

**NEBRASKA DEPARTMENT OF REVENUE
SAS 70 REPORT
COLLECTION AND DISTRIBUTION OF
CITY SALES TAXES
AS OF JUNE 30, 2003**

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Kate Witek
State Auditor
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Mary Jane Egr, State Tax Commissioner
Nebraska Department of Revenue
P.O. Box 94818
Lincoln, Nebraska 68509-4818

Dear Ms. Egr:

Deann Haeffner, CPA
Deputy State Auditor
haeffner@mail.state.ne.us

We have examined the accompanying description of controls related to the collection and distribution of City Sales Taxes application by the Nebraska Department of Revenue. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of the Nebraska Department of Revenue's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls had been placed in operation as of June 30, 2003. The control objectives were specified by the Nebraska Department of Revenue. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

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We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we express no opinion on the operating effectiveness of any aspects of the Nebraska Department of Revenue's controls, individually or in the aggregate.

Mary Avery
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Dennis Meyer, CGFM
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Coordinator
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In our opinion, the accompanying description of the aforementioned collection and distribution of City Sales Taxes application presents fairly, in all material respects, the relevant aspects of the Nebraska Department of Revenue's controls that had been placed in operation as of June 30, 2003. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

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The description of controls at the Nebraska Department of Revenue is as of June 30, 2003, and any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the

controls in existence. The potential effectiveness of specific controls at the Nebraska Department of Revenue is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management of the Nebraska Department of Revenue, Nebraska municipalities, and the independent auditors of those municipalities.

Sincerely,

A handwritten signature in black ink that reads "Timothy J. Channer CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Timothy J. Channer
Assistant Deputy Auditor

May 20, 2004

OVERVIEW

Nebraska State law allows local municipalities to levy a sales tax. State law also provides that the State Tax Commissioner is responsible for collecting the local sales tax in the same manner as the State sales tax. The Tax Commissioner is then required to remit the local sales tax collected, less refunds and administrative fees, to the appropriate local municipalities on a monthly basis.

CONTROL OBJECTIVES AND RELATED CONTROLS

The Department of Revenue has implemented controls to ensure the following control objectives for the collection and distribution of city sales taxes are met:

- 1) Based on the tax returns filed, the amount of tax collected on behalf of each city is correct.
- 2) An adequate segregation of duties exists within the Department to ensure all amounts received are deposited.
- 3) Sales taxes are correctly allocated and distributed to each city.

Based on the above control objectives, the Department has implemented the following controls to ensure the objectives are met.

Control Objective

Initial Operations

- 1 & 2 Mail enters the Department at Initial Operations. Returns that are late are noted as such. The envelope is attached documenting the postmark date for the calculation of penalty and interest. Returns could also be filed electronically via the Internet or the telephone.
- 1 & 2 All sales tax receipts are input and validated on the Nebraska On-line Validation System (NOV) when initially received. Electronic funds transfers (EFT) also bring payments of tax liability into the sales tax system. While these payments do not go through the Revenue Operations Division, Initial Operations, they enter the NOV system from the Electronic Tax Receipt (ETR) system.
- 2 Receipts are written for any cash received. Receipts and checks are validated, then re-added and agreed to the validation total. The receipts and checks are scanned, then cash and checks are sent to the Finance Division. The EFT payments through the Automated Clearing House (ACH) are downloaded each day by the Administrative Assistant in E-Commerce. An Accounting Clerk

Control
Objective

prepares the general documents for both cash/checks and EFT payments for deposit. The deposit document, cash, and checks are sent to the State Treasurer for deposit. An Accounting Clerk II reconciles the deposit document to the NOV validation totals. This reconciliation is approved by the Accountant III, who documents approval by signature.

Teleprocessing

- 1 & 2 The data from each individual return is entered into the sales tax system. The return is identified by the same batch number as the batch number assigned on the NOV.

E-Commerce

- 1 & 2 TeleFile and electronic filing allow the taxpayer to enter his/her own data into the system. Substantially the same validity and mathematical checks apply as for entry by the Department. The SCT055 (journal routine), done in Post Processing, checks these returns just as it does paper ones.

Post Processing

- 1 & 2 The data then goes to Post Processing where the edit/match function is performed to ensure the data entered on the NOV agrees with data entered on the sales tax system. Items that pass the test go to the journal, items that do not pass are sent to an error listing for correction.
- 1 After the data from the individual returns is merged, the records are tested for mathematical accuracy in the journal stage. Items that pass all tests are considered accepted. Report SCT055 is generated which details daily accepted items, dollar amounts in total, and records in error. These are passed into the Month-to-Date (MTD) accepted file, which is the point where the return posts to the sales tax system. All reports are generated based on the posted returns. Posted returns can be accessed on-line.

The balance forward file consists of sales tax owed in excess of remittance from prior periods. Additional sources of balance forward are penalty and interest. The penalty is either \$25 or 10% of the tax liability; whichever is greater. Any interest is calculated based upon the balance outstanding at an interest rate specified by State law. Report SCT536 is generated which details penalty and interest levied and the cause.

Control
Objective

The computer program then combines the MTD, penalty and interest, and balance forward records. Report SCT545 is generated which details the number and type of records processed for the current period in addition to those brought forward from prior periods. The new balance forward or credit balance represents the liability for which no remittance has been received.

- 2 The allocation summary relates the amounts remitted for the period to the associated current and prior period tax liability. The Department allocates to the oldest liability first. This amount is allocated by the system on a taxpayer-by-taxpayer basis as follows:

- Current Month Tax Processing
- Current Penalty Assessment
- Current Interest Assessment
- Balance Forward Tax Processing
- Balance Forward Penalty
- Balance Forward Interest

Information Systems

- 3 The allocation summary is created for remitted amounts for the period less collection fees. An allocation listing is produced (SCT712) which details amounts to be remitted by tax category to each city and to the State. The listing is entirely system-generated, based upon the detail information entered at the teleprocessing stage.

The IT Applications Developer/Senior receives all reports generated from the sales tax system on a daily basis. He balances the reports daily to ensure completeness by comparing the number of records and the dollar amounts. The IT Applications Developer/Senior also reviews error listings.

- 3 After the payments have been issued and the allocation listing is processed (Finance Division), a city sales tax listing (SCT815) is generated. This listing contains all taxpayers who filed a return and situations where the system allocated city sales tax to a city other than the business location but not to the city of business location. This listing is reviewed by an office clerk in the Post Processing section of Revenue Operations to check for any possible reporting or input problems. If any errors are noted, the error would be netted against the next month's distribution.

Control
Objective

Finance Division

- 3 The Accountant III in the Finance Division accumulates information on any required sales tax refunds to taxpayers. The Accountant III totals the amounts for entry into the allocation spreadsheet. Any refund related to a city will be deducted when calculating the monthly remittance.

- 3 The allocation listing (SCT712) and taxpayer refund returns (adjustments) are entered into the allocation spreadsheet. The allocation spreadsheet sums the amounts remitted per the allocation listing by city, less adjustments, to arrive at the gross remittance. From this gross remittance amount, the State subtracts a three percent administrative fee to arrive at the net remittance per city.

- 1 & 3 The net remittance to each city is tested for reasonableness by the Accountant III in the Finance Division via a historical range spreadsheet. Amounts considered reasonable are passed through to the final allocation spreadsheet. Amounts not deemed reasonable are investigated.

- 3 The Accountant III contacts the IT Applications Development/Senior concerning remittance amounts that do not appear reasonable. Data is extracted as needed to explain unusual fluctuations. Once amounts are investigated they are returned to the final allocation spreadsheet.

- 3 The Accountant III approves and the Budget Officer III posts a multiple vendor payment entry on the Nebraska Information System (NIS) to issue EFT payments to each city based upon the final allocation spreadsheet to remit the available amounts to the cities. Correspondence to the cities is prepared which details the amounts that make up the remittance and advises of settlement date.