

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

**JULY 1, 2005 THROUGH JUNE 30, 2006**

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**Issued on October 18, 2006**

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

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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. 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, 2006:

- 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
- Municipal Infrastructure Redevelopment Fund
- Information Technology Infrastructure Fund
- City of the Primary Class Development Fund
- City of the Metropolitan Class Development Fund
- Cash Reserve Fund
- Nebraska Capital Construction Fund

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**EXIT CONFERENCE**

An exit conference was held October 4, 2006, with the Nebraska Department of Revenue to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

<u>NAME</u>	<u>TITLE</u>
Ronald E. Gottula	Accounting and Finance Manager
Richard A. Gettemy	Administrator of Finance and Management Services
Myle Nguyen	Accountant

Draft copies of the report were furnished to the Nebraska Department of Revenue to provide them an opportunity to review the report.

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

# STATE OF NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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## NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

### INDEPENDENT ACCOUNTANT'S REPORT

**Deann Haeffner, CPA**  
Deputy State Auditor  
[Deann.Haeffner@apa.ne.gov](mailto:Deann.Haeffner@apa.ne.gov)

Nebraska Department of Revenue  
Lincoln, Nebraska

**Don Dunlap, CPA**  
Asst. Deputy Auditor  
[Don.Dunlap@apa.ne.gov](mailto:Don.Dunlap@apa.ne.gov)

We have examined the accompanying schedule of cigarette tax receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2006. 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.

**Pat Reding, CPA**  
Asst. Deputy Auditor  
[Pat.Reding@apa.ne.gov](mailto:Pat.Reding@apa.ne.gov)

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.

**Tim Channer, CPA**  
Asst. Deputy Auditor  
[Tim.Channer@apa.ne.gov](mailto:Tim.Channer@apa.ne.gov)

**Mary Avery**  
SAE/Finance Manager  
[Mary.Avery@apa.ne.gov](mailto:Mary.Avery@apa.ne.gov)

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, 2006, based on the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services as described in Note 1.

**Dennis Meyer, CGFM**  
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Coordinator  
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**Mark Avery, CPA**  
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Review Coordinator  
[Mark.Avery@apa.ne.gov](mailto:Mark.Avery@apa.ne.gov)

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2006, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting

**Perry Pirsch, JD, MPA**  
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and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an attestation engagement performed in accordance with *Government Auditing Standards* and should be considered in assessing 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.

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style.

Assistant Deputy Auditor

October 4, 2006

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**SCHEDULE OF CIGARETTE TAX RECEIPTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Net Sales Per Month (Note 3)

July 2005	\$	5,490,015
August 2005		6,623,151
September 2005		5,137,893
October 2005		5,126,859
November 2005		5,867,544
December 2005		4,937,836
January 2006		5,112,049
February 2006		5,204,653
March 2006		4,314,015
April 2006		5,162,569
May 2006		6,006,593
June 2006		<u>7,031,008</u>
 Net Cigarette Tax Receipts	 \$	 <u><u>66,014,185</u></u>

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO THE SCHEDULE**

For the Fiscal Year Ended June 30, 2006

**1. Criteria**

The accounting policies of the Nebraska Department of Revenue 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.S.Supp., 2004, 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 the Nebraska State Accounting Manual published by DAS – Accounting Division 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, 2006, as related to cigarette tax receipts.

**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**

Wholesale dealers of cigarettes were allowed a discount of one and eighty-five hundredths 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. The total amount of sales discounts for the fiscal year ended June 30, 2006, was \$1,244,282.



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 \$649,556.

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NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
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, 2006, and have issued our report thereon dated October 4, 2006. 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.

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### 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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "Don Dunlap CPA". The signature is written in a cursive style.

Assistant Deputy Auditor

October 4, 2006

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

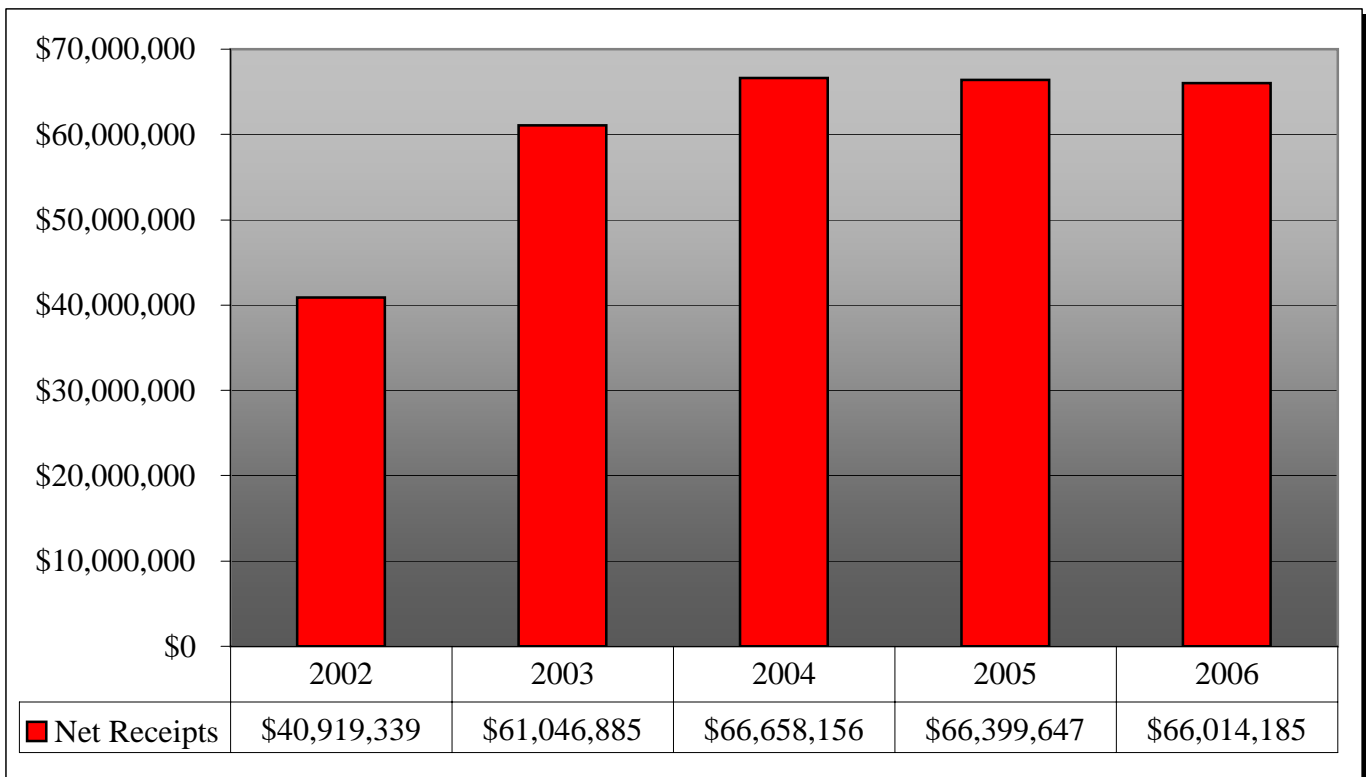
**STATISTICAL SECTION**

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**  
 FOR THE FISCAL YEARS ENDED JUNE 30, 2002 THROUGH 2006

	Fiscal Year				
	2002	2003	2004	2005	2006
Tax Rate Per Pack	\$ 0.34	\$ 0.34/0.64*	\$ 0.64	\$ 0.64	\$ 0.64
Gross Revenue	\$ 42,359,564	\$ 62,339,525	\$ 67,810,942	\$ 67,547,962	\$ 67,258,467
Less: Wholesaler's Discount (Allowance)	1,440,225	1,292,640	1,152,786	1,148,315	1,244,282
<b>Net Receipts</b>	<b>\$ 40,919,339</b>	<b>\$ 61,046,885</b>	<b>\$ 66,658,156</b>	<b>\$ 66,399,647</b>	<b>\$ 66,014,185</b>

\*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.



NEBRASKA DEPARTMENT OF REVENUE  
 CIGARETTE TAX RECEIPTS  
**CIGARETTE TAX RATES FOR ALL STATES**  
 As of January 1, 2006

<b>STATE</b>	<b>TAX RATE (¢ per pack)</b>	<b>RANK</b>	<b>STATE</b>	<b>TAX RATE (¢ per pack)</b>	<b>RANK</b>
Alabama (1)	42.5	39	Nebraska	64	30
Alaska	160	7	Nevada	80	25
Arizona	118	16	New Hampshire	80	25
Arkansas (2)	59	32	New Jersey	240	2
California	87	23	New Mexico	91	22
Colorado	84	24	New York (1)	150	10
Connecticut	151	8	North Carolina (3)	30	45
Delaware	55	35	North Dakota	44	38
Florida	33.9	44	Ohio	125	13
Georgia	37	41	Oklahoma	103	18
Hawaii	140	11	Oregon	118	16
Idaho	57	33	Pennsylvania	135	12
Illinois (1)	98	21	Rhode Island	246	1
Indiana	55.5	34	South Carolina	7	51
Iowa	36	42	South Dakota	53	37
Kansas	79	27	Tennessee (1) (2)	20	48
Kentucky (2)	30	45	Texas	41	40
Louisiana	36	42	Utah	69.5	29
Maine	200	4	Vermont	119	15
Maryland	100	19	Virginia (1)	30	45
Massachusetts	151	8	Washington	202.5	3
Michigan	200	4	West Virginia	55	35
Minnesota (4)	123	14	Wisconsin	77	28
Mississippi	18	49	Wyoming	60	31
Missouri (1)	17	50	Dist. of Columbia	100	19
Montana	170	6			
			U. S. Median	80	

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 is scheduled to increase to \$0.35 per pack on July 1, 2006.
- (4) Plus an additional 25.5 cent sales tax is added to the wholesale price of a tax stamp (total \$1.485).