

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

**JULY 1, 2007 THROUGH JUNE 30, 2008**

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**Issued on September 8, 2008**

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 (Department). 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 is sixty-four cents. For each package containing more than twenty cigarettes an additional tax is assessed of one-twentieth of the tax on the first twenty cigarettes on each cigarette in excess of twenty cigarettes in each 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, 2008.

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 August 13, 2008, with the Department to discuss the results of our examination. Those in attendance for the Nebraska Department of Revenue were:

<b>NAME</b>	<b>TITLE</b>
Doug Ewald	Tax Commissioner
Len Sloup	Director – Operations and Administrative Services
Chuck Long	Manager – Special Services
Ron Gottula	Accounting and Finance Manager

During our examination of the Nebraska Department of Revenue - Cigarette Tax Receipts, we noted no matters involving the internal control over financial reporting or other operational matters.

Draft copies of this report were furnished to the Department 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.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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### NEBRASKA DEPARTMENT OF REVENUE CIGARETTE TAX RECEIPTS

### **INDEPENDENT ACCOUNTANT'S REPORT**

Nebraska Department of Revenue  
Lincoln, Nebraska

We have examined the accompanying schedule of cigarette tax receipts of the Nebraska Department of Revenue (Department) for the fiscal year ended June 30, 2008. The Department's management is responsible for the schedule of cigarette tax receipts. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and accordingly, included examining, on a test basis, evidence supporting the schedule of cigarette tax receipts and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents, in all material respects, the cigarette tax receipts of the Nebraska Department of Revenue for the fiscal year ended June 30, 2008, 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 28, 2008, on our consideration of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 management, the Nebraska Tax Commissioner, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 28, 2008

Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**SCHEDULE OF CIGARTTE TAX RECEIPTS**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Net Sales Per Month (Note 3)

July-07	\$	6,341,323
August-07		5,949,552
September-07		5,844,088
October-07		6,599,353
November-07		6,210,272
December-07		5,168,400
January-08		5,348,338
February-08		4,826,885
March-08		5,300,450
April-08		5,605,970
May-08		5,555,735
June-08		6,859,414
		<hr/>
Net Cigarette Tax Receipts	\$	<u><u>69,609,780</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, 2008

**1. Criteria**

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

Per Neb. Rev. Stat. § 81-1107(2) (Supp. 2007), 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.”

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 1999), The State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes the Nebraska Information System (NIS) to maintain the general ledger and all detail accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public. The financial information used to prepare the schedule of receipts was obtained directly from the general ledger and fund balance information kept on NIS. As transactions occur, the agencies record the accounts receivables. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows.

The Department had no accounts receivable related to Cigarette Tax receipts at June 30, 2008.

**2. Reporting Entity**

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

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

**3. Sales Discounts**

Cigarette wholesale dealers 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. § 77-2608 (Reissue 2003). The total amount of sales discounts for the fiscal year ended June 30, 2008, was \$1,312,054.



NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**NOTES TO THE SCHEDULE**

(Continued)

**4. Refunds/Credits**

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

- A. Refunds are allowed when unused cigarette tax stamps are returned to the Department. These stamps will be either 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 ended June 30, 2008, was \$712,667.



## NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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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***

Nebraska Department of Revenue  
Lincoln, Nebraska

We have examined the accompanying schedule of cigarette tax receipts of the Nebraska Department of Revenue for the year ended June 30, 2008, and have issued our report thereon dated August 28, 2008. 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 - Cigarette Tax Receipt's internal control over financial reporting as a basis for designing our procedures for the purpose of expressing our opinion on the schedule of cigarette tax receipts, but not for the purpose of expressing an opinion on the effectiveness of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Nebraska Department of Revenue - Cigarette Tax Receipt's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the accounting system and procedures prescribed by the State of Nebraska Director of Administrative Services such that there is more than a remote likelihood that a misstatement of the Nebraska Department of Revenue - Cigarette Tax Receipt's financial schedule that is more than inconsequential will not be prevented or detected by the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial schedule will not be prevented or detected by the Nebraska Department of Revenue - Cigarette Tax Receipt's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nebraska Department of Revenue - Cigarette Tax Receipt's financial schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts 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 audit, 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 management, the Nebraska Tax Commissioner, others within the Department, and the appropriate Federal and regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

Signed Original on File

August 28, 2008

Assistant Deputy Auditor

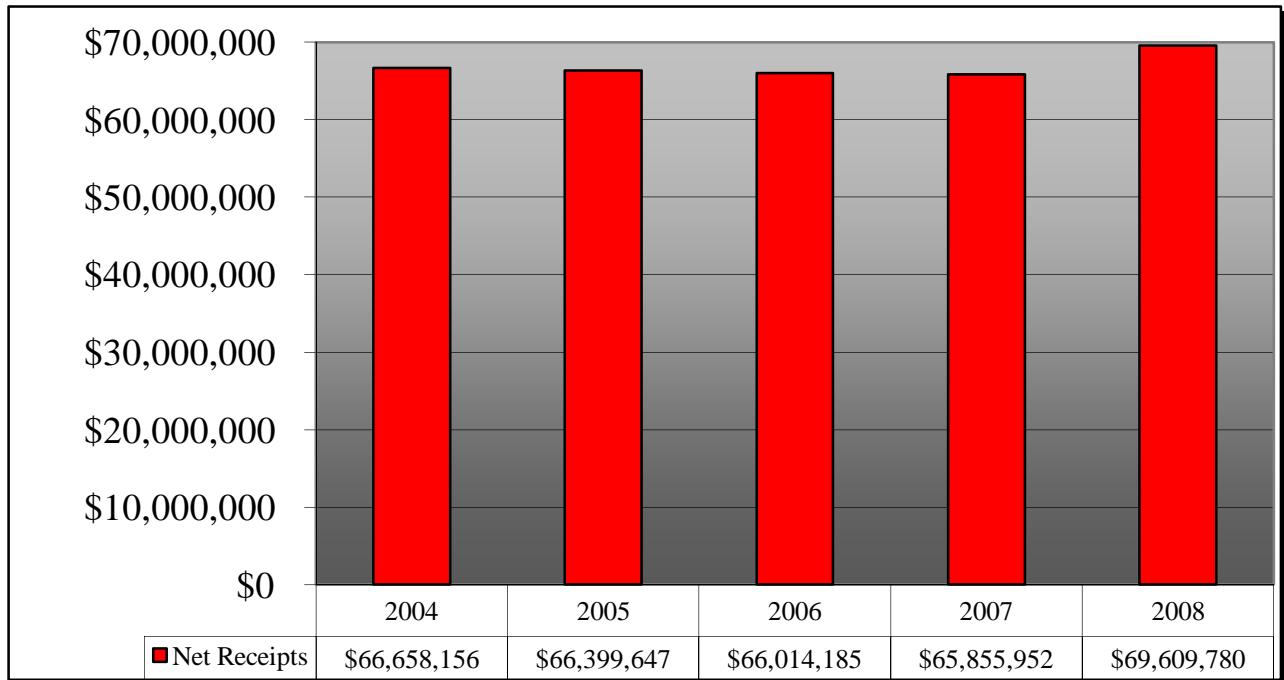
NEBRASKA DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS

**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, 2004 THROUGH 2008

	Fiscal Year				
	2004	2005	2006	2007	2008
Gross Revenue	\$ 67,810,942	\$ 67,547,962	\$ 67,258,467	\$ 67,097,251	\$ 70,921,834
Less: Wholesaler's Discount (Allowance)	\$ 1,152,786	\$ 1,148,315	\$ 1,244,282	\$ 1,241,299	\$ 1,312,054
<b>Net Receipts</b>	<b>\$ 66,658,156</b>	<b>\$ 66,399,647</b>	<b>\$ 66,014,185</b>	<b>\$ 65,855,952</b>	<b>\$ 69,609,780</b>
As Per Neb. Rev. Stat. § 77-2602.					
Tax Rate Per Pack	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64	\$ 0.64



DEPARTMENT OF REVENUE  
CIGARETTE TAX RECEIPTS  
**CIGARETTE TAX RATES FOR ALL STATES**  
As of January 1, 2008

STATE	Tax Rate (¢ per pack)	RANK	STATE	TAX RATE (¢ per pack)	RANK
Alabama (1)	42.5	42	Nebraska	64	35
Alaska	200	4	Nevada	80	32
Arizona	200	4	New Hampshire	108	24
Arkansas	59	38	New Jersey	257.5	1
California	87	30	New Mexico	91	29
Colorado	84	31	New York (1)	150	16
Connecticut	200	4	North Carolina	35	45
Delaware	115	23	North Dakota	44	41
Florida	33.9	46	Ohio	125	20
Georgia	37	43	Oklahoma	103	25
Hawaii (3)	180	10	Oregon	118	22
Idaho	57	39	Pennsylvania	135	19
Illinois (1)	98	28	Rhode Island	246	2
Indiana	99.5	27	South Carolina	7	51
Iowa	136	18	South Dakota	153	14
Kansas	79	33	Tennessee (1) (2)	62	36
Kentucky (2)	30	47	Texas	141	17
Louisiana	36	44	Utah	69.5	34
Maine	200	4	Vermont	179	11
Maryland	200	4	Virginia (1)	30	47
Massachusetts	151	15	Washington	202.5	3
Michigan	200	4	West Virginia	55	40
Minnesota (4)	123	21	Wisconsin	177	12
Mississippi	18	49	Wyoming	60	37
Missouri (1)	17	50	Dist. of Columbia	100	26
Montana	170	13			
			U. S. Median	100	

Source: Compiled by 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 0.05¢ in TN.
- (3) Tax rate is scheduled to increase to \$2.00 per pack on September 30, 2008.
- (4) Plus an additional 25.5 cent sales tax is added to the wholesale price of a tax stamp (total \$1.485).