building Renewal Allocation 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  
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**EXIT CONFERENCE**

An exit conference was held August 13, 2010, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

<u>NAME</u>	<u>TITLE</u>
Doug Ewald (via Teleconference)	Tax Commissioner
Len Sloup	Director – Operations and Administrative Services
Ron Gottula	Accounting and Finance Manager
Myle Nguyen	Accountant III
Karen Rowley	Audit Manager
Marcia Leichner	Audit Manager

NEBRASKA DEPARTMENT OF REVENUE  
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**COMMENT AND RECOMMENDATION**

During our examination of the Nebraska Department of Revenue - Cigarette Tax Receipts, we noted a certain matter involving the internal control over financial reporting and other operational matters that are presented here.

**Coding Error**

Good internal control would include procedures which ensure cigarette tax receipt deposits are posted to the correct account number.

Cigarette tax receipts of \$301,662 were deposited to the lodging tax receipts account in error. When the validated cigarette tax receipt amount was uploaded to the EnterpriseOne deposit document the cigarette tax receipt amount was incorrectly coded to the lodging tax receipt account. This resulted in the upload being incorrect and the cigarette tax receipt amount was posted to the lodging tax receipt account 452300. A journal entry transaction posted on July 15, 2010, corrected the miscoding.

The amount deposited to the cigarette tax receipt account 454200 was \$301,662 less than it should have been.

We recommend procedures be developed which ensure cigarette tax receipts are deposited to the correct account.

*Department's Response: The Department of Revenue has modified our procedures so that the tax category summary sheet will no longer be used for reconciliation purposes. Instead, the amounts from the deposit document created in EnterpriseOne will be reconciled with NOV controls.*

It should be noted this report is critical in nature as it contains only our comment and recommendation on the area 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 comment and recommendation included in this report. The formal response has been incorporated into this report. The response has been objectively evaluated and recognized, as appropriate, in the report. A response that indicates corrective action has been taken was 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 AUDITOR OF PUBLIC ACCOUNTS

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### 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, 2010. 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, 2010, 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 23, 2010, on our consideration of the Nebraska Department of Revenue's internal control over financial reporting (internal control) 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 and compliance and the results of that testing, and not to provide an opinion on the internal control 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, the Nebraska Legislature, 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 23, 2010

Timothy J. Channer, CPA  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**SCHEDULE OF CIGARETTE TAX RECEIPTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

July 2009	\$ 6,228,312
August 2009	5,716,263
September 2009	4,862,839
October 2009	5,676,927
November 2009	3,938,627
December 2009	6,081,930
January 2010	3,901,905
February 2010	4,725,925
March 2010	4,630,245
April 2010	5,075,866
May 2010	4,645,358
June 2010	<u>6,366,016</u>
 Net Cigarette Tax Receipts (Note 3)	 <u><u>\$ 61,850,213</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, 2010

**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 EnterpriseOne to maintain the general ledger and all detailed 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 cigarette tax receipts was obtained directly from the general ledger information maintained on EnterpriseOne. As transactions occur, the agencies record the accounts receivable 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, 2010.

**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 2009). The total amount of sales discounts for the fiscal year ended June 30, 2010, was \$1,165,796.

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, 2010, was \$839,678.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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, 2010, and have issued our report thereon dated August 23, 2010. 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's internal control over financial reporting (internal control) 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Revenue's internal control over financial reporting.

A deficiency in internal control 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 material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial schedule will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any

deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a significant deficiency that is described in the Comments Section of the report: Coding Error. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue'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 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*.

The Nebraska Department of Revenue's written response to the finding identified in our examination is described in the Comments Section of the report. We did not examine the Nebraska Department of Revenue's response and accordingly, we express no opinion on it. Where no response is indicated, the Department declined to respond.

This report is intended solely for the information and use of management, the State Tax Commissioner, others within the Department, the Nebraska Legislature, 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 23, 2010

Timothy J. Channer, CPA  
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**STATISTICAL SECTION**

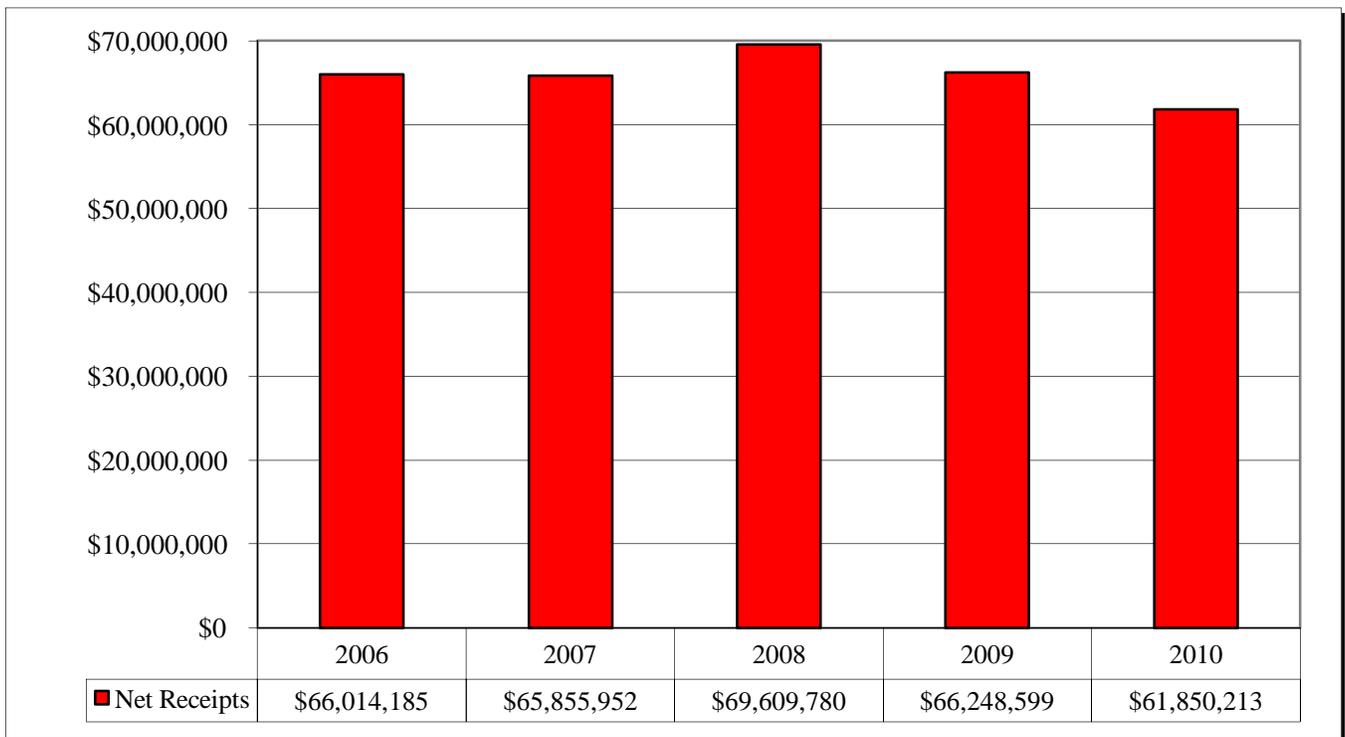
Our examination was conducted for the purpose of forming an opinion on the schedule of cigarette tax receipts. Statistical Section information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the schedule of cigarette 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, 2006 through 2010

	Fiscal Year				
	2006	2007	2008	2009	2010
Gross Revenue	\$ 67,258,467	\$ 67,097,251	\$ 70,921,834	\$ 67,497,299	\$ 63,016,009
Less: Wholesaler's Discount (Allowance)	\$ 1,244,282	\$ 1,241,299	\$ 1,312,054	\$ 1,248,700	\$ 1,165,796
<b>Net Receipts</b>	<b>\$ 66,014,185</b>	<b>\$ 65,855,952</b>	<b>\$ 69,609,780</b>	<b>\$ 66,248,599</b>	<b>\$ 61,850,213</b>

As Per Neb. Rev. Stat. § 77-2602(1) (Reissue 2009).

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, 2010

STATE	TAX RATE (¢ per pack)	RANK	STATE	TAX RATE (¢ per pack)	RANK
Alabama	42.5	47	Nebraska	64	38
Alaska	200	11	Nevada	80	35
Arizona	200	11	New Hampshire	178	16
Arkansas	115	29	New Jersey	270	6
California	87	33	New Mexico	166	19
Colorado	84	34	New York	435	1
Connecticut	300	4	North Carolina	45	45
Delaware	160	20	North Dakota	44	46
Florida	133.9	26	Ohio	125	27
Georgia	37	48	Oklahoma	103	30
Hawaii	300	4	Oregon	118	28
Idaho	57	42	Pennsylvania	160	20
Illinois	98	32	Rhode Island	346	2
Indiana	99.5	31	South Carolina	57	42
Iowa	136	25	South Dakota	153	23
Kansas	79	36	Tennessee	62	39
Kentucky	60	40	Texas	141	24
Louisiana	36	49	Utah	170	17
Maine	200	11	Vermont	224	10
Maryland	200	11	Virginia	30	50
Massachusetts	251	8	Washington	302.5	3
Michigan	200	11	West Virginia	55	44
Minnesota	156	22	Wisconsin	252	7
Mississippi	68	37	Wyoming	60	40
Missouri	17	51	Dist. of Columbia	250	9
Montana	170	17			

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