NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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November 17, 2025

James R. Kamm, Tax Commissioner
Nebraska Department of Revenue
P.O. Box 94818
Lincoln, NE 68509-4818

Dear Mr. Kamm:

This letter is provided pursuant to American Institute of Certified Public Accountants (AICPA) Auditing Standards AU-C Section 265.A18, which permits the early communication of audit findings due to their significance and the urgent need for corrective action. The audit work addressed herein was performed as part of the fiscal year ended June 30, 2025, Annual Comprehensive Financial Report (ACFR) audit. This communication is based on our audit procedures through November 17, 2025. Because we have not completed our audit of the fiscal year 2025 ACFR, additional matters may be identified and communicated in our final report.

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nebraska (State), as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the State's system of internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses and significant deficiencies may exist that were not identified.

In connection with our audit described above, we noted certain internal control or compliance matters related to the activities of the Nebraska Department of Revenue (Department), or other operational matters, which are presented below for your consideration. The following comments and recommendations, which have been discussed with the appropriate members of the Department, are intended to improve internal control or result in other operating efficiencies.

Draft copies of this early management letter were furnished to the Department to provide management with an opportunity to review and to respond to the comments and recommendations contained herein. The Department declined to respond.

Background Information

The Department maintains balances for delinquent and protested taxes owed by taxpayers. In its rules and regulations, at Title 316 Nebraska Administrative Code (NAC) § 36-002.08 ("Rules for the Collection of Delinquent Taxes"), the Department defines a delinquency as follows:

> *Delinquency means any tax, interest, penalties, or costs which are owed and past due, regardless of whether the amount was simply unpaid or issued by the Department as a balance due notice, jeopardy assessment, notice of proposed deficiency determination, or any other assessment.*

Title 316 describes the collection procedures available to the Department when a tax delinquency has been determined to exist. Specifically, the Department may do the following:

- Enter into a payment agreement (§ 36-005);
- Assess a State tax lien (§ 36-006);
- Commence judicial enforcement of the State tax lien (§ 36-007);
- Issue a levy on an employer or financial institution (§ 36-008);
- Seize and sell property (§ 36-009);
- Revoke or suspend a tax license or permit (§ 36-011); or
- Contract with collection agencies (§ 36-014).

As part of its year-end processes for the ACFR, the Department must estimate its projected one-year collections on delinquent and protested tax balances. The Department has separate methodologies for determining the collection rates for delinquent and protested balances.

On April 14, 2025, the Auditor of Public Accounts (APA) issued an attestation report on the Department's delinquent and protested tax balances, reporting that the delinquent tax balances for the fiscal years ended June 30, 2023, and June 30, 2024, were $260,383,623 and $269,518,761, respectively. Of the June 30, 2024, balance, $129,373,558 was attributed to delinquent individual income taxes.

On that same day, April 14, 2025, the APA issued a separate letter addressed to the Legislature regarding Tax Incentives and Delinquent and Protested Tax Balances. In that letter, the APA offered the following observation:

> *In excess of $650 million in delinquent and protested taxes due to the State of Nebraska remain uncollected as of June 30, 2024, indicating that <u>action may be needed to encourage more aggressive collection of those delinquent tax revenues</u>.*

(Emphasis added.) As part of its annual ACFR audit, the APA has reviewed delinquent and protested balances of sales and use tax, withholding tax, individual income tax, corporate income tax, and partnership income tax for fiscal year ended June 30, 2025.

The following is our comment and recommendation for the year ended June 30, 2025, ACFR.

Increasing Delinquent and Protested Tax Balances

The Department's delinquent tax balances increased from $269,518,761 at the end of fiscal year 2024 to $310,663,621 at the end of fiscal year 2025 – an increase in excess of $41 million and 15%. The following table illustrates the Department's delinquent tax balances for each of the past 10 years. (See also **Exhibit A**):

Fiscal Year	Corporate Income Tax	Individual Income Tax	Partnership Income Tax*	Sales and Use Tax	Withholding Tax	Total
2025	$ 58,968,906	$ 135,637,449	$ 12,408,502	$ 78,487,809	$ 25,160,955	**$ 310,663,621**
2024	$ 51,559,046	$ 129,373,558	$ 2,370,264	$ 62,010,250	$ 24,205,643	**$ 269,518,761**
2023	$ 58,442,587	$ 125,118,131	$ 0	$ 58,400,026	$ 18,422,879	**$ 260,383,623**
2022	$ 45,030,877	$ 115,026,069	$ 0	$ 48,288,562	$ 26,637,932	**$ 234,983,440**
2021	$ 53,161,968	$ 95,442,901	$ 0	$ 47,919,826	$ 15,888,521	**$ 212,413,216**
2020	$ 71,726,691	$ 87,679,045	$ 0	$ 41,719,386	$ 16,003,617	**$ 217,128,739**
2019	$ 38,412,017	$ 91,720,890	$ 0	$ 36,002,923	$ 14,569,058	**$ 180,704,888**
2018	$ 19,603,811	$ 66,727,154	$ 0	$ 32,487,116	$ 11,474,877	**$ 130,292,958**
2017	$ 23,706,901	$ 67,353,157	$ 0	$ 32,268,873	$ 10,379,284	**$ 133,708,215**
2016	$ 24,831,774	$ 73,555,349	$ 0	$ 30,381,000	$ 10,172,673	**$ 138,940,796**

**Because the department did not report delinquent partnership income tax prior to fiscal year 2024, no such figures are shown above. The APA estimates that any delinquent partnership income tax prior to 2024 would have been insignificant.*

The Department estimates an amount to be collected on these delinquent balances based on the average of past delinquent tax collections. The table below shows the Department's estimated collection percentage along with the anticipated amount to be collected on the delinquent balances as of June 30, 2025:

Description	Corporate Income Tax	Individual Income Tax	Partnership Income Tax	Sales and Use Tax	Withholding Tax	Total
Delinquent Balance	$ 58,968,906	$ 135,637,449	$ 12,408,502	$ 78,487,809	$ 25,160,955	**$ 310,663,621**
Collection % (rounded)	35%	15%	27%	15%	27%	**20%**
Estimated Collections	$ 20,639,117	$ 20,345,617	$ 3,350,295	$ 11,773,171	$ 6,793,458	**$ 62,901,659**

The Department also reported $376,898,769 in protested tax balances as of June 30, 2025. Title 316 recognizes a taxpayer's right to protest a notice of deficiency determination and demand for payment received from the Department. When a taxpayer submits a formal petition for redetermination, the Department considers the balance due protested until a notice of proposed deficiency determination is deemed final. The Department expects to collect only $42,423,632, or 11 percent, of the June 30, 2025, protested tax balances.

In summary, the APA noted the following:

- On June 30, 2025, the Department maintained balances due from taxpayers in excess of $687 million, consisting of $310,663,621 in delinquent balances and $376,898,769 in protested balances.

- The Department's delinquent tax balances increased by over $41 million, or 15 percent, from fiscal year 2024 to 2025. All tax categories observed experienced increases in delinquency balances during the past fiscal year.

- Based on its collection history, the Department expects to collect only 20 percent, or $62,901,659, of the $310,663,621 in delinquent balances.

- Over the previous 10 fiscal years, dating back to fiscal year 2016, the delinquent tax balances have grown from $138,940,796 to $310,663,621 – an increase of nearly $172 million and 124 percent.

- The balance of delinquent sales and use taxes has grown in each of the last 10 fiscal years, while the balance of delinquent individual income taxes has grown in each of the last 5 fiscal years.

The State's human resources system included a total of 385 full-time staff employed by the Department as of June 30, 2025. Despite the rapid increase in delinquent tax balances, the Department recently terminated staff involved in the collections process. In fact, in October 2025, the State's human resources system shows the Department involuntarily terminated nine revenue agents.

The Department has pointed to its planned use of an automated process to help in the collections process. This data exchange procedure was authorized by the Financial Institution Data Match Act (Act), as set out at Neb. Rev. Stat. §§ 77-3,120 to 77-3,127 (Cum. Supp. 2024). Effective July 19, 2024, the Act requires financial institutions in Nebraska to participate in a data match program upon request by the Department. The Department will identify tax debtors by name and social security number or Federal employer identification number for match against financial institution account records. For each account holder-debtor match, the financial institution is required to provide the name, address, social security number or Federal employer identification number, and the balances in each account. The financial institution must also provide the names and addresses of all owners of accounts in the match listing. This information may then be used by the Department to pursue delinquent tax balances via bank levy or other means (the Department already had this authority prior to the passage of the Act, which simply provides for automating the process).

In an email dated October 14, 2025, the APA inquired as to the status of the reported data exchange in order to ensure that any contracts or agreements with the applicable vendor were reported properly for ACFR purposes. The Department responded: "*Since this is still in RFP* (request for proposal) *process there is no contract or agreements.*"

Additionally, Neb. Rev. Stat. § 77-3,124 (Cum. Supp. 2024) requires the Department not only to certify to the State Treasurer but also to report to the Revenue and Appropriations Committees of the Legislature "the amount of taxes, penalties, and interest collected" during the "previous" and "most recently completed fiscal year," respectively, "as a result of contracts entered into pursuant to" the Act. When asked about any reporting required under the Act, the Department responded that there had been no activity to report.

On October 17, 2025, the Department posted a Request for Proposal (RFP), which is used to solicit responses from potential vendors and to provide for the negotiation of certain terms before the contract award, for financial institution data match services – with a bid opening date of November 13, 2025, and a contract start date of December 1, 2025. The following is an image of the RFP posted:

D. SCOPE OF WORK

A. Within thirty days after the end of each calendar quarter, DOR will provide the Vendor a list of delinquent tax debtors by name and social security or federal employer identification numbers for match against Financial Institution account records.

B. The Vender shall ensure that the Financial Institutions provide the Vendor with a match listing of all matches made withing four workings or less of the match of each account maintained at the Financial Institution. The match listing from the Financial Institution shall include name, address and social security number or federal employer identification number of each tax debtor matched and the balance of each account. The Financial Institution shall provide the names and address of all owners of the accounts in the match listing as reflected on a signature card or other similar document on file with the Financial Institution.

C. The Vendor shall forward the listing of tax debtors to all participating Financial Institution on a quarterly basis and return the match listing electronically in the format approved by the DOR.

A proper system of internal control requires procedures to ensure that delinquent and protested tax balances are collected. The sustained and rapid increase of those balances, as reported herein, merits both attention and action from the Department and the Legislature. The seriousness of the matter warranted early disclosure, so the Legislature would be aware of such balances prior to the start of the next legislative session.

Without further measures for pursuing more aggressively collections of delinquent and protested tax balances, there is an increased risk that such overdue amounts will remain outstanding, which will continue to have a detrimental impact upon the tax revenues of the State.

> We recommend the Department and Legislature work together to ensure that sufficient resources are allocated towards a more aggressive pursuit of delinquent and protested tax balances.

* * * * *

Our audit procedures are designed primarily on a test basis and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. Our objective is, however, to use our knowledge of the Department and its interaction with other State agencies and administrative departments gained during our work to make comments and suggestions that we hope will prove useful to the Department.

This interim communication is intended solely for the information and use of the Department, the Governor and State Legislature, others within the Department, Federal awarding agencies, pass-through entities, and management of the State of Nebraska and is not suitable for any other purpose. However, this communication is a matter of public record, and its distribution is not limited.

Kris Kucera

Kris Kucera, CPA, CFE
Assistant Deputy Auditor

NEBRASKA DEPARTMENT OF REVENUE

Exhibit A

Total Delinquent Tax Balances

Last Ten Fiscal Years