

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

JULY 1, 1998 THROUGH JUNE 30, 2000

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

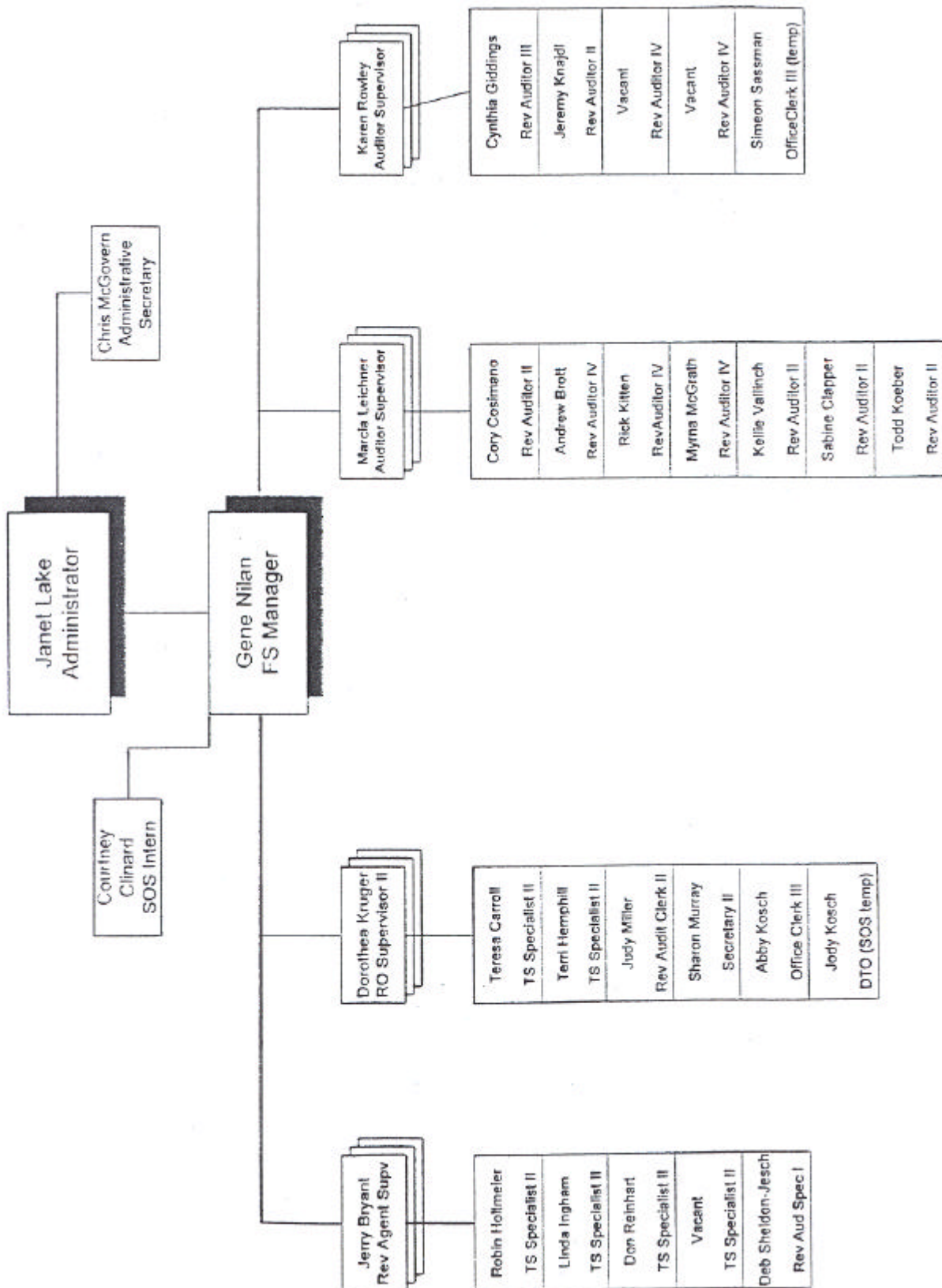
The Motor Fuel Tax Enforcement and Collection Division (Division) was created within the Department of Revenue in 1991. The Division's objectives are 1) to administer all motor fuel tax programs, ensuring compliance with State Laws; 2) to provide assistance to taxpayers regarding motor fuel tax programs; and 3) to ensure compliance with laws through an increased emphasis on collections, audits, and investigations. The Division is funded by a separate appropriation program within the Department. The Tax Commissioner is ultimately responsible for the operation of this Division. A Motor Fuels Task Force, with representatives from the Department of Revenue, Department of Roads, Nebraska State Patrol, Department of Agriculture, State Fire Marshall, and Attorney General began work on a project in 1988 to examine the system of assessment, collection, and enforcement of the motor fuels tax, including the use and effectiveness of available regulator, civil, and criminal sanctions. The Task Force continued in an advisory capacity until 1996. Since 1994, sufficient data is reported by the motor fuels industry to allow the Department to track the fuel from the time it comes into Nebraska until final consumption, either taxable or nontaxable. The Motor Fuels Division had 30 employees at June 30, 1999. They employed 26 employees as of June 30, 2000.

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



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

SUMMARY OF COMMENTS

During our audit of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division), we noted certain matters involving the internal control over financial reporting and other operational matters that are presented here. Comments and recommendations are intended to improve the internal control over financial reporting, ensure compliance, or result in operational efficiencies.

1. **Cash Fund Balance:** The Motor Fuel Tax Enforcement and Collection Cash Fund (Fund 2170) balance has increased by \$887,960 from July 1, 1998 to June 30, 1999 and increased another \$989,996 from July 1, 1999 to June 30, 2000. Thus, the year-end fund balance increased from approximately \$1.3 million to approximately \$2.2 million and \$3.2 million respectively. The \$3.2 million fund balance represents the operating disbursements for approximately two years.
2. **Direct Costs:** The Division was not in compliance with Neb. Rev. Stat. Section 66-1521(4). Rather than withholding certain fees, the Division deposited them into another fund, and then submitted a request for reimbursements.

It should be noted that this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement and does not include our observations on any strong features of the Division.

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. 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 audit.

We appreciate the cooperation and courtesy extended to our auditors during the course of the audit.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

COMMENTS AND RECOMMENDATIONS

1. Cash Fund Balance

The Nebraska Legislature makes appropriations to the Motor Fuel Tax Enforcement and Collection Cash Fund (Fund 2170) from the Highway Trust Fund (Fund 6124). These appropriations are then transferred to the Motor Fuel Tax Enforcement and Collection Cash Fund by the State Treasurer, without taking into consideration balances on hand at the end of the fiscal year. Because of unexpended appropriations and interest earnings, more cash has been available than the Division has been authorized to spend, which has caused the fund balance to increase.

The Motor Fuel Tax Enforcement and Collection Cash Fund (Fund 2170) had a cash balance of \$1,329,205 at June 30, 1998, \$2,217,165 at June 30, 1999, and \$3,207,161 at June 30, 2000, an increase of \$887,960 and \$989,996 respectively. The \$3,207,161 fund balance at June 30, 2000 represents operating disbursements for approximately two years.

We recommend the agency submit a cover letter with the upcoming Biennial Budget to make the Legislature aware of the fund balance.

DEPARTMENT'S RESPONSE: WE AGREE WITH YOUR RECOMMENDATION THAT A COVER LETTER BE SUBMITTED WITH THE UPCOMING BIENNIAL BUDGET TO MAKE THE LEGISLATURE AWARE OF THE FUND BALANCE.

2. Direct Costs

Neb. Rev. Stat. Section 66-1521(4) R.S. Supp., 1998 states, "the division shall deduct and withhold from the petroleum release remedial action fee collected pursuant to this section an amount sufficient to reimburse the direct costs of collecting and administering the petroleum release remedial action fee."

During our audit, we noted the Division collected the petroleum release remedial action fee and deposited it into a Department of Environmental Quality fund. The Division later submitted a request to the Department of Environmental Quality for reimbursement of their direct costs.

We recommend the Division seek legislative changes to allow for their current practice, or that the Division begin withholding their direct costs from the petroleum release remedial action fees collected as required by Statute.

DEPARTMENT'S RESPONSE: THE DEPARTMENT OF REVENUE CONTENDS THAT IT FOLLOWED THE INTENT OF THE STATUTE WHILE PROVIDING THE DEPARTMENT OF ENVIRONMENTAL QUALITY WITH THE CONTROL THAT IT NEEDED OVER ITS OWN FUND. NOTWITHSTANDING, THE DEPARTMENT OF REVENUE WILL COMPLY WITH THE STATUTE AND WITHHOLD FUNDS DIRECTLY FROM THE PETROLEUM RELEASE REMEDIAL ACTION FEES COLLECTED. THE DEPARTMENT OF REVENUE WILL USE AN ALTERNATIVE MEANS TO ADVISE DEQ ON OUR ADMINISTRATIVE COSTS ASSOCIATED WITH PETROLEUM RELEASE REMEDIAL ACTION FEES. AS A RESULT, ANY REQUEST FOR LEGISLATIVE CHANGE WILL NEED TO BE INITIATED BY THE DEPARTMENT OF ENVIRONMENTAL QUALITY.

STATE OF NEBRASKA
Auditor of Public Accounts



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NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division as of and for the fiscal years ended June 30, 2000 and June 30, 1999, as listed in the Table of Contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also as discussed in Note 1, the financial statements present only the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division, and are not intended to present fairly the fund balances and the receipts and disbursements of the State of Nebraska in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division as of June 30, 2000 and June 30, 1999, and the receipts and disbursements for the fiscal years then ended, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2000, 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. The report on compliance and on internal control over financial reporting is an integral part of a Government Auditing Standards audit and should be considered in conjunction with the report on the financial statements.

The accompanying combining statements and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Manager

August 3, 2000

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
COMBINED STATEMENT OF ASSETS AND FUND BALANCES
AND OTHER CREDITS ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES AND GENERAL FIXED ASSETS ACCOUNT GROUP

June 30, 2000

	Governmental <u>Fund Type</u>	<u>Account Group</u>	Totals
	Special Revenue	General Fixed Assets	(Memorandum Only)
<u>Assets</u>			
Cash in State Treasury	\$ 3,229,760	\$ -	\$ 3,229,760
Property, Plant, and Equipment	<u>-</u>	<u>234,621</u>	<u>234,621</u>
Total Assets	<u><u>\$ 3,229,760</u></u>	<u><u>\$ 234,621</u></u>	<u><u>\$ 3,464,381</u></u>
<u>Fund Balances and Other Credits</u>			
Other Credits,			
Investment in Fixed Assets	\$ -	\$ 234,621	\$ 234,621
Fund Balances,			
Unreserved, Undesignated	<u>3,229,760</u>	<u>-</u>	<u>3,229,760</u>
Total Fund Balances and Other Credits	<u><u>\$ 3,229,760</u></u>	<u><u>\$ 234,621</u></u>	<u><u>\$ 3,464,381</u></u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
COMBINED STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL FUND TYPES
June 30, 1999

	Governmental Fund Type
	<u>Special Revenue</u>
<u>Assets</u>	
Cash in State Treasury	<u>\$ 2,242,124</u>
Total Assets	<u><u>\$ 2,242,124</u></u>
<u>Fund Balance</u>	
Fund Balance, Unreserved, Undesignated	<u>\$ 2,242,124</u>
Total Fund Balance	<u><u>\$ 2,242,124</u></u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 2000

	Governmental <u>Fund Type</u> Special <u>Revenue</u>
RECEIPTS:	
Intergovernmental	\$ 84,648
Sales and Charges	360
Miscellaneous	<u>154,406</u>
TOTAL RECEIPTS	<u>239,414</u>
DISBURSEMENTS:	
Personal Services	1,308,418
Operating	177,470
Travel	56,538
Capital Outlay	<u>58,312</u>
TOTAL DISBURSEMENTS	<u>1,600,738</u>
Excess of Receipts Over (Under) Disbursements	<u>(1,361,324)</u>
OTHER FINANCING SOURCES (USES):	
Operating Transfers In	2,349,320
Operating Transfers Out	<u>(360)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,348,960</u>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	987,636
FUND BALANCE, JULY 1, 1999	<u>2,242,124</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ 3,229,760</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
For the Fiscal Year Ended June 30, 1999

	Governmental Fund Type <u>Special Revenue</u>
RECEIPTS:	
Intergovernmental	\$ 214,334
Miscellaneous	<u>103,382</u>
TOTAL RECEIPTS	<u>317,716</u>
DISBURSEMENTS:	
Personal Services	1,389,357
Operating	168,712
Travel	57,040
Capital Outlay	<u>71,226</u>
TOTAL DISBURSEMENTS	<u>1,686,335</u>
Excess of Receipts Over (Under) Disbursements	<u>(1,368,619)</u>
OTHER FINANCING SOURCES:	
Sale of Assets	471
Operating Transfers In	<u>2,251,097</u>
TOTAL OTHER FINANCING SOURCES	<u>2,251,568</u>
Excess of Receipts and Other Financing Sources Over Disbursements	882,949
FUND BALANCE, JULY 1, 1998	<u>1,359,175</u>
FUND BALANCE, JUNE 30, 1999	<u>\$ 2,242,124</u>

See Notes to Financial Statements.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2000

	<u>CASH FUND</u>		
		ACTUAL	VARIANCE
		(BUDGETARY	FAVORABLE
	BUDGET	BASIS)	(UNFAVORABLE)
RECEIPTS:			
Intergovernmental		\$ 84,648	
Sales and Charges		360	
Miscellaneous		<u>153,036</u>	
TOTAL RECEIPTS		<u>238,044</u>	
DISBURSEMENTS:			
Personal Services		1,308,418	
Operating		176,461	
Travel		53,817	
Capital Outlay		<u>58,312</u>	
Total Budgeted	\$ 2,286,393	1,597,008	\$ 689,385
Under Budgeted (Note 1.D.)	<u>103,064</u>	-	<u>103,064</u>
TOTAL DISBURSEMENTS	2,389,457	1,597,008	792,449
		<u>(1,358,964)</u>	
OTHER FINANCING SOURCES (USES):			
Operating Transfers In		2,349,320	
Operating Transfers Out		<u>(360)</u>	
TOTAL OTHER FINANCING SOURCES		<u>2,348,960</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		989,996	
FUND BALANCES, JULY 1, 1999		<u>2,217,165</u>	
FUND BALANCES, JUNE 30, 2000		<u>\$ 3,207,161</u>	

See Notes to Financial Statements.

FEDERAL FUND				TOTALS			
		ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)			ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
BUDGET				BUDGET			
		\$ -				\$ 84,648	
		-				360	
		<u>1,370</u>				<u>154,406</u>	
		<u>1,370</u>				<u>239,414</u>	
		-		\$ 1,698,037	1,308,418	\$ 389,619	
		1,009		378,573	177,470	201,103	
		2,721		94,283	56,538	37,745	
		-		<u>140,500</u>	<u>58,312</u>	<u>82,188</u>	
\$	25,000	3,730	\$ 21,270	2,311,393	1,600,738	710,655	
	-	-	-	<u>103,064</u>	-	<u>103,064</u>	
	25,000	3,730	21,270	2,414,457	1,600,738	813,719	
		<u>(2,360)</u>			<u>(1,361,324)</u>		
		-			2,349,320		
		-			<u>(360)</u>		
		-			<u>2,348,960</u>		
		(2,360)			987,636		
		<u>24,959</u>			<u>2,242,124</u>		
		<u>\$ 22,599</u>			<u>\$ 3,229,760</u>		

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 1999

	CASH FUND		
	BUDGET	ACTUAL (BUDGETARY BASIS)	VARIANCE FAVORABLE (UNFAVORABLE)
RECEIPTS:			
Intergovernmental		\$ 214,334	
Miscellaneous		<u>101,790</u>	
TOTAL RECEIPTS		<u>316,124</u>	
DISBURSEMENTS:			
Personal Services		1,389,357	
Operating		167,624	
Travel		51,525	
Capital Outlay		<u>71,226</u>	
Total Budgeted	\$ 2,253,097	1,679,732	\$ 573,365
Under Budgeted (Note 1.D.)	<u>459,041</u>	-	<u>459,041</u>
TOTAL DISBURSEMENTS	2,712,138	1,679,732	1,032,406
		<u>(1,363,608)</u>	
OTHER FINANCING SOURCES (USES):			
Sale of Assets		471	
Operating Transfers In		<u>2,251,097</u>	
TOTAL OTHER FINANCING SOURCES		<u>2,251,568</u>	
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses		887,960	
FUND BALANCES, JULY 1, 1998		<u>1,329,205</u>	
FUND BALANCES, JUNE 30, 1999		<u>\$ 2,217,165</u>	

See Notes to Financial Statements.

FEDERAL FUND			TOTALS		
	ACTUAL	VARIANCE		ACTUAL	VARIANCE
	(BUDGETARY	FAVORABLE		(BUDGETARY	FAVORABLE
BUDGET	BASIS)	(UNFAVORABLE)	BUDGET	BASIS)	(UNFAVORABLE)
	\$ -			\$ 214,334	
	<u>1,592</u>			<u>103,382</u>	
	<u>1,592</u>			<u>317,716</u>	
	-		\$ 1,722,855	1,389,357	\$ 333,498
	1,088		338,992	168,712	170,280
	5,515		75,750	57,040	18,710
	<u>-</u>		<u>140,500</u>	<u>71,226</u>	<u>69,274</u>
\$ 25,000	6,603	\$ 18,397	2,278,097	1,686,335	591,762
<u>16,972</u>	<u>-</u>	<u>16,972</u>	<u>476,013</u>	<u>-</u>	<u>476,013</u>
41,972	6,603	35,369	2,754,110	1,686,335	1,067,775
	<u>(5,011)</u>			<u>(1,368,619)</u>	
	-			471	
	<u>-</u>			<u>2,251,097</u>	
	<u>-</u>			<u>2,251,568</u>	
	(5,011)			882,949	
	<u>29,970</u>			<u>1,359,175</u>	
<u>\$ 24,959</u>			<u>\$ 2,242,124</u>		

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS

For the Fiscal Years Ended June 30, 2000 and June 30, 1999

1. Summary of Significant Accounting Policies

The accounting policies of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division are on the basis of accounting as described in the Nebraska Accounting System Manual.

- A. Reporting Entity.** The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) is a Division 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 financial statements include 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's reporting entity.

- B. Basis of Accounting.** The accounting records of the Division are maintained and the Division's financial statements were prepared on the basis of cash receipts and disbursements. Under this method, revenues are recognized when received and expenditures are recognized when paid. This presentation differs from governmental generally accepted accounting principles (GAAP) which requires the use of the modified accrual basis for governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when they are considered susceptible to accrual and expenditures are recognized when the liability is incurred.

- C. Fund Accounting.** The accounts and records of the Division are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a self-balancing set of accounts which record receipts, disbursements, and the fund balance. The fund types and account group presented on the financial statements are those required by GAAP and include:

Special Revenue Funds. Reflect transactions related to resources received and used for restricted or specific purposes.

This fund type classification differs from the budgetary fund types used by the Nebraska Accounting System.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

The fund types established by the Nebraska Accounting System that are used by the Program are:

2000 - Cash Funds - account for receipts generated by specific activities from sources outside of State government and the disbursements directly related to the generation of the receipts.

4000 - Federal Funds - account for all federal grants and contracts received by the State.

- D. Budgetary Process.** The State's biennial budget cycle ends on June 30 of the odd-numbered years. By September 15, prior to a biennium, the Division and all other State agencies must submit their budget request for the biennium beginning the following July 1. The requests are submitted on forms that show estimated funding requirements by programs, sub-programs, and activities. The Executive Branch reviews the requests, establishes priorities, and balances the budget within the estimated resources available during the upcoming biennium. The Governor's budget bill is submitted to the Legislature in January. The Legislature considers revisions to the bill and submits the revised appropriation bill to the Governor for signature. The Governor can either: a) approve the appropriation bill in its entirety, b) veto the bill, or c) line item veto certain sections of the bill. Any vetoed bill or line item can be overridden by a three-fifths majority of the Legislature.

The appropriations that are approved will generally set spending limits for a particular program within the agency. Within the agency/program, the Legislature may provide funding from one to five budgetary fund types. Thus, the legal level of control is fund type within program within agency. The central accounting system maintains this control. A separate publication titled "Annual Budgetary Report" shows the detail of this legal level of control. This publication is available from the Department of Administrative Services Accounting Division.

Appropriations are usually made for each year of the biennium with unexpended balances being reappropriated at the end of the first year of the biennium. For most appropriations, balances lapse at the end of the biennium.

All State budgetary disbursements for the cash and federal fund types are made pursuant to the appropriations that may be amended by the Legislature, upon approval by the Governor. State agencies may reallocate the appropriations

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

between major object of expenditure accounts except that the Legislature's approval is required to exceed the personal service limitations contained in the appropriations bill. Increases in total general, cash, construction, and revolving fund appropriations must also be approved by the Legislature as a deficit appropriations bill. Appropriations for programs funded in whole or in part from federal funds may be increased to the extent that receipts of federal funds exceed the original budget estimate.

The Division utilizes encumbrance accounting to account for purchase orders, contracts, and other disbursement commitments. However, State law does not require that all encumbrances be recorded in the State's centralized accounting system and as a result, the encumbrances that were recorded in the accounting system have not been included in the accompanying financial statements except for the impact as described below.

Under State budgetary procedures, appropriation balances related to outstanding encumbrances at the end of the biennium are lapsed and reappropriated in the first year of the next biennium. The effect of the Division's current procedure is to include in the budget columns, Total Disbursement line, of the Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual the current year's appropriations plus the amounts reappropriated for encumbrances outstanding at the end of the prior biennium. This procedure indicates the Division's intention to honor the encumbrances at the end of a biennium. The disbursements columns of the Statement include cash payments related to the appropriated and reappropriated amounts. For the years ended June 30, 2000 and June 30, 1999, there were no budgetary funds in which disbursements exceeded appropriations.

Budgets for object of expenditure accounts are included in the Department's Year to Date Summary Report and they are budgeted at the program level and not within separate budgetary fund types for the program. As a result, for financial reporting purposes, budget amounts for object of expenditure accounts are shown only for total budgeted funds. The amount underbudgeted was primarily due to the Department not including reappropriations or encumbered appropriations in the Year to Date Summary Report.

Receipts are not budgeted and therefore there are no budgeted amounts shown on the Budget and Actual Statement.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 2000, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES
		PRIMARY GOVERNMENT
		Special Revenue
Total		
PERSPECTIVE DIFFERENCES:		
Classifications of budgetary fund balances into		
Financial Statement fund structure:		
Cash	\$ 3,207,161	\$ 3,207,161
Federal	22,599	22,599
Budgetary fund balances classified into Financial		
Statement fund structure	\$ 3,229,760	
Financial Statement Fund Balances, June 30, 2000		\$ 3,229,760

A reconciliation of the budgetary fund classifications versus GAAP fund classifications as of June 30, 1999, follows:

	BUDGETARY FUND BALANCES	FINANCIAL STATEMENT FUND BALANCES
		PRIMARY GOVERNMENT
		Special Revenue
Total		
PERSPECTIVE DIFFERENCES:		
Classifications of budgetary fund balances into		
Financial Statement fund structure:		
Cash	\$ 2,217,165	\$ 2,217,165
Federal	24,959	24,959
Budgetary fund balances classified into Financial		
Statement fund structure	\$ 2,242,124	
Financial Statement Fund Balances, June 30, 1999		\$ 2,242,124

- E. Fixed Assets.** General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisitions are reflected as disbursements in governmental funds and the related assets are reported in the general fixed assets account group. When cost information is available, all purchased fixed assets are

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Continued)

valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The Statewide Inventory System has cost information for fixed assets, however, this information could not be retrieved to obtain an accurate dollar value for the Division. We were unable to determine the fixed asset balance as of June 30, 1999.

- F. Cash in State Treasury.** Cash in the State Treasury represents the cash balance of a fund as reflected on the Nebraska Accounting System. Investment of all available cash is made by the State Investment Officer on a daily basis based on total bank balances. Investment income is distributed based on the average daily book cash balance of funds designated for investment. Determination of whether or not a fund is considered designated for investment is done on an individual fund basis. All of the funds of the Division were designated for investment during the fiscal years ending June 30, 2000 and June 30, 1999.
- G. Inventories.** Disbursements for items of an inventory nature are considered expended at the time of purchase rather than at the time of consumption.
- H. Compensated Absences.** All permanent employees working for the Division earn sick and annual leave and are allowed to accumulate compensatory leave rather than being paid overtime. Temporary and intermittent employees and Board and Commission members are not eligible for paid leave. Under GAAP the vested portion of the employee's compensated absences is recorded in the Long Term Debt Account Group for governmental funds. Under the 'receipts and disbursements basis of accounting' the balances which would be reported in the Long Term Debt Account Group are not reported as they do not represent balances arising from Cash Transactions.
- I. Receipts.** The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Division are:

Intergovernmental. Receipts from the federal government and the Nebraska Department of Roads related to the Fuel Tax Compliance Project.

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

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. Summary of Significant Accounting Policies (Concluded)

Miscellaneous. Receipts from Investments.

J. Disbursements. The major account titles and descriptions as established by the Nebraska Accounting System that are used by the Division are:

Personal Services. Salaries, wages, and related employee benefits provided for all persons employed by a government.

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

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

Capital Outlay. Disbursements which result in the acquisition of or an addition to fixed assets. Fixed assets are resources of a long-term character owned or held by the government.

2. 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 since interfund balances and transactions have not been eliminated.

3. Contingencies and Commitments

Risk Management. The Division is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and health care insurance. The Division, as part of the primary government for the State, participates in the State's risk management program. The Nebraska Department of Administrative Services (DAS) Division of Risk Management is responsible for maintaining the insurance and self-insurance programs for the State. The State generally self-insures for general liability and workers compensation. The State has chosen to purchase insurance for:

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

3. Contingencies and Commitments (Continued)

For the Fiscal Year Ending June 30, 2000

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Crime coverage with a limit of \$1 million for each loss with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis for losses up to \$250,000,000 with a self-insured retention of \$100,000 per loss occurrence. The perils of Flood and Earthquake are covered up to \$9,000,000. Newly acquired properties are only covered up to \$1,000,000 for 60 days or until the value of the property is reported to the insurance company.

For the Fiscal Year Ending June 30, 1999

1. Motor vehicle liability which is insured for the first \$5 million of exposure per accident. Insurance is also purchased for medical payments, physical damage and uninsured and underinsured motorists with various limits and deductibles.
2. Health care insurance for employees selecting certain coverage options. All health care insurance was purchased.
3. Employee dishonesty which is bonded for the first \$1 million for each loss with a \$10,000 retention per incident.
4. Real and personal property on a blanket basis including the perils of Flood and Earthquake for net loss in excess of \$100,000 per loss occurrence, with a limit of \$250,000,000 per loss occurrence. Newly acquired properties are only covered up to \$1,000,000 for 30 days or until the value of the property is reported to the insurance company.

No settlements exceeded commercial insurance coverage in any of the past three fiscal years. Health care insurance is funded in the Risk Management Internal Service Fund through a combination of employee and State contributions. Workers compensation is

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS

(Continued)

3. Contingencies and Commitments (Concluded)

also funded in the Risk Management Internal Service Fund through assessments on each agency based on total agency payroll and past experience. Tort claims, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters would be funded through the State General Fund or by individual agency assessments as directed by the Legislature, unless covered by purchased insurance. No amounts for estimated claims have been reported in the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's financial statements.

Litigation. The potential amount of liability involved in litigation pending against the Division, if any, could not be determined at this time. However, it is the Division's opinion that final settlement of those matters should not have an adverse effect on the Division's ability to administer current programs. Any judgement against the Division would have to be processed through the State Claims Board and be approved by the Legislature.

4. State Employees' Retirement Plan (Plan)

The Plan is a single-employer defined contribution plan administered by the Public Employees Retirement Board in accordance with the provisions of the State Employees Retirement Act. Plan provisions may be amended through legislative action. In the defined contribution plan, retirement benefits depend on total contributions, investment earnings, and the investment options selected. Membership in the Plan is required of all permanent full-time employees on reaching the age of thirty and completion of twenty-four months of continuous service and voluntary participation is permitted for all permanent full-time or part-time employees upon reaching age twenty and twelve months of service within a five-year period, except any individual appointed by the Governor may elect not to become a member of the Plan.

Employees contribute 4.33% of their monthly compensation until such time as they have paid during any calendar year a total of eight hundred sixty four dollars, after which time they shall pay a sum equal to 4.8% of their monthly compensation for the remainder of such calendar year. The Division matches the employee's contribution at a rate of 156% of the employee's contribution.

The employee's account is fully vested. The employer's account is vested 100% after five years participation in the plan or at retirement.

For the Fiscal Year Ended June 30, 2000, employees contributed \$42,279 and the Division contributed \$65,955.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO FINANCIAL STATEMENTS
(Continued)

4. State Employees' Retirement Plan (Plan) (Concluded)

For the Fiscal Year ended June 30, 1999, employees contributed \$46,872 and the Division contributed \$73,121.

5. Operating Transfers In

Operating Transfers In represent amounts transferred from the Highway Trust Fund (6124) to the Motor Fuels Tax Enforcement and Collection Cash Fund as required by Neb. Rev. Stat. Section 39-2215(4), R.R.S., 1998. The monies are used for the operation of the Division.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 2000

	Motor Fuel Tax Enforcement Fund 2170	Investigative Forfeiture Fund 4161	Total Special Revenue Funds
<hr/> Assets <hr/>			
Cash in State Treasury	<u>\$ 3,207,161</u>	<u>\$ 22,599</u>	<u>\$ 3,229,760</u>
Total Assets	<u><u>\$ 3,207,161</u></u>	<u><u>\$ 22,599</u></u>	<u><u>\$ 3,229,760</u></u>
 <hr/> Fund Balances <hr/>			
Fund Balances, Unreserved, Undesignated	<u>\$ 3,207,161</u>	<u>\$ 22,599</u>	<u>\$ 3,229,760</u>
Total Fund Balances	<u><u>\$ 3,207,161</u></u>	<u><u>\$ 22,599</u></u>	<u><u>\$ 3,229,760</u></u>

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
COMBINING STATEMENT OF ASSETS AND FUND BALANCES
ARISING FROM CASH TRANSACTIONS
ALL SPECIAL REVENUE FUNDS
June 30, 1999

	Motor Fuel Tax Enforcement Fund 2170	Investigative Forfeiture Fund 4161	Total Special Revenue Funds
<hr/> Assets <hr/>			
Cash in State Treasury	<u>\$ 2,217,165</u>	<u>\$ 24,959</u>	<u>\$ 2,242,124</u>
Total Assets	<u><u>\$ 2,217,165</u></u>	<u><u>\$ 24,959</u></u>	<u><u>\$ 2,242,124</u></u>
 <hr/> Fund Balances <hr/>			
Fund Balances,			
Unreserved, Undesignated	<u>\$ 2,217,165</u>	<u>\$ 24,959</u>	<u>\$ 2,242,124</u>
Total Fund Balances	<u><u>\$ 2,217,165</u></u>	<u><u>\$ 24,959</u></u>	<u><u>\$ 2,242,124</u></u>

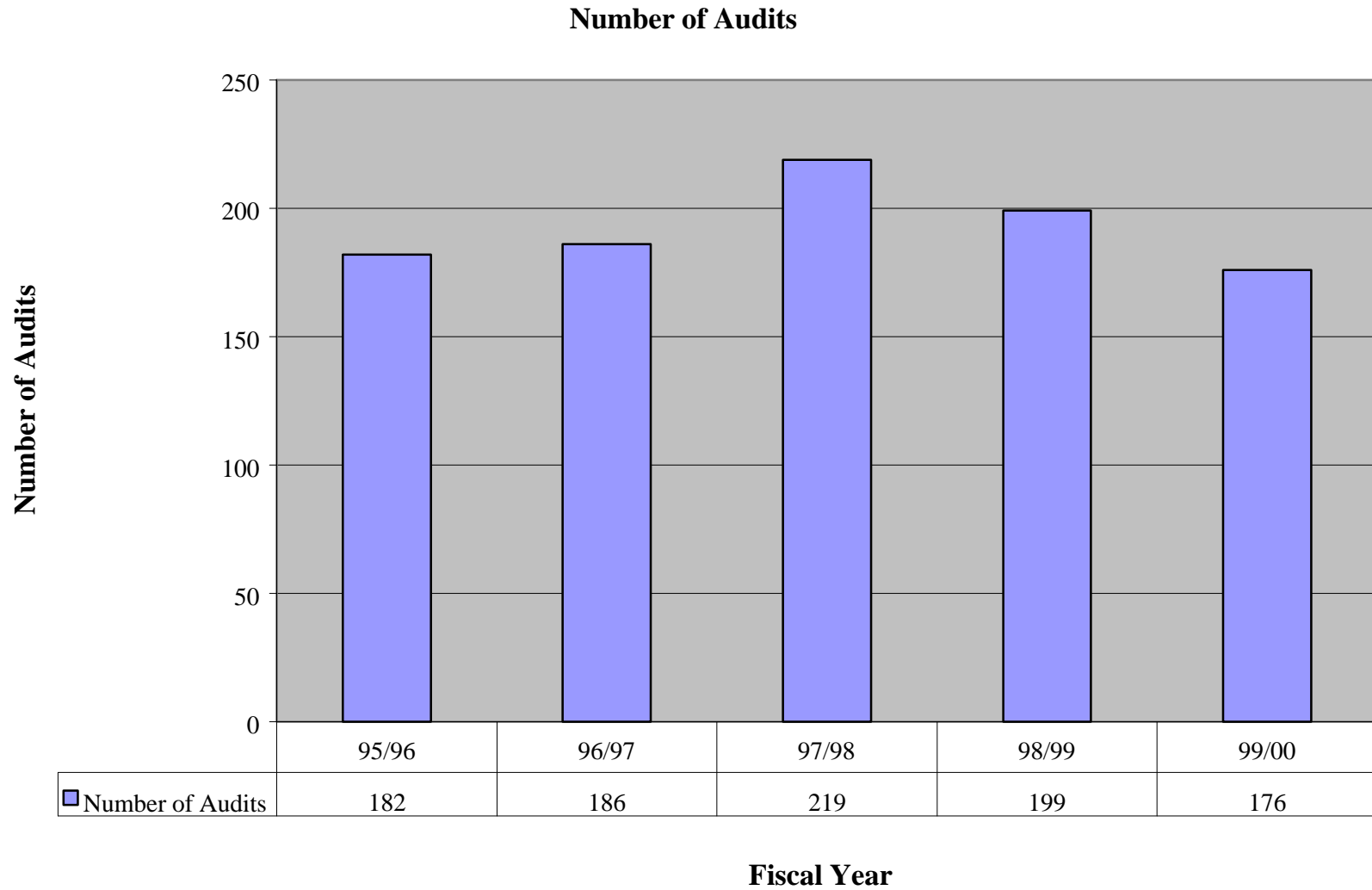
NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 2000

	Petroleum Release Remediation Action Collection Fund 2159	Motor Fuel Refund Administration Fund 2162	Motor Fuel Tax Enforcement Fund 2170	Highway Cash Fund 2271	Investigative Forfeiture Fund 4161	Total Special Revenue Funds
RECEIPTS:						
Intergovernmental	\$ -	\$ -	\$ 84,648	\$ -	\$ -	\$ 84,648
Sales and Charges	-	-	-	360	-	360
Miscellaneous	-	-	153,036	-	1,370	154,406
TOTAL RECEIPTS	<u>-</u>	<u>-</u>	<u>237,684</u>	<u>360</u>	<u>1,370</u>	<u>239,414</u>
DISBURSEMENTS:						
Personal Services	20,222	295	1,287,901	-	-	1,308,418
Operating	-	-	176,461	-	1,009	177,470
Travel	-	-	53,817	-	2,721	56,538
Capital Outlay	-	-	58,312	-	-	58,312
TOTAL DISBURSEMENTS	<u>20,222</u>	<u>295</u>	<u>1,576,491</u>	<u>-</u>	<u>3,730</u>	<u>1,600,738</u>
Excess of Receipts Over (Under) Disbursements	<u>(20,222)</u>	<u>(295)</u>	<u>(1,338,807)</u>	<u>360</u>	<u>(2,360)</u>	<u>(1,361,324)</u>
OTHER FINANCING SOURCES (USES):						
Operating Transfers In	20,222	295	2,328,803	-	-	2,349,320
Operating Transfers Out	-	-	-	(360)	-	(360)
TOTAL OTHER FINANCING SOURCES (USES)	<u>20,222</u>	<u>295</u>	<u>2,328,803</u>	<u>(360)</u>	<u>-</u>	<u>2,348,960</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	-	-	989,996	-	(2,360)	987,636
FUND BALANCE, JULY 1, 1999	<u>-</u>	<u>-</u>	<u>2,217,165</u>	<u>-</u>	<u>24,959</u>	<u>2,242,124</u>
FUND BALANCE, JUNE 30, 2000	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,207,161</u>	<u>\$ -</u>	<u>\$ 22,599</u>	<u>\$ 3,229,760</u>

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES**
SPECIAL REVENUE FUNDS
For the Fiscal Year Ended June 30, 1999

	Motor Fuel Tax Enforcement Fund 2170	Investigative Forfeiture Fund 4161	Total Special Revenue Funds
RECEIPTS:			
Intergovernmental	\$ 214,334	\$ -	\$ 214,334
Miscellaneous	101,790	1,592	103,382
TOTAL RECEIPTS	<u>316,124</u>	<u>1,592</u>	<u>317,716</u>
DISBURSEMENTS:			
Personal Services	1,389,357	-	1,389,357
Operating	167,624	1,088	168,712
Travel	51,525	5,515	57,040
Capital Outlay	71,226	-	71,226
TOTAL DISBURSEMENTS	<u>1,679,732</u>	<u>6,603</u>	<u>1,686,335</u>
Excess of Receipts Over (Under) Disbursements	<u>(1,363,608)</u>	<u>(5,011)</u>	<u>(1,368,619)</u>
OTHER FINANCING SOURCES:			
Sales of Assets	471	-	471
Operating Transfers In	2,251,097	-	2,251,097
TOTAL OTHER FINANCING SOURCES	<u>2,251,568</u>	<u>-</u>	<u>2,251,568</u>
Excess of Receipts and Other Financing Sources Over (Under) Disbursements	887,960	(5,011)	882,949
FUND BALANCE, JULY 1, 1998	<u>1,329,205</u>	<u>29,970</u>	<u>1,359,175</u>
FUND BALANCE, JUNE 30, 1999	<u>\$ 2,217,165</u>	<u>\$ 24,959</u>	<u>\$ 2,242,124</u>

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF PERFORMANCE MEASURES



STATE OF NEBRASKA
Auditor of Public Accounts



Kate Witek
State Auditor
kwitek05@nol.org

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Lincoln, NE 68509
402-471-2111, FAX 402-471-3301

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division as of and for the years ended June 30, 2000 and June 30, 1999, and have issued our report thereon dated August 3, 2000. The report notes the financial statements were prepared on the basis of cash receipts and disbursements and was modified to emphasize that the financial statements present only the funds of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial 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 financial statements are 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 statement 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 that are required to be reported under Government Auditing Standards. We 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 2 (Direct Costs).

Internal Control Over Financial Reporting

In planning and performing our audit, 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 auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the agency, the appropriate Federal and regulatory agencies and citizens of the State of Nebraska and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in dark ink, reading "Timothy J. Channer CPA". The signature is fluid and cursive, with the initials "TJ" being prominent.

Manager

August 3, 2000