

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

JULY 1, 2004 THROUGH JUNE 30, 2005

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the Auditor of Public Accounts.**

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Issued on September 12, 2005

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

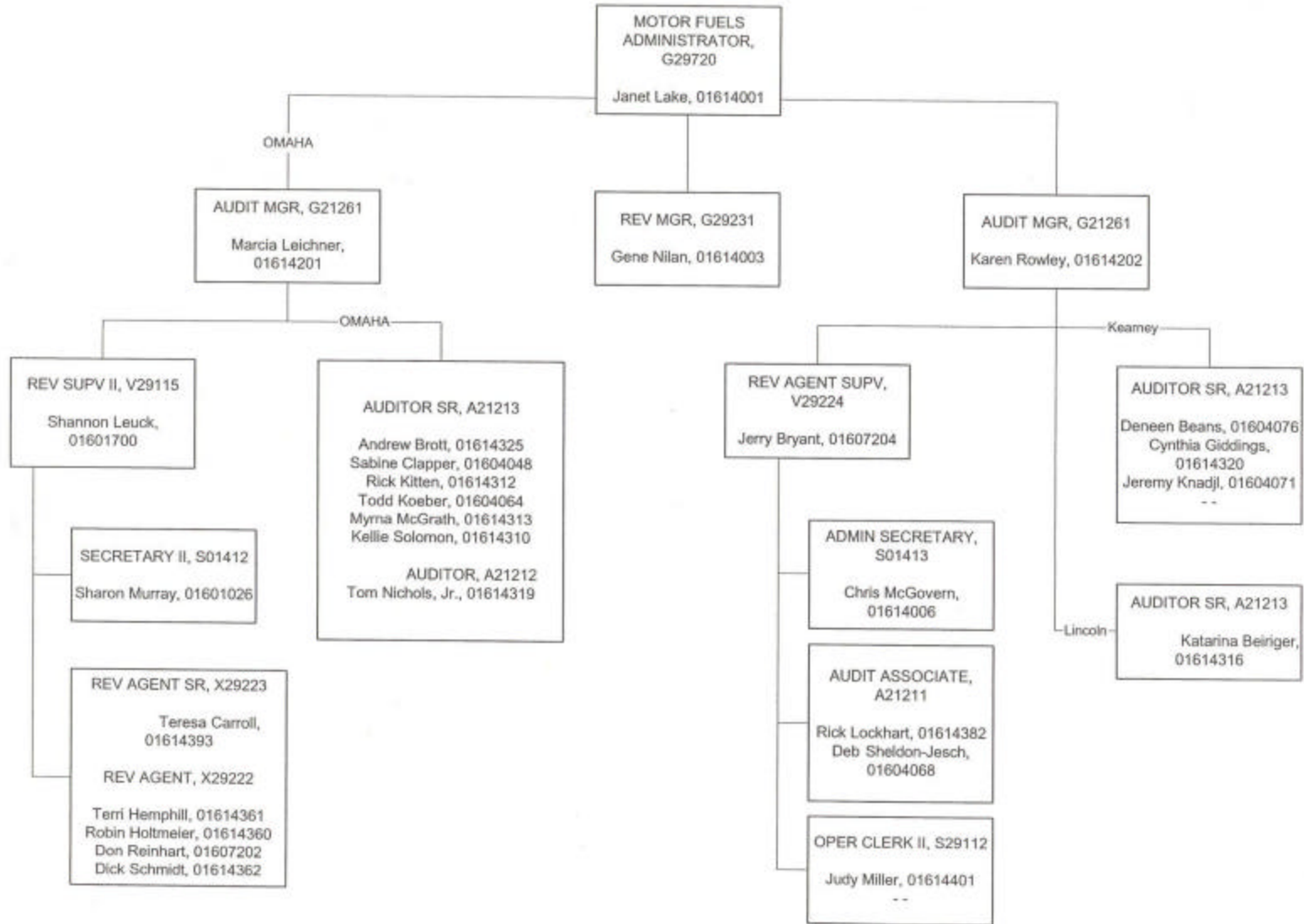
The Motor Fuel Tax Enforcement and Collection Division (Division) was created within the Nebraska Department of Revenue in 1991. The Division's objectives are 1) to administer all motor fuel tax programs, ensuring compliance with State laws; 2) to provide assistance to taxpayers regarding motor fuel 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, Aircraft 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 August 3, 2005 with the Division to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue - Motor Fuel Tax Enforcement and Collection Division were:

| <u>NAME</u> | <u>TITLE</u> |
|--------------|--------------------------------|
| Ron Gottula | Finance and Accounting Manager |
| Janet Lake | Motor Fuel Administrator |
| Myle Nguyen | Accountant |
| Karen Rowley | Motor Fuels Audit Manager |
| Tim Young | Personnel Administrator |

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. ***Travel Expense Reimbursements:*** The two documents tested were not supported by detailed itemization (name of restaurant) of meal costs incurred while traveling. Meal expenses reimbursed on one of two documents tested exceeded the General Services Administration (GSA) per diem guidelines.
2. ***Incomplete Personnel Files:*** One of four employees tested did not have an Immigration and Naturalization Service (INS) Form I-9 on file as required. Two of four employees tested did not have authorization forms on file for payroll deductions for parking. One of four employees tested had an incorrect amount withheld for dental insurance.
3. ***Exempt Employee Time Record:*** Two of four employees tested used the exempt employee time record. The time record is an exception report that lists only when leave is taken, rather than the actual hours worked. Exception reporting does not provide adequate documentation to verify not less than forty hours were worked each week.
4. ***Reconciliation of Bank Records to the Nebraska Information System:*** The Department of Administrative Services' reconciliation process is still not done in a timely manner and continues to reflect unknown variances.

More detailed information on the above items is provided hereafter. It should be noted this report is critical in nature as 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. 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." DAS accounting manual Section AM-005, Travel Expense Policies, Substantiation of Expenses 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 the dates, times, amounts, and locations all agree. Good internal control also requires procedures to ensure daily meal costs reimbursed to employees are allowable and are within the General Services Administration (GSA) Federal per diem guidelines for meal costs.

We tested four travel expenditure documents totaling \$6,114. The Motor Fuel Tax Enforcement and Collection Division had \$62,630 in travel expenditures for the fiscal year ended June 30, 2005. We noted the following:

- The two documents tested were not supported by detailed itemization (name of restaurant) of meal costs incurred while traveling. This was also noted in our prior report.
- Meal expenses reimbursed on one of two documents tested exceeded the GSA per diem guidelines.

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 agrees 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 is documented for meal reimbursements. Additionally meal reimbursement amounts should be within GSA guidelines.

NEBRASKA DEPARTMENT OF REVENUE
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COMMENTS AND RECOMMENDATIONS

(Continued)

1. Travel Expense Reimbursements (Concluded)

Department's Response: The Department of Revenue complies with all the reporting requirements listed in the DAS accounting manual Section AM-005, Travel Expense Policies, Substantiation of Expenses. Furthermore, Internal Revenue Service (IRS) Publication 463 states, "Documentary evidence is not needed if . . . your expense, other than lodging, is less than \$75." Thus, your entire quotation from chapter 5 of this publication regarding documentary evidence does not apply in this situation. Not only is documentation of the restaurant name not required by the IRS, it provides little or no assurance that the dates, times, and amounts indicated on an employee's expense reimbursement agree. To require that employees indicate restaurant names would be to impose additional reporting requirements beyond what is required by law, for no useful purpose. Nevertheless, our travel policy does require meal receipts if the total meal expense claimed for a trip exceeds what is deemed as reasonable by our Agency. Our Agency uses the General Services Administration (GSA) Federal per diem amount as a guideline to determine what meal amount is reasonable on a per trip basis. Meals are not reimbursed on a per diem basis. Under the State's accountable plan employees are reimbursed for actual meal expenses as required by Neb. Rev. Stat. Section 81-1174 R.S.Supp., 2003. IRS Publication 535 states, "An excess reimbursement or allowance is any amount you pay to an employee that is more than the business-related expenses for which the employee adequately accounted." Not only was there no excess reimbursement as defined in Publication 535, the employee in question claimed actual meal expenses totaling \$52.33 less than the GSA per diem guideline amount for the trip.

APA's Response: The section of IRS Publication 463 which states, documentary evidence is not needed if the expense is less than \$75 does not apply to accountable plans, which exclude reimbursements from being subject to income tax. If the IRS rules for accountable plans are not followed, there is a risk the State of Nebraska will lose their accountable plan status and all employee meal reimbursements would become taxable income. IRS Publication 463 and discussions with IRS staff substantiate the requirement to include the name of the restaurant on meal logs. Meal logs should provide adequate information, which would include the restaurant name, to support a reasonable determination that the meal expense is appropriate. Reimbursements for individual meals in excess of a reasonable portion of the per diem guideline are not reasonable. A letter to all agencies from DAS dated December 15, 2000 states, "From this time forward, we are recommending departments utilize the federal maximum per diem standards as published by the government as a reasonable guideline." Amounts saved because meals are skipped should not be allowed to be applied toward the purchase of expensive meals exceeding daily federal per diem guidelines or an unreasonable portion of the daily federal per diem guidelines. Meal costs in excess of the GSA maximum daily amount are subject to income tax if not supported by detailed receipts. Nebraska State employees traveling on state business are accountable to Nebraska taxpayers and owe a duty to Nebraska taxpayers to follow the federal GSA per diem standards for meals.

NEBRASKA DEPARTMENT OF REVENUE
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COMMENTS AND RECOMMENDATIONS

(Continued)

2. Incomplete Personnel Files

The U.S. Department of Justice Immigration and Naturalization Service requires all employees, citizens, and noncitizens hired after November 6, 1986 have an Employment Eligibility Verification (Form I-9) completed and retained to document employment eligibility. The completed I-9 Forms are to be retained by employers for three years after the date of hire or one year after the date employment ends, whichever is later. 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.) . . ."

- We noted one of four employees tested did not have a Form I-9 on file as required. This was noted in a prior audit.
- Two of four employees tested did not have authorization forms on file for payroll deductions for parking. This was noted in a prior audit.
- One of four employees tested had an incorrect amount withheld for dental insurance.

Employers are subject to civil or criminal penalties if they do not comply with the provisions of the Immigration and Control Reform Act of 1986, which is the authority for collecting Form I-9. Without adequate documentation there is an increased risk for errors to occur.

We recommend the Division review employee personnel files and ensure all necessary and required forms are included and maintained. We also recommend withholding be reviewed to ensure amounts withheld are correct.

Department's Response: Our current practice is to obtain an I-9 and all deduction authorizations for every employee. We will review all personnel files within the next month to ensure that current deduction authorizations and I-9 forms are present.

We have reported the dental insurance deduction discrepancy to State Personnel. The deduction amount is not manually entered, it is set up in the system. State Personnel reviewed the deduction amounts for all of the other family dental deductions and found no other discrepancies.

NEBRASKA DEPARTMENT OF REVENUE
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COMMENTS AND RECOMMENDATIONS

(Continued)

3. Exempt Employee Time Record

Neb. Rev. Stat. Section 84-1001(1) R.R.S. 1999 states, “All state officers and heads of departments and their deputies, assistants, and employees, except permanent part-time employees, temporary employees, and members of any board or commission not required to render full-time service, shall render not less than forty hours of labor each week except any week in which a paid holiday may occur.” In addition, good internal control requires hours actually worked be adequately documented, for example, via timesheets, time logs, etc., and such documentation be kept on file to provide evidence of compliance with the requirements of Statute 84-1001.

Two of four employees tested used the exempt employee time record. The time record is an exception report that lists only when leave is taken, rather than the actual hours worked. Exception reporting does not provide adequate documentation to verify not less than forty hours were worked each week.

We recommend all employees complete timesheets or alternatively the Division develop a time record where the employee would certify they worked 40 hours per week. Timesheets should be approved by supervisors.

Department’s Response: We have added a statement that will pop up when the employee moves the cursor to click on the ready box. The statement says that “Clicking Ready affirms that you are ready to have your time record certified and that you have worked or used leave for 40 hours each work week.”

4. Reconciliation of Bank Records to the Nebraska Information System

Good internal control requires a plan of organization, procedures, and records designed to safeguard assets and provide reliable financial information. Without a timely and complete reconciliation of bank records to the Nebraska Information System (NIS), there is a greater risk for fraud and errors to occur and to remain undetected.

During the audit of the Comprehensive Annual Financial Report (CAFR) of the State of Nebraska, the Auditor of Public Accounts (APA) noted the absence of reconciliation between the Nebraska State Treasurer’s actual bank statements and Nebraska accounting records (in both NIS and NAS, the Nebraska Accounting System before NIS). This has been an issue for the Department of Administrative Services (DAS) Accounting Division for many years. The APA’s previous versions noted monthly reconciliations have not been completed in a timely manner and reconciliations performed have shown significant unknown variances between the bank records and the accounting records,

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COMMENTS AND RECOMMENDATIONS

(Continued)

4. Reconciliation of Bank Records to the Nebraska Information System (Concluded)

with the bank being short compared to the accounting records. Although DAS Accounting Division continues to work on correcting the reconciliation of bank records to NIS, the APA continues to note areas where improvement is still needed in the reconciliation process to ensure NIS integrity and operational efficiency. Specifically, the APA noted the status of the reconciliation process as of August 11, 2005 to be as follows:

DAS Accounting Division has worked on the reconciliation process, but continued progress is needed. DAS Accounting Division's reconciliation process has developed into a very detailed process of analyzing bank activity, compared to activity recorded on NIS, to identify reconciling items. DAS Accounting Division has completed their reconciliation process for the months of June and July of 2004. The APA has reviewed these reconciliations. These two months show variances of \$2,944,126 and \$2,932,824, respectively. Again, the reconciliations show the bank being short compared to the accounting records. Per inquiry of management, DAS Accounting Division has started the reconciliation process for various months of the fiscal year ended June 30, 2005; however, the reconciliation process has not been a continuous monthly process and no monthly reconciliation has been completed since July of 2004.

Although DAS Accounting Division has worked on the reconciliation process, the process is still not done in a timely manner and the variance is inconsistent. The reconciliation continues to reflect unknown variances and shortages. Complete and timely reconciliation procedures between bank records and accounting records are required to provide control over cash and accurate financial information.

The APA recommends DAS Accounting Division continue their reconciliation process, in a more timely manner, and on at least a monthly basis, to ensure all financial information is correct on NIS. We also recommend, when a consistent cash variance between the bank records and the accounting records is obtained (based on at least six months of reconciliations), DAS submit their plan for adjusting NIS to the Governor and the Legislature so they may take appropriate action to correct NIS and resolve the variances noted.

This issue is the responsibility of DAS Accounting Division; however, as the variances have not been identified by fund or agency, this issue directly affects all Nebraska State agencies' financial information and must be disclosed in this report.

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NEBRASKA DEPARTMENT OF REVENUE MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

INDEPENDENT ACCOUNTANT'S REPORT

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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, 2005. 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.

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.

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, 2005, 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 August 3, 2005, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting 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 Division 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 "Timothy J. Chamber CPA". The signature is written in a cursive style with a large, sweeping initial "T".

Assistant Deputy Auditor

August 3, 2005

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, 2005

| | Motor Fuel Tax Enforcement Fund 21700 | Petro Release Remediation Fund 21590 | Highway Cash Fund 22710 | Investigative Forfeiture Fund 41610 | Total (Memorandum Only) |
|--|---|--|-------------------------------|---|--|
| REVENUES: | | | | | |
| Intergovernmental | \$ 10,205 | \$ - | \$ - | \$ - | \$ 10,205 |
| Sales & Charges | - | - | 225 | - | 225 |
| Miscellaneous | 22,552 | 173 | - | 641 | 23,366 |
| TOTAL REVENUES | 32,757 | 173 | 225 | 641 | 33,796 |
| EXPENDITURES: | | | | | |
| Personal Services | 1,614,681 | 27,726 | - | - | 1,642,407 |
| Operating | 211,815 | - | - | - | 211,815 |
| Travel | 62,630 | - | - | - | 62,630 |
| Capital Outlay | 6,051 | - | - | - | 6,051 |
| TOTAL EXPENDITURES | 1,895,177 | 27,726 | - | - | 1,922,903 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,862,420) | (27,553) | 225 | 641 | (1,889,107) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sales of Assets | 252 | - | - | - | 252 |
| Deposit to/from Common Fund | - | - | (225) | - | (225) |
| Operating Transfers In | 2,000,000 | 28,000 | - | - | 2,028,000 |
| TOTAL OTHER FINANCING SOURCES (USES) | 2,000,252 | 28,000 | (225) | - | 2,028,027 |
| Net Change in Fund Balances | 137,832 | 447 | - | 641 | 138,920 |
| FUND BALANCES, JULY 1, 2004 | 566,247 | 477 | - | 17,838 | 584,562 |
| FUND BALANCES, JUNE 30, 2005 | <u>\$ 704,079</u> | <u>\$ 924</u> | <u>\$ -</u> | <u>\$ 18,479</u> | <u>\$ 723,482</u> |
| FUND BALANCES CONSIST OF: | | | | | |
| General Cash | \$ 704,079 | \$ 924 | \$ - | \$ 18,479 | \$ 723,482 |
| TOTAL FUND BALANCES | <u><u>\$ 704,079</u></u> | <u><u>\$ 924</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 18,479</u></u> | <u><u>\$ 723,482</u></u> |

The accompanying notes are an integral part of the schedule.

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULE

For the Fiscal Year Ended June 30, 2005

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.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 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, 2005 includes only those payables posted to NIS before June 30, 2005 and not yet paid as of that date. The amount recorded as expenditures as of June 30, 2005 **does not** include amounts for goods and services received before June 30, 2005 which had not been posted to NIS as of June 30, 2005.

The Division had no accounts receivable at June 30, 2005. 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.

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

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

NOTES TO THE SCHEDULE
(Continued)

1. **Criteria** (Concluded)

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 balance 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 within 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 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 Department of Revenue. Statutes require the 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 INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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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Nebraska Department of Revenue
Lincoln, Nebraska

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, 2005, and have issued our report thereon dated August 3, 2005. 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.

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 an opinion 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 4 (Reconciliation of Bank Records to the Nebraska Information System.)

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. 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.

Compliance and Other Matters

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 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*.

We noted certain additional items that we 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 1 (Travel Expense Reimbursements), Comment Number 2 (Incomplete Personnel Files), and Comment Number 3 (Exempt Employee Time Records).

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.

Handwritten signature of Timothy J. Channer CPA in black ink.

Assistant Deputy Auditor

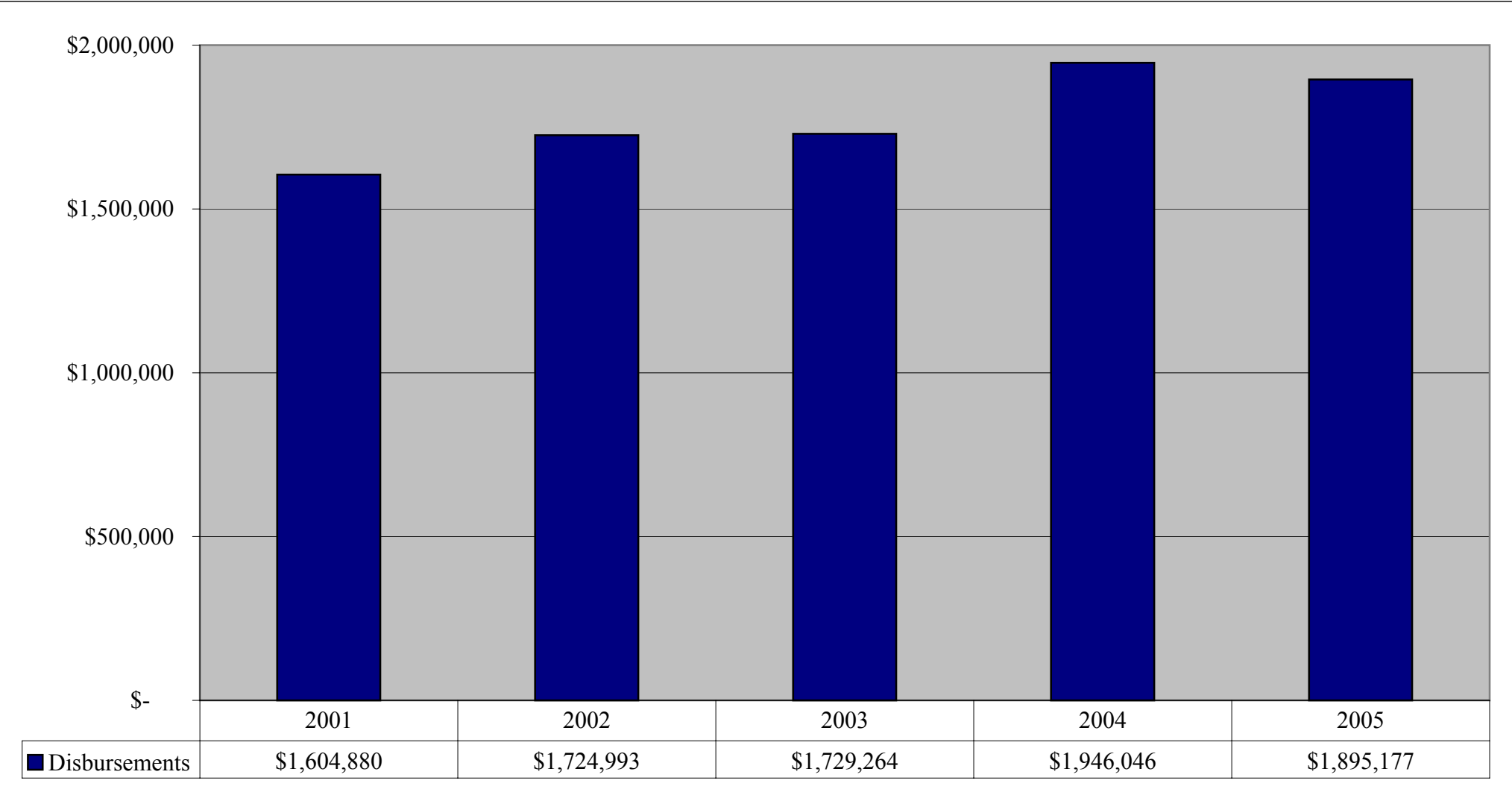
August 3, 2005

NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION

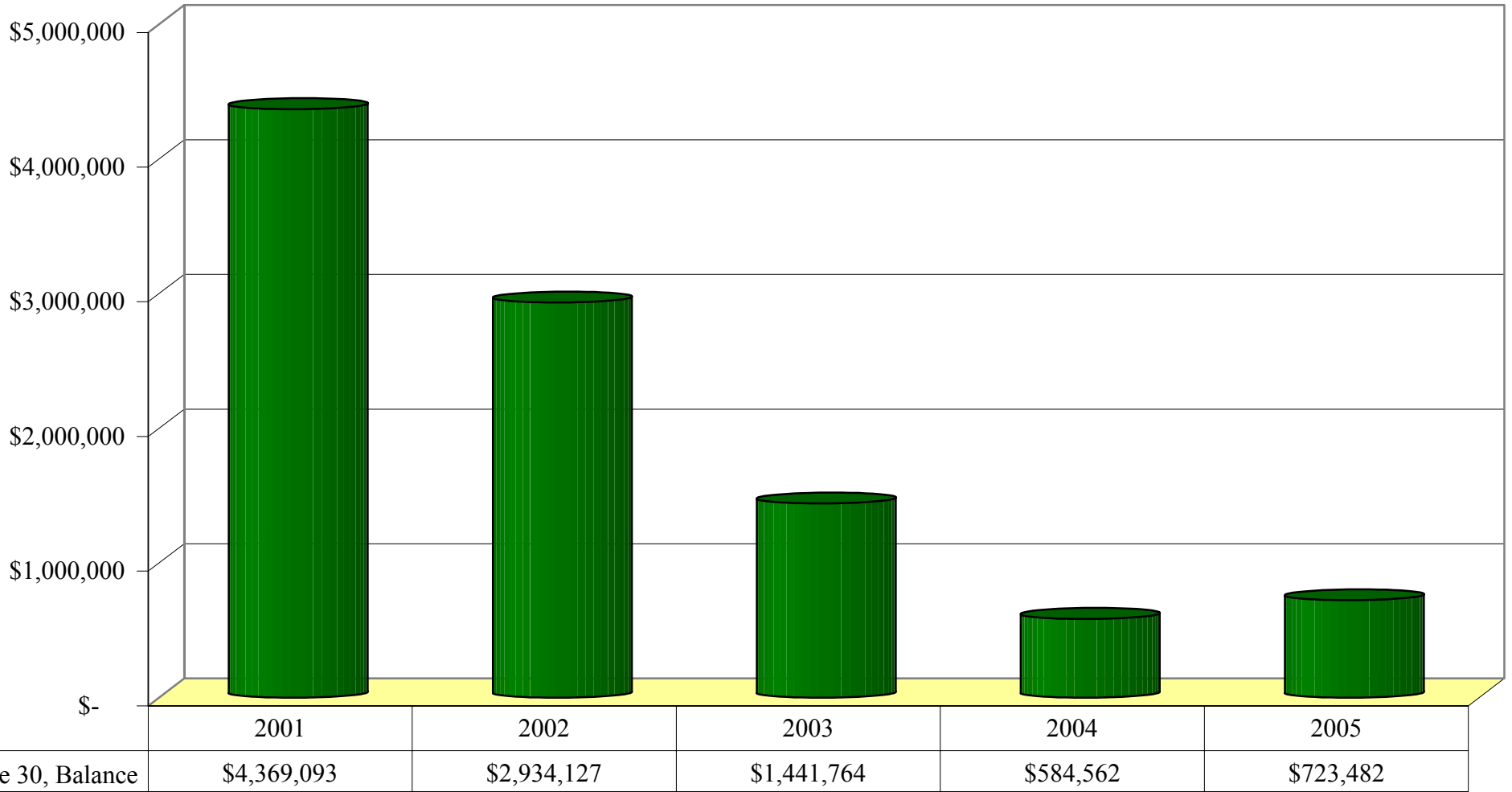
STATISTICAL SECTION

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.

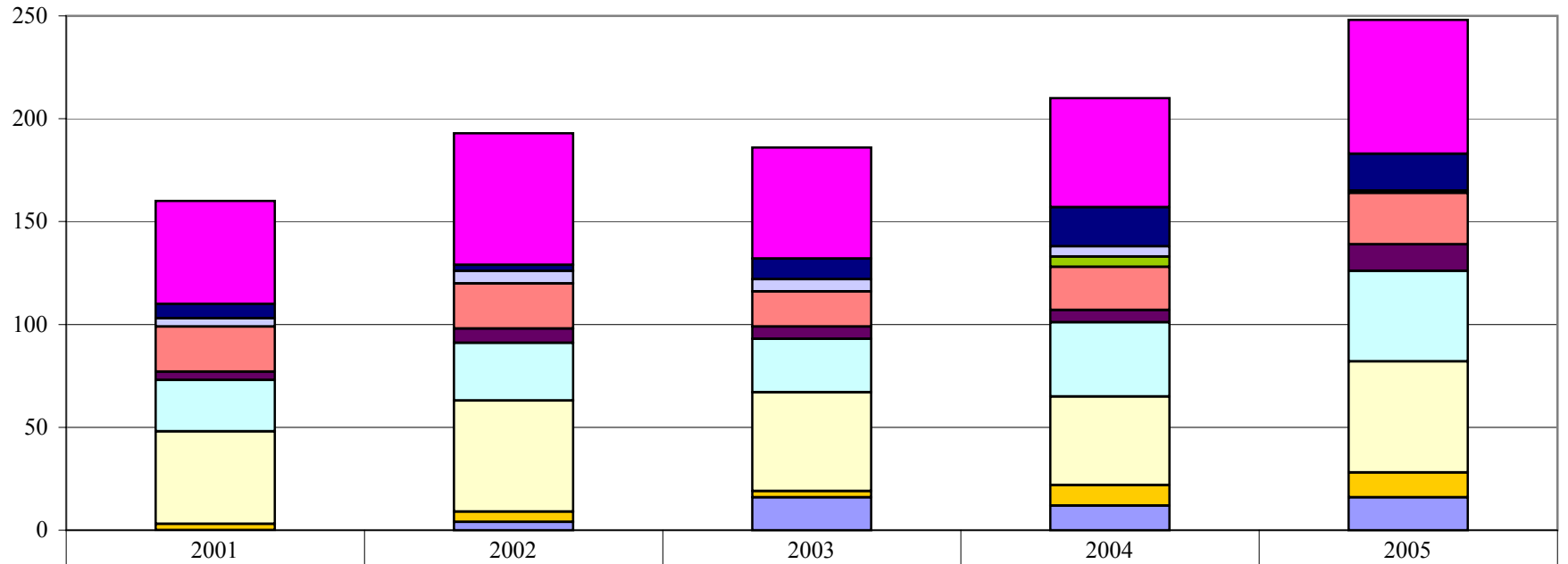
NEBRASKA DEPARTMENT OF REVENUE
 MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF DISBURSEMENTS
 Fiscal Years Ended June 30, 2001 through 2005



NEBRASKA DEPARTMENT OF REVENUE
MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF JUNE 30 FUND BALANCE
Fiscal Years Ended June 30, 2001 through 2005



NEBRASKA DEPARTMENT OF REVENUE
 MOTOR FUEL TAX ENFORCEMENT AND COLLECTION DIVISION
SCHEDULE OF NUMBER OF AUDITS
 Fiscal Years Ended June 30, 2001 through 2005



| | 2001 | 2002 | 2003 | 2004 | 2005 |
|-----------------------|------|------|------|------|------|
| Sp Fuels/Diesel | 50 | 64 | 54 | 53 | 65 |
| Retailers | 7 | 3 | 10 | 19 | 18 |
| Gas Tax Credit | 4 | 6 | 6 | 5 | 1 |
| Terminals | 0 | 0 | 0 | 5 | 0 |
| Compressed Fuels | 22 | 22 | 17 | 21 | 25 |
| Aircraft Fuels | 4 | 7 | 6 | 6 | 13 |
| Petroleum Release Fee | 25 | 28 | 26 | 36 | 44 |
| Motor Vehicle Fuels | 45 | 54 | 48 | 43 | 54 |
| Liquid Fuel Carriers | 3 | 5 | 3 | 10 | 12 |
| Consumers Use | 0 | 4 | 16 | 12 | 16 |