

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

**JULY 1, 2002 THROUGH JUNE 30, 2003**

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
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NEBRASKA DEPARTMENT OF REVENUE  
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**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. 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 was thirty-four cents until September 30, 2002. Beginning October 1, 2002 the tax increased to sixty-four cents on each package of cigarettes containing not more than twenty cigarettes. For each package containing more than twenty cigarettes an additional tax is required. The additional tax is one-twentieth of the tax on the first twenty cigarettes for each cigarette over twenty in the package.

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, 2003:

- State of Nebraska General Fund
- Nebraska Outdoor Recreation Development Cash Fund
- Department of Health and Human Services Finance and Support Cash Fund
- Building Renewal Allocation Fund
- Nebraska Capital Construction Fund
- Municipal Infrastructure Redevelopment Fund
- Information Technology Infrastructure Fund
- City of the Primary Class Development Fund
- City of the Metropolitan Class Development Fund

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**EXIT CONFERENCE**

An exit conference was held December 12, 2003 with the Nebraska Department of Revenue to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue - Cigarette Tax Receipts were:

<u>NAME</u>	<u>TITLE</u>
Janet Lake	Motor Fuel Administrator
Kim Vu	Accountant
Dick Gettemy	Administrator of Finance and Management Services
Chuck Long	Special Services Manager
Ron Gottula	Budget Officer

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

Kate Witek  
State Auditor  
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### Independent Accountant's Report

Deann Haeffner, CPA  
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We have examined the accompanying Schedule of Cigarette Tax Receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2003. The Nebraska Department of Revenue's management is responsible for the schedule of cigarette tax receipts. Our responsibility is to express an opinion based on our examination.

Don Dunlap, CPA  
Asst. Deputy Auditor  
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Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to financial-related audits 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.

Pat Reding, CPA  
Asst. Deputy Auditor  
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Tim Channer, CPA  
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channer@mail.state.ne.us

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, 2003, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

Mary Avery  
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Dennis Meyer, CGFM  
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In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003, on our consideration of the Nebraska Department of Revenue's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants as related to cigarette tax receipts. That report is an integral part of a financial-related audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

Mark Avery, CPA  
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Handwritten signature of Timothy J. Channer, CPA.

Assistant Deputy Auditor

December 12, 2003

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**SCHEDULE OF CIGARETTE TAX RECEIPTS**  
For the Fiscal Year Ended June 30, 2003

Net Sales Per Month (Note 3)

July 2002	\$	3,788,608
August 2002		4,497,670
September 2002		4,946,133
October 2002		6,047,059
November 2002		3,253,322
December 2002		6,406,321
January 2003		4,879,228
February 2003		5,082,134
March 2003		3,874,071
April 2003		5,536,448
May 2003		6,145,508
June 2003		<u>6,590,383</u>
 Net Cigarette Tax Receipts	 \$	 <u><u>61,046,885</u></u>

See Notes to the Schedule.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2003

**1. Criteria**

The accounting policies of the Nebraska Department of Revenue - Cigarette Tax Receipts are on the basis of accounting as prescribed by the State of Nebraska Department of Administrative Services (DAS).

Per Neb. Rev. Stat. Section 81-1107 R.R.S. 1999, the duties of the Director of DAS 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.”

The Nebraska Information System (NIS) is the official accounting system prescribed by DAS for the State of Nebraska. Policies and procedures are detailed in NIS manuals and Nebraska Accounting System Concepts published by DAS and available to the public. The financial information used to prepare the schedule of cigarette tax receipts for the Nebraska Department of Revenue was obtained directly from NIS. NIS records accounts receivable as transactions occur. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows.

Prior to the implementation of NIS, the State utilized the Nebraska Accounting System (NAS) to record transactions. NAS was converted to NIS effective March 1, 2003.

The Nebraska Department of Revenue had no accounts receivable at June 30, 2003 related to cigarette taxes.

**2. State Agency**

The Nebraska Department of Revenue is a State agency established under and governed by the laws of the State of Nebraska. As such, the Nebraska Department of Revenue is exempt from State and Federal income taxes. The Schedule includes only the cigarette tax receipts of the Nebraska Department of Revenue.

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

**3. Sales Discounts Allowed**

For the period July 1, 2002 through September 30, 2002, wholesale dealers of cigarettes were allowed a discount of three and four-tenths percent of the face value of the cigarette tax as commission for affixing and canceling cigarette stamps in accordance with Neb. Rev. Stat. Section 77-2608

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO THE SCHEDULE**  
(Continued)

**3. Sales Discounts Allowed (Concluded)**

R.S.Supp., 2002. Beginning October 1, 2002 and continuing through September 30, 2004, the commission is one and seven-tenths percent of the face value of the tax as per Neb. Rev. Stat. Section 77-2608 R.S.Supp., 2003. Starting October 1, 2004 the commission will be one and eighty-five hundredths percent. The total amount of sales discounts for the fiscal year was \$1,292,640.

**4. Refund/Credits**

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

- 1) Refunds are allowed when cigarette tax stamps are returned to the Department of Revenue unused. These stamps will either be reissued to another wholesaler or destroyed.
- 2) Credits are allowed for cigarettes sold to Native American Indians living on American Indian Reservations. These sales are exempt from the cigarette tax.
- 3) 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 was \$604,891.

**5. Cigarette Tax Increase**

Neb. Rev. Stat. Section 77-2602 R.S.Supp., 2002 increased the tax from thirty-four cents to sixty-four cents per package. This increase became effective on October 1, 2002.

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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

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We have examined the accompanying Schedule of Cigarette Tax Receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 12, 2003. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to financial-related 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's schedule of cigarette tax receipts, is 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 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 that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our examination, we considered the Nebraska Department of Revenue's internal control over financial reporting in order to determine our procedures for the purpose of expressing our opinion on the schedule of cigarette tax receipts, 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 schedule being examined 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.

Handwritten signature of Timothy J. Channer CPA in cursive script.

Assistant Deputy Auditor

December 12, 2003

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

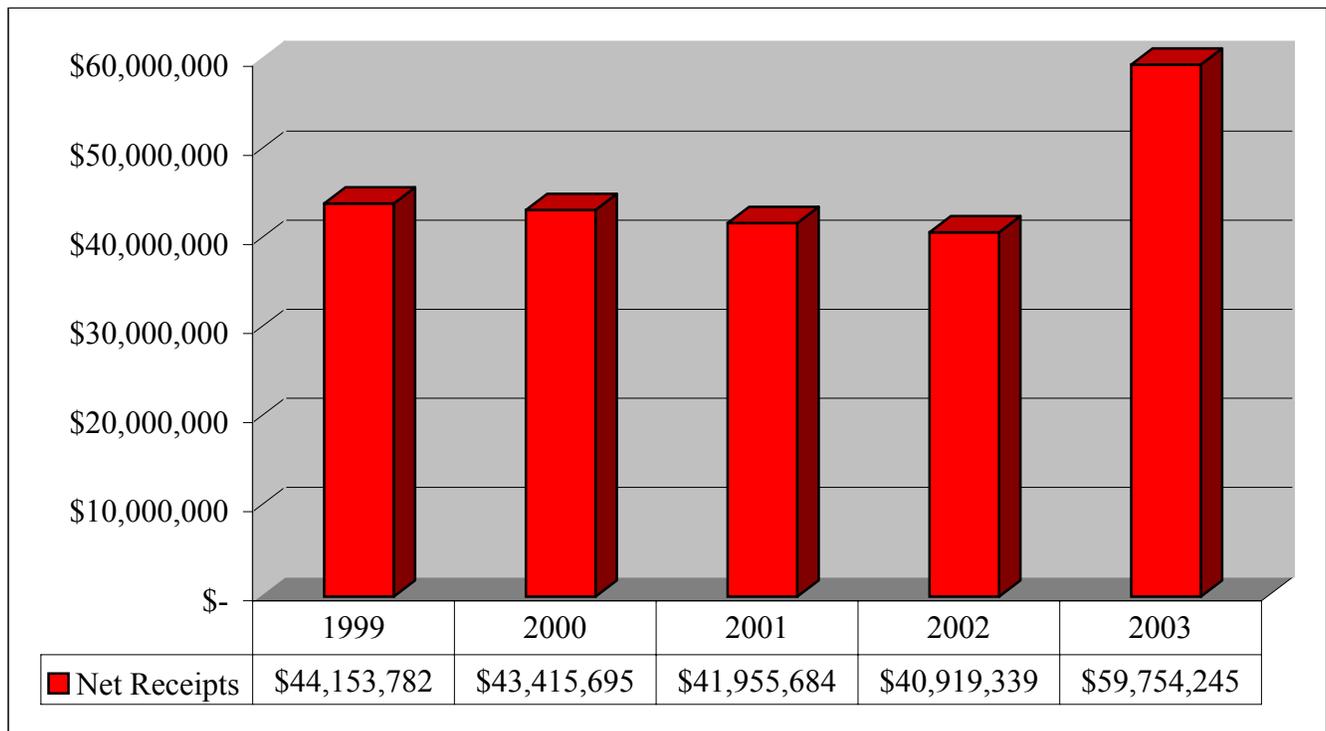
**STATISTICAL SECTION**

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**  
 Fiscal Years 1999 Through 2003

	Fiscal Year				
	1999	2000	2001	2002	2003
Tax Rate Per Pack (cents)	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34/0.64*
Gross Receipts	\$ 45,707,849	\$ 44,943,783	\$ 43,432,385	\$ 42,359,564	\$ 61,046,885
Less: Wholesaler's Discount (Allowance)	1,554,067	1,528,088	1,476,701	1,440,225	1,292,640
	New York (1)				
Net Receipts	<u>\$ 44,153,782</u>	<u>\$ 43,415,695</u>	<u>\$ 41,955,684</u>	<u>\$ 40,919,339</u>	<u>\$ 59,754,245</u>

\*As per Neb. Rev. Stat. Section 77-2602 R.S.Supp., 2002, cigarette tax increased from 34 cents to 64 cents on October 1, 2002.



This information was accumulated from previous fiscal year audited schedules and the current schedule.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**CIGARETTE TAX RATES FOR ALL STATES**  
**As of July 1, 2003**

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
Alabama (1)	16.5	47	Nebraska	64	24
Alaska	100	12	Nevada	35	39
Arizona	118	11	New Hampshire	52	32
Arkansas (2)	59	26	New Jersey	205	1
California	87	19	New Mexico	91	18
Colorado	20	43	New York (1)	150	5
Connecticut	151	3	North Carolina	5	49
Delaware (3)	24	41	North Dakota	44	34
Florida	33.9	40	Ohio	55	29
Georgia	37	36	Oklahoma	23	42
Hawaii (3)	130	7	Oregon	128	8
Idaho	57	27	Pennsylvania	100	12
Illinois (1)	98	17	Rhode Island	171	2
Indiana	55.5	28	South Carolina	7	48
Iowa	36	37	South Dakota	53	31
Kansas	79	20	Tennessee (1) (2)	20	43
Kentucky (2)	3	50	Texas	41	35
Louisiana	36	37	Utah	69.5	23
Maine	100	12	Vermont	119	10
Maryland	100	12	Virginia (1)	2.5	51
Massachusetts	151	3	Washington	142.5	6
Michigan	125	9	West Virginia	55	29
Minnesota	48	33	Wisconsin	77	21
Mississippi	18	45	Wyoming	60	25
Missouri (1)	17	46	Dist. of Columbia	100	12
Montana	70	22			

Source: Compiled by the Federation of Tax Administrators from various sources.

- (1) Counties and cities may impose an additional tax on a pack of cigarettes in AL, 1¢ to 6¢; IL, 10¢ to 15¢; MO, 4¢ to 7¢; NYC, \$1.50; TN, 1¢; and VA, 2¢ to 15¢
- (2) Dealers pay an additional enforcement and administrative fee of 0.1¢ per pack in KY and .05¢ in TN. In AR, a \$1.25/1,000 cigarette fee is imposed.
- (3) Tax rate in DE is scheduled to increase to 55¢ per pack on August 1, 2003; and in HI is scheduled to increase to \$1.40 per pack on July 1, 2004.