

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

JULY 1, 2003 THROUGH JUNE 30, 2004

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the Auditor of Public Accounts.**

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Issued on September 24, 2004

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

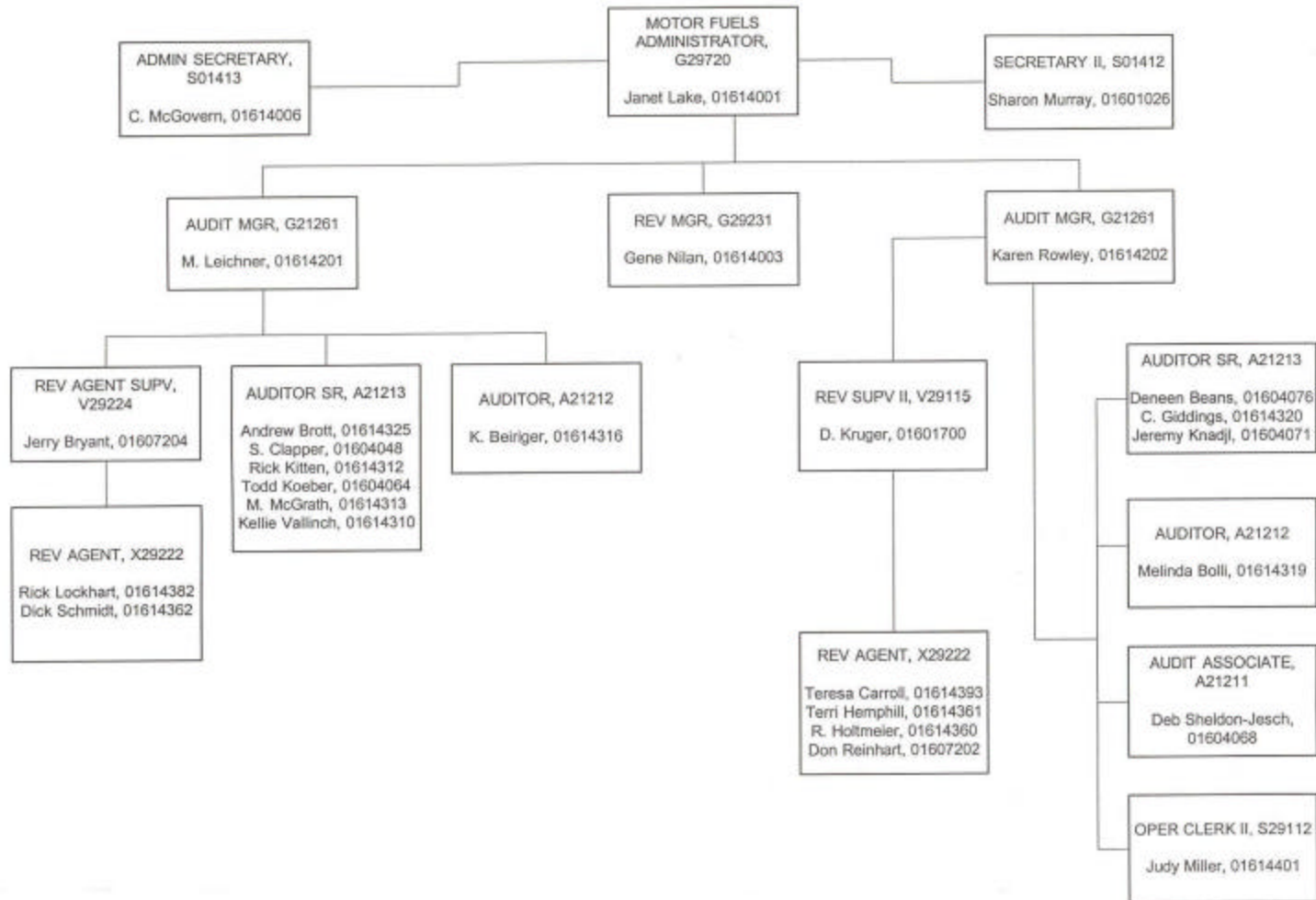
The Motor Fuel Tax Enforcement and Collection Division (Division) was created within the Nebraska Department of Revenue in 1991. The Division's objectives are 1) to administer all motor fuel tax programs, ensuring compliance with State laws; 2) to provide assistance to taxpayers regarding motor fuel tax programs; and 3) to ensure compliance with laws through an increased emphasis on collections, audits, and investigations. Tax programs include Motor Vehicle Fuels, Diesel Fuels, Compressed Fuels, Alternative Fuels, and the Petroleum Release Remedial Action Act. The Division is also responsible for the Ethanol Producers Incentive Program.

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
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ORGANIZATIONAL CHART



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

EXIT CONFERENCE

An exit conference was held September 7, 2004 with the Division 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
Janet Lake	Motor Fuel Administrator
Kim Vu	Accountant

NEBRASKA DEPARTMENT OF REVENUE
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SUMMARY OF COMMENTS

During our examination of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division, we noted certain matters involving the internal control over financial reporting and other operational matters which are presented here.

1. ***Nebraska Information System and Accounting Procedures:*** Significant concerns or areas where improvement to the Nebraska Information System (NIS) is needed to ensure NIS integrity and operational efficiency were identified.
2. ***Travel Expense Reimbursements:*** One document tested had travel dates on the expense reimbursement that did not agree with the dates on the travel request form or on the direct bill authorization for lodging. Three of three documents tested did not have detailed itemization (name of restaurant) of meal costs incurred while traveling.
3. ***Incomplete Personnel Files:*** We noted one of four employees tested did not have Form I-9 on file as required. This same employee did not have authorization forms on file for three payroll deductions.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature since it contains only our comments and recommendations on the areas noted for improvement.

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. Where no response has been included, the Division declined to respond. 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 examination.

We appreciate the cooperation and courtesy extended to our staff during the course of the examination.

NEBRASKA DEPARTMENT OF REVENUE
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COMMENTS AND RECOMMENDATIONS

1. Nebraska Information System and Accounting Procedures

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial records. Without adequate training, written procedures, and controls, there is a risk that employees may unintentionally corrupt critical data and that errors could occur and go undetected.

During the fiscal year ended June 30, 2003, the State of Nebraska implemented significant components of a new information system called the Nebraska Information System (NIS). Three major components were the Payroll, Fixed Asset, and Financial components, which went live during the fiscal year ended June 30, 2003. During the fiscal year ended June 30, 2004 the Procurement and Employee Self-Service components were partially implemented. NIS affects all Nebraska State agencies.

A consultant hired by the Auditor of Public Accounts (APA) with expertise in studying large computer systems performed a study of NIS processes and controls prior to June 30, 2003. The APA also performed a preliminary examination of internal controls as of June 30, 2003 at all State agencies in July and August of 2003. In addition, while performing examination procedures the APA obtained a further understanding of NIS.

From these studies and examinations, the APA has identified concerns and areas where improvement to NIS is needed. During the fiscal year ended June 30, 2004, the Department of Administrative Services (DAS) Accounting Division addressed some areas of concern previously reported. However, the following are the more significant concerns or areas where improvement is still needed to ensure NIS integrity and operational efficiency:

- a. The reconciliation between the State Treasurer's actual bank statements and records, the Nebraska Accounting System (NAS-the previous accounting system before NIS), NIS accounting records, and the related disposition of reconciling items was not completed for November 2002 through December 2003 in a timely manner. Subsequent to December 2003, the DAS Accounting Division performed some reconciliation procedures. As of July 2004, the June 30, 2003 reconciliation indicates an unknown variance between the bank records and the accounting records of \$3,654,783, with the bank being short compared to the accounting records.

During the fiscal year ended June 30, 2004, DAS Accounting Division began performing a daily reconciliation of activity recorded on NIS compared to the activity recorded in the bank on a limited test basis. For those days tested, the activity recorded on NIS can be reconciled to the activity in the bank. The monthly reconciliations for the months of July 2003 through February 2004 for the fiscal year ended June 30, 2004 have been performed and indicate fluctuations in

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System and Accounting Procedures** (Continued)

the variance amounts. The latest monthly reconciliation performed, February 2004, indicates an unknown variance between the bank records and the accounting records of \$5,112,201, with the bank being short compared to the accounting records. This variance was provided to us by DAS Accounting Division and its accuracy has not been verified by the APA.

Although some reconciliation procedures have been performed (daily reconciliation of activity going through NIS to the activity recorded through the bank), the monthly reconciliation for the months March 2004 through June 2004 are still in the preliminary stages and are not complete as of July 2004. Complete and timely reconciliation procedures between bank records and accounting records provide control over cash and accurate financial information. The reconciliation procedures should be completed timely and on at least a monthly basis to ensure all financial information is correct in NIS.

- b. During the early implementation months of NIS, DAS Accounting Division did not have a comprehensive written NIS policy and procedures manual available for users. During the fiscal year ended June 30, 2004, DAS Accounting Division made progress in this area and significant policies and procedures can be found by users on the DAS Accounting Division website. However, the APA, after reviewing the old accounting procedures manual, did note some procedures still being performed under those policies that have not been incorporated as NIS policies. We recommend DAS Accounting Division continue to update their NIS policies and procedures to include all policies and procedures in place to help ensure consistent and accurate accounting of the State's financial transactions.
- c. During the early implementation of NIS it was determined the NIS Payroll application was not allocating salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units. This would apply to many State agencies' funds, programs, and grants. During the fiscal year ended June 30, 2004, agencies developed "work around" solutions to this problem, however, there has been no system change to resolve this problem. The "work around" solutions can be very time consuming. We recommend DAS Accounting Division consider obtaining a system change to allocate salaries and benefits appropriately to salaried employees who incur hours that are distributed across multiple business units.
- d. During the first year of NIS implementation an outside consultant noted a detailed analysis had not been performed to determine whether users received adequate training to enable them to appropriately perform their job functions. The APA is not aware of any detailed analysis of

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. **Nebraska Information System and Accounting Procedures** (Continued)

user training conducted by the DAS Accounting Division during the fiscal year ended June 30, 2004, but do acknowledge a significant training effort by the DAS Accounting Division during this period. We recommend the DAS Accounting Division continue their training efforts as well as identifying user training needs.

- e. Since the implementation of NIS, DAS Accounting Division has not updated their records retention and disposition schedule with the Records Management Division of the Secretary of State (Secretary of State). The records retention schedule on file with the Secretary of State covers the records under the old accounting system and was last updated in 1986.

Neb. Rev. Stat. Section 84-1207 R.R.S. 1999 states the head of any State agency shall make, and submit to the administrator, (administrator means the State Records Administrator) schedules proposing the length of time each record series warrants retention for administrative, legal, historical or fiscal purposes, after it has been made in or received by the agency, and lists of records in the custody or under the control of the agency which are not needed in the transaction of current business, and do not possess sufficient administrative, legal, historical or fiscal value to warrant their further retention.

Since many of the records (and their titles) are significantly different under NIS than they were under the old accounting system we do not believe the DAS Accounting Division is in compliance with the above statute with the current retention schedule on file with the Secretary of State. In addition, for legal purposes and for good business practices we believe a comprehensive DAS Accounting Division records retention schedule is imperative. We recommend the DAS Accounting Division work with the Secretary of State to develop a comprehensive records retention schedule for all records they maintain.

- f. The payroll component is not designed to promote an effective segregation of duties. We recommend the DAS Accounting Division consider implementing the compensating control as identified in the k. section of this comment.
- g. During the first year of NIS implementation an outside consultant noted access to sensitive General Accounting functions had been provided to individuals who may not require such access as a part of their job responsibilities. Based on our inquiries, DAS Accounting Division management noted, "All critical function access rights have been secured down to the appropriate high level matrix codes." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Continued)

- h. During the first year of NIS implementation an outside consultant noted the State had not documented or formalized comprehensive information security procedures for NIS. Based on our inquiries, DAS Accounting Division management noted, "The NIS CNC's and the NIS Security team have developed a comprehensive security policy." We could not verify the accuracy of this statement as requested information and documentation has not been provided to us.
- i. During the first year of NIS implementation an outside consultant noted the State had not implemented a formal, comprehensive business continuity or disaster recovery plan that comprehends both NIS and its supporting infrastructure. Based on our inquiries, DAS Accounting Division management noted, "We have now contracted with an outside vendor for business continuity planning." Documentation provided to us by DAS management indicates the State has a disaster recovery plan, however, it is not complete and the business continuity plan is in the draft stage but has not yet been tested. We recommend the State continue to implement formal, comprehensive business continuity and disaster recovery plans.
- j. The APA reviewed certain data in the NIS address book in July 2004. We noted the following related vendor information:
 - 1. Duplicate Name and Address – Our review noted a total of 4,435 duplicate records. However, all have different address book numbers.
 - 2. Duplicate Bank Information – 4,118 vendors had duplicate bank information.
 - 3. Vendors with no Federal Tax Identification Number (FTIN) in NIS and Vendors with an FTIN of 000000000 – 3,789 vendors either had no FTIN or an FTIN with all zeros. The vendors with zeros as their FTIN were all PW (welfare) vendor types. Out of the 3,789 records 3,408 had no FTIN at all.

When duplicate records are in the NIS address book database there is a greater risk of duplicate payments being made and not being detected and queries of the database for vendor information may not be complete because the queries may not include all vendor information. In addition, when the database does not include FTIN numbers for all vendors there is a greater risk of payments to a fictitious vendor. DAS Accounting Division should correct the database for duplicate records and ensure all vendors included in the database have an FTIN.

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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Nebraska Information System and Accounting Procedures (Concluded)

- k. DAS Accounting Division payroll procedures require each State agency to certify its payroll for each pay period to ensure payroll is processed accurately and completely. This certification is to be in writing, either through an email or letter to the DAS Accounting Administrator. In our review of the final payroll notification and certification procedures processed in July 2003 and May of 2004 and discussion with DAS Accounting Division personnel, the certification procedures were not always performed. Our review also noted that the DAS Accounting Division did not have a policy on the information that should be included in the written certification. We noted during our testing, when there was a certification, there was no consistency in the information provided by State agencies.

DAS Accounting Division should establish a policy on detailing the information to be included in the certification, should ensure all State agencies consistently follow this policy, and ensure all payroll expenditures are certified.

The issues identified above are the responsibility of the DAS Accounting Division and NIS Functional Team as they relate directly to NIS; however, they directly affect all Nebraska State agencies' financial information and must be disclosed in this report. The results of the consultant's study of NIS were communicated in a separate report to DAS, who is responsible for NIS. Letters to each State agency communicated the results of the APA's preliminary examination of internal controls at the State agency level. Additional concerns identified by the APA were communicated to the appropriate State officials.

2. Travel Expense Reimbursements

Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2003 states, "Each request shall be fully itemized, including when, where, and why the expense was incurred and the actual amount involved." Nebraska State Accounting Manual AM-005, Travel Expense Policies, states, "Under our accountable plan, the Internal Revenue Service requires employees to substantiate the cost for travel, lodging, meals, and other expenses." Internal Revenue Service (IRS) Publication 463 requires an accountable plan to have adequate accounting. The publication also states, "Documentary evidence ordinarily will be considered adequate if it shows the amount, date, place, and essential character of the expense A restaurant receipt is enough to prove an expense for a business meal if it has all of the following information. 1) The name and location of the restaurant. 2) The number of people served. 3) The date and amount of the expense." Good internal control requires procedures to ensure the employee's expense reimbursement agrees with information on the receipts, expense vouchers, and any agendas related to the expenses incurred to ensure that the dates, times, amounts, and locations all agree.

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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Travel Expense Reimbursements (Concluded)

We tested three travel expenditure documents totaling \$2,236. The Motor Fuel Tax Enforcement and Collection Division (Division) had \$57,227 in travel expenditures for the fiscal year ended June 30, 2004. We noted the following:

- One of three documents tested had travel dates on the expense reimbursement that did not agree with the dates on the travel request form or on the direct bill authorization for lodging.
- Three of three documents tested did not have detailed itemization (name of restaurant) of meal costs incurred while traveling. This was also noted in our prior report.

Without a thorough review of expense reimbursement documents there is an increased risk for errors or abuse, furthermore, the State could lose their accountable plan status and then all employee reimbursements would be included as taxable income.

We recommend the Division verify information on employee expense reimbursement documents agree with supporting documentation, including the date, time, amount, and location of all expenses claimed. We also recommend the Division review its procedures to ensure the name of the restaurant for meal reimbursements is documented.

Department's Response: The travel date on the expense reimbursement was merely a typographical error by the employee and is not indicative of a lack of thorough review by our Agency. The days indicated on the expense document matched the days on the Travel Request Forms and the Direct Billing Authorization Forms, except for a one digit discrepancy on the month. The expenses incurred by the employee were valid and proper, and subject to reimbursement. We consider this to be a minor, insignificant error which is immaterial. Also, your recommendation that the restaurant name be documented, when no receipts are required, is counterintuitive to the Table 4 instructions provided in Internal Revenue Service Publication 463. The only mention of restaurant name being required is in regards to situations requiring a receipt. Our Agency should not be expected to make changes to our travel policy based on a telephone conversation your Office may have had with an IRS official. Our Agency will continue to follow the guidelines provided by the State Accounting Administrator.

Auditors' Response: An expense reimbursement approved for dates the employee was not in travel status is not indicative of a thorough review. Meal logs should provide enough information to support a reasonable determination regarding the amount of the expense, this would include the restaurant name. Taxpayers merit a high degree of accountability to ensure reimbursed expenses are appropriate.

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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Incomplete Personnel Files

DAS State Personnel Classified System Rules & Regulations, Chapter 11, Section 2 states, "Each agency covered by the State Classified Personnel System shall maintain certain personnel records . . . The required records are: . . . Copies of all personnel transaction forms pertaining to individual employees. Copies of documents initiated by the employee that affect pay (W-4's, authorized deductions, etc) . . ." NAPE Labor Contract, Article 2, Recognition and Union Security, Section 2.5 states, "Upon receipt of a voluntary written individual authorization order from any of its employees covered by this Contract on forms provided by the Union, the Employer will deduct from the pay due such employee those dues required as the employee's membership dues in the Union."

We noted one of four employees tested did not have Form I-9 on file as required. This same employee did not have authorization forms on file for three payroll deductions.

Without adequate documentation there is an increased risk for errors to occur.

We recommend the Division review employee personnel files and ensure that all necessary and required forms are included and maintained.

Department's Response: Our practice is to make changes only with the deduction forms. Missing forms would indicate a filing error. Beginning with the October 2004 Open Enrollment, all employees will complete electronic deductions forms for all benefits they are taking or declining. Only retirement and miscellaneous deduction forms will need to be filed. It is our practice to obtain the I-9 form on all new hires. We will include this as part of the orientation checklist in the future.

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NEBRASKA DEPARTMENT OF REVENUE MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

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INDEPENDENT ACCOUNTANT'S REPORT

Don Dunlap, CPA
Asst. Deputy Auditor
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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) for the fiscal year ended June 30, 2004. The Division's management is responsible for the schedule of revenues, expenditures, and changes in fund balances. Our responsibility is to express an opinion based on our examination.

Pat Reding, CPA
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Tim Channer, CPA
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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 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 revenues, expenditures, and changes in fund balances and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

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Coordinator
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In our opinion, the schedule referred to above presents, in all material respects, the revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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.

Mark Avery, CPA
Subdivision Audit
Review Coordinator
mavery@mail.state.ne.us

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 - 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. 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 Division 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
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2004

	Motor Fuel Tax Enforcement Fund 21700	Petro Release Remediation Fund 21590	Highway Cash Fund 22710	Investigative Forfeiture Fund 41610	Total (Memorandum Only)
REVENUES:					
Intergovernmental	\$ 14,316	\$ -	\$ -	\$ -	\$ 14,316
Sales & Charges	-	-	530	-	530
Miscellaneous	45,125	-	-	697	45,822
TOTAL REVENUES	<u>59,441</u>	<u>-</u>	<u>530</u>	<u>697</u>	<u>60,668</u>
EXPENDITURES:					
Personal Services	1,551,678	27,523	-	-	1,579,201
Operating	274,930	-	-	20	274,950
Travel	57,227	-	-	-	57,227
Capital Outlay	34,668	-	-	-	34,668
TOTAL EXPENDITURES	<u>1,918,503</u>	<u>27,523</u>	<u>-</u>	<u>20</u>	<u>1,946,046</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,859,062)</u>	<u>(27,523)</u>	<u>530</u>	<u>677</u>	<u>(1,885,378)</u>
OTHER FINANCING SOURCES (USES):					
Sales of Assets	706	-	-	-	706
Deposit to/from Common Fund	-	-	(530)	-	(530)
Operating Transfers In	1,000,000	28,000	-	-	1,028,000
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,000,706</u>	<u>28,000</u>	<u>(530)</u>	<u>-</u>	<u>1,028,176</u>
Net Change in Fund Balances	(858,356)	477	-	677	(857,202)
FUND BALANCES, JULY 1, 2003	<u>1,424,603</u>	<u>-</u>	<u>-</u>	<u>17,161</u>	<u>1,441,764</u>
FUND BALANCES, JUNE 30, 2004	<u>\$ 566,247</u>	<u>\$ 477</u>	<u>\$ -</u>	<u>\$ 17,838</u>	<u>\$ 584,562</u>
FUND BALANCES CONSIST OF:					
General Cash	<u>\$ 566,247</u>	<u>\$ 477</u>	<u>\$ -</u>	<u>\$ 17,838</u>	<u>\$ 584,562</u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF REVENUE
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NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2004

1. Criteria

The accounting policies of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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 revenues, expenditures, and changes in fund balances for the Division was obtained directly from the NIS. NIS records accounts receivable and accounts payable as transactions occur. As such certain revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounts payable liability recorded on NIS, and thus recorded as expenditures, as of June 30, 2004 includes only those payables posted to NIS before June 30, 2004 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2004 **does not** include amounts for goods and services received before June 30, 2004 which had not been posted to NIS as of June 30, 2004.

The Division had no accounts receivable at June 30, 2004. The NIS system does not include liabilities for accrued payroll and compensated absences.

The fund types established by NIS that are used by the Division are:

20000 – Cash Funds – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.

40000 – Federal Funds – account for all federal grants and contracts received by the State. Expenditures must be made in accordance with applicable federal requirements.

NEBRASKA DEPARTMENT OF REVENUE
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NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

The major revenue object account codes established by NIS used by the Division are:

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

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

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income.

The major expenditure object account titles established by NIS used by the Division are:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Division.

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

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

Capital Outlay – Expenditures which result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Other significant object account codes established by NIS and used by the Division include:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts. Cash accounts are included in fund balances and are reported as recorded on NIS.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions increase expenditures and decrease fund balance.

Other Financing Sources – Deposits to common fund, operating transfers, and proceeds of fixed asset dispositions.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULE
(Continued)

2. State Agency

The Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division (Division) is a program with 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 schedule includes 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.

3. 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 because interfund balances and transactions have not been eliminated.

4. Transfers

Operating Transfers In to the Motor Fuel Tax Enforcement and Collection Cash Fund represent amounts transferred from the Highway Trust Fund as required by Neb. Rev. Stat. Section 39-2215(4) R.S.Supp., 2003 and 2003 Neb. Laws LB 407, Section 267(o). These monies are used for the operation of the Division. Operating Transfers In also includes amounts transferred to the Petroleum Release Remedial Action Collection Fund to reimburse costs of collecting and administering the petroleum release remedial action fee per Neb. Rev. Stat. Section 66-1521 R.R.S. 2003.

5. Deposits to/from Common Funds

Neb. Rev. Stat. Section 66-483 R.R.S. 2003 requires that before engaging in business, motor fuel suppliers, distributors, wholesalers, importers, or exporters, shall file an application together with a \$10 fee to the Nebraska Department of Revenue. Neb. Rev. Stat. Section 66-502 R.R.S. 2003 requires liquid fuel carriers to submit an application together with a \$10 license fee to the Nebraska Department of Revenue. Statutes require the Nebraska Department of Revenue to remit these fees for credit to the Highway Cash Fund. The Highway Cash Fund is under the control of the Nebraska Department of Roads.

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NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN EXAMINATION OF THE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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We have examined the accompanying schedule of revenues, expenditures, and changes in fund balances of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division 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 - Motor Fuel Tax Enforcement and Collection Division's schedule of revenues, expenditures, and changes in fund balances, 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*. We noted certain immaterial instances 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 (Travel Expense Reimbursements) and Comment Number 3 (Incomplete Personnel Files).

Internal Control Over Financial Reporting

In planning and performing our examination, 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 procedures for the purpose of expressing our opinion on the schedule of revenues, expenditures, and changes in fund balances, and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule. A reportable condition is described in the Comments Section of the report as Comment Number 1 (Nebraska Information System and Accounting Procedures).

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted another matter involving internal control over financial reporting that we have reported to management of the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division in the Comments Section of the report as Comment Number 2 (Travel Expense Reimbursements).

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

September 7, 2004

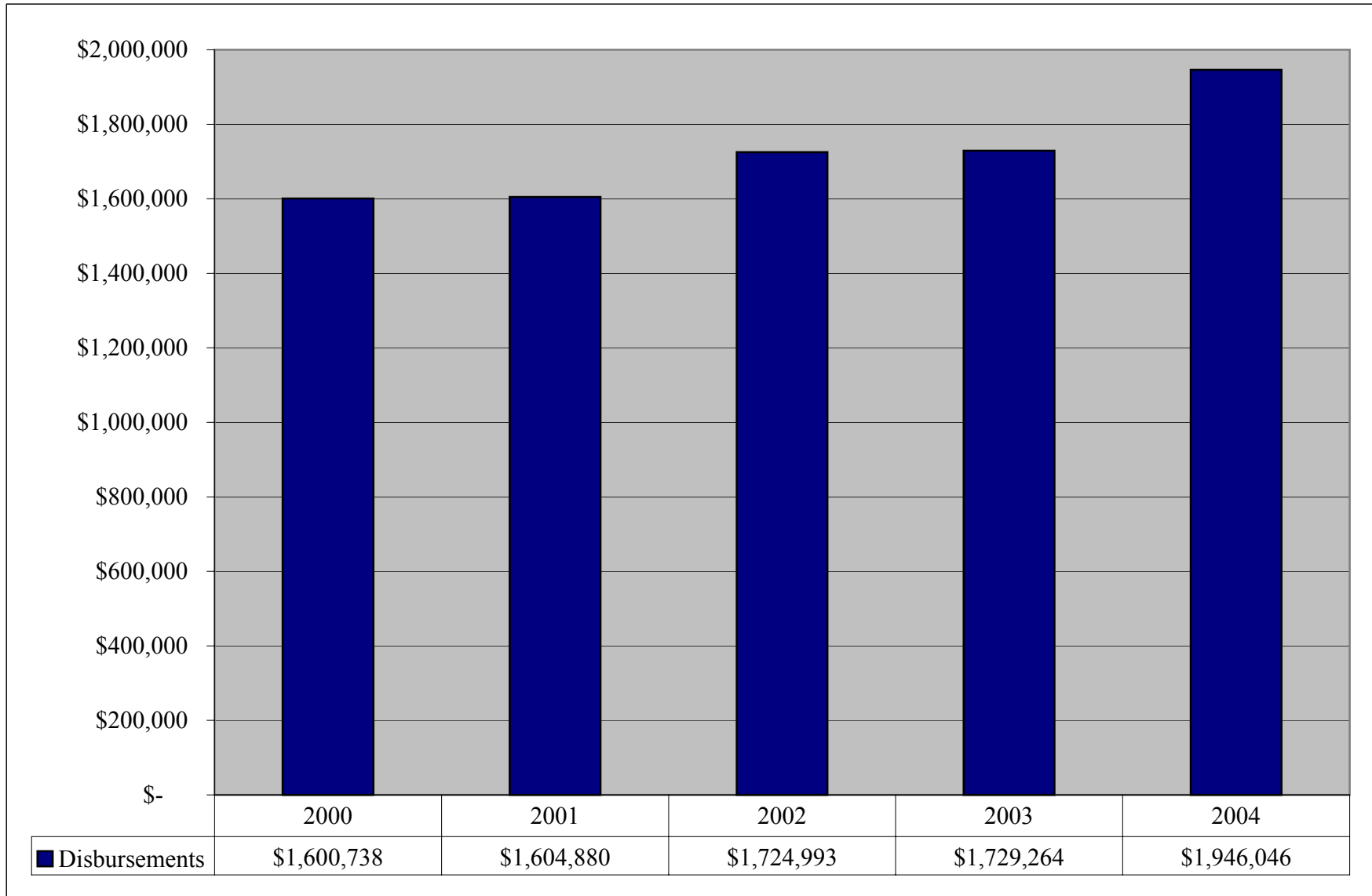
Pat Reding, CPA
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NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

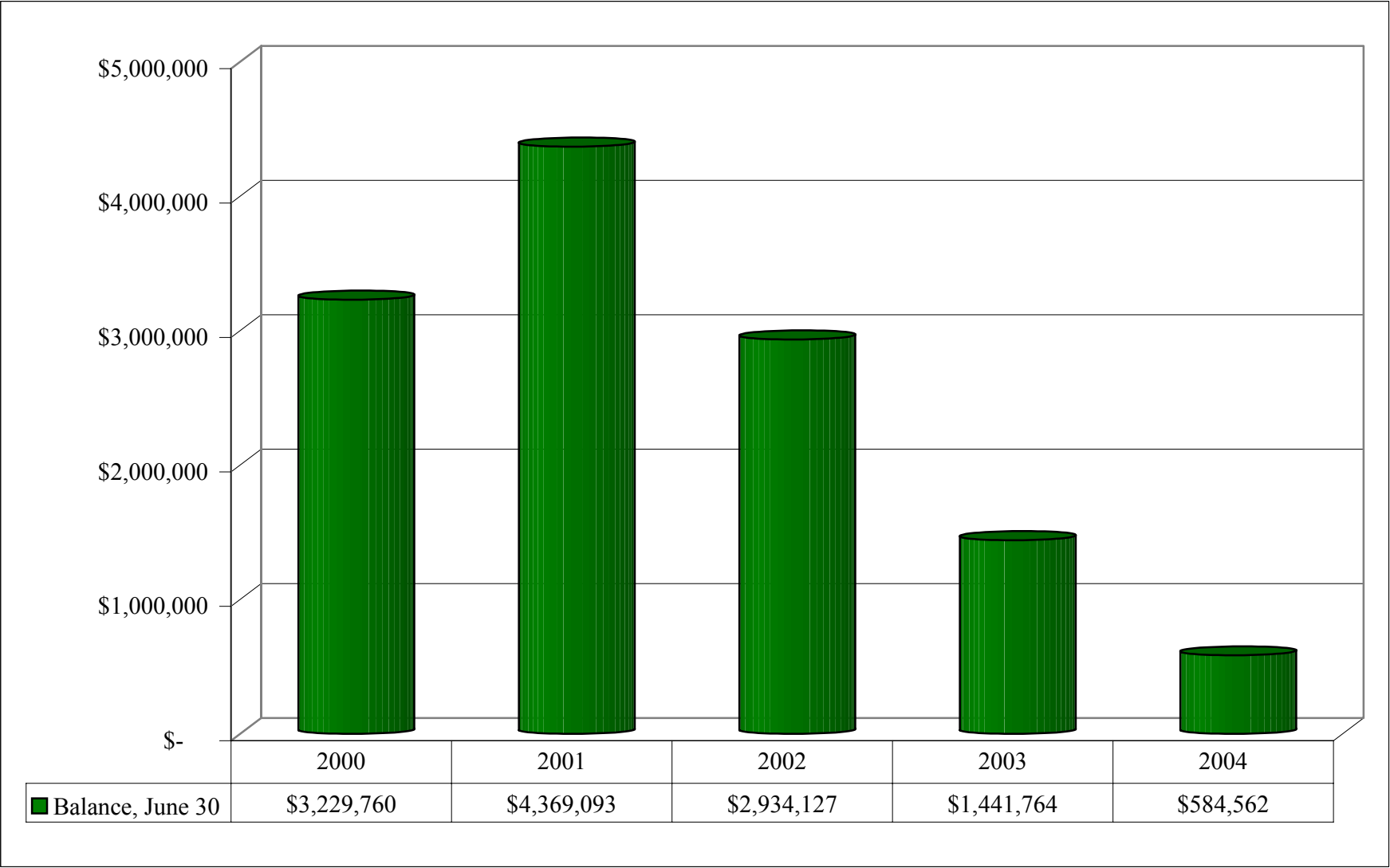
STATISTICAL SECTION

Our examination was conducted for the purpose of forming an opinion on the schedule of revenues, expenditures, and changes in fund balances. 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 revenues, expenditures, and changes in fund balances, and, accordingly, we express no opinion on it.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF DISBURSEMENTS
Fiscal Years Ended June 30, 2000 through 2004



NEBRASKA DEPARTMENT OF REVENUE
 MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF FUND BALANCE AT JUNE 30
 Fiscal Years Ended June 30, 2000 through 2004



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF NUMBER OF AUDITS
Fiscal Years Ended June 30, 2000 through 2004

