

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

JULY 1, 2003 THROUGH JUNE 30, 2004

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NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

TABLE OF CONTENTS

	<u>Page</u>
Background Information Section	
Background	1
Comments Section	
Exit Conference	2
Financial Section	
Independent Accountant's Report	3 - 4
Schedule of Cigarette Tax Receipts	5
Notes to the Schedule	6 - 7
Government Auditing Standards Section	
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 <i>Government Auditing Standards</i>	8 - 9
Statistical Section	10
Net Receipts for Fiscal Years Ended June 30, 2000 through 2004	11
Cigarette Tax Rates for all States as of January 1, 2004	12

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. 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, 2004:

- 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 September 7, 2004 with the Nebraska Department of Revenue to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

NAME	TITLE
Dick Gettemy	Administrator of Finance and Management Services
Ron Gottula	Budget Officer
Kim Vu	Accountant

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NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

INDEPENDENT ACCOUNTANT'S REPORT

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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, 2004. 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.

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, 2004, 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 7, 2004, 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 an attestation engagement performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our examination.

This report is intended solely for the information and use of the Nebraska Department of Revenue and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

September 7, 2004

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS
SCHEDULE OF CIGARETTE TAX RECEIPTS
For the Fiscal Year Ended June 30, 2004

Net Sales Per Month (Note 3)

July 2003	\$	5,545,370
August 2003		5,325,085
September 2003		6,063,035
October 2003		5,854,132
November 2003		4,868,263
December 2003		5,907,012
January 2004		5,110,474
February 2004		4,902,934
March 2004		6,046,450
April 2004		4,361,095
May 2004		6,594,359
June 2004		<u>6,079,947</u>
Net Cigarette Tax Receipts	\$	<u><u>66,658,156</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, 2004

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 (2) R.R.S. 1999, 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."

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 the NIS. NIS records accounts receivable as transactions occur. As such certain revenues are recorded when earned, regardless of the timing of related cash flows.

The Nebraska Department of Revenue had no accounts receivable at June 30, 2004 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 October 1, 2002 through September 30, 2004, wholesale dealers of cigarettes were allowed a discount of one and seven-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 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 \$1,154,150.

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

NOTES TO THE SCHEDULE
(Continued)

4. Refund/Credits

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

- a. 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.
- 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 was \$958,110.

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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, 2004, and have issued our report thereon dated September 7, 2004. 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.

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.

This report is intended solely for the information and use of the Nebraska Department of Revenue and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Pat Reding, CPA

Assistant Deputy Auditor

September 7, 2004

NEBRASKA DEPARTMENT OF REVENUE
CIGARETTE TAX RECEIPTS

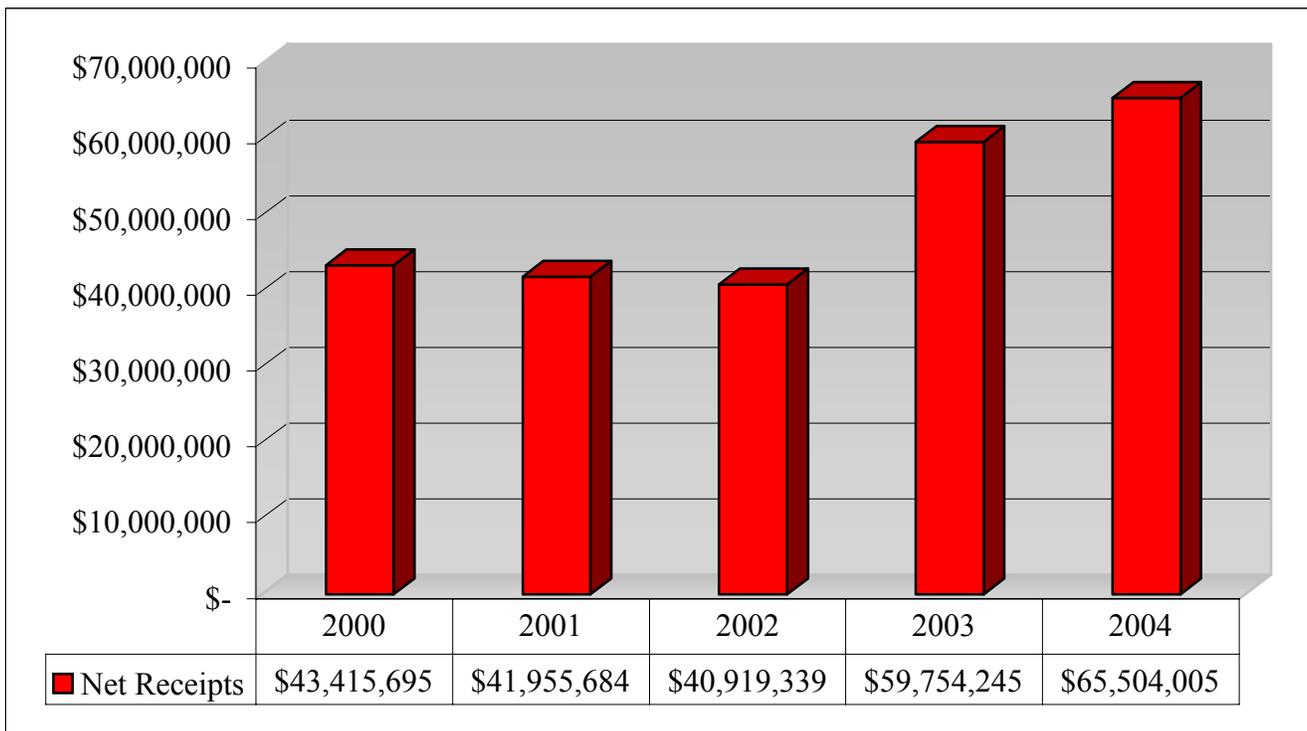
STATISTICAL SECTION

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 Ended June 30, 2000 through 2004

	Fiscal Year				
	2000	2001	2002	2003	2004
Tax Rate Per Pack	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34/0.64*	\$ 0.64
Gross Receipts	\$44,943,783	\$43,432,385	\$42,359,564	\$61,046,885	\$66,658,156
Less: Wholesaler's Discount (Allowance)	<u>1,528,088</u>	<u>1,476,701</u>	<u>1,440,225</u>	<u>1,292,640</u>	<u>1,154,151</u>
Net Receipts	<u><u>\$43,415,695</u></u>	<u><u>\$41,955,684</u></u>	<u><u>\$40,919,339</u></u>	<u><u>\$59,754,245</u></u>	<u><u>\$65,504,005</u></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 January 1, 2004

State	Tax Rate		State	Tax Rate	
	(¢ per pack)	Rank		(¢ per pack)	Rank
Alabama (1)	16.5	47	Nebraska	64	25
Alaska	100	12	Nevada	80	20
Arizona	118	10	New Hampshire	52	34
Arkansas (2)	59	27	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	55	30	North Dakota	44	36
Florida	33.9	41	Ohio	55	30
Georgia	37	38	Oklahoma	23	42
Hawaii (3)	130	7	Oregon	128	10
Idaho	57	28	Pennsylvania (3)	100	12
Illinois (1)	98	17	Rhode Island	171	2
Indiana	55.5	29	South Carolina	7	48
Iowa	36	39	South Dakota	53	33
Kansas	79	21	Tennessee (1) (2)	20	43
Kentucky (2)	3	50	Texas	41	37
Louisiana	36	39	Utah	69.5	24
Maine	100	12	Vermont	119	9
Maryland	100	12	Virginia (1)	2.5	51
Massachusetts	151	3	Washington	142.5	6
Michigan	125	8	West Virginia	55	30
Minnesota	48	35	Wisconsin	77	22
Mississippi	18	45	Wyoming	60	26
Missouri (1)	17	46	Dist. Of Columbia	100	12
Montana	70	23			
			U.S. Median	60	

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 PA is scheduled to increase to \$1.35 per pack on January 7, and the HI rate is scheduled to increase to \$1.40 per pack on July 1, 2004.