

June 11, 2004

Mr. Bart Moore  
Department of Environmental Quality  
State of Nebraska  
P.O. Box 98922  
Lincoln, Nebraska 68509-8922

Dear Mr. Moore:

We have audited the basic financial statements of the state of Nebraska (the State) for the year ended June 30, 2003, and have issued our report thereon dated June 11, 2004. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated June 11, 2004. In planning and performing our audits, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements of the State and on the State's compliance with requirements applicable to major programs, and to report on internal control in accordance with Office of Management and Budget (OMB) Circular A-133 and not to provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audits described above, we noted certain internal control matters related to the activities of the Department of Environmental Quality (the Department) or other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Department management, are intended to improve internal control or result in other operating efficiencies.

Our consideration of internal control included a review of prior year comments and recommendations. To the extent the situations that prompted the recommendations in the prior year still exist, they have been incorporated in the comments presented for the current year. All other prior year comments and recommendations have been satisfactorily resolved.

Our comments and recommendations for the year ended June 30, 2003 are shown on the following page.

**1. Loan Reconciliations**

The Department is responsible for the monitoring and recording of activity related to the Clean Water and Drinking Water loan programs. During the current year, it was noted that these loans and their activity were not being reconciled to the new accounting system (Nebraska Information System). To reduce the risk of error and ensure activity is completely and accurately recorded, we encourage the Department to perform monthly reconciliation procedures and investigate any unreconcilable amounts.

**2. Formalization of Policies and Procedures**

We recommend the Department develop a formalized policies and procedures manual to ensure consistency of accounting applications, training of accounting and program personnel, and to ensure all personnel are aware of their respective responsibilities and duties.

**3. Subrecipient Monitoring**

The Office of Management and Budget (OMB) issued revisions to OMB Circular A-133. The revisions increased the audit threshold from \$300,000 to \$500,000. The revisions to the threshold are effective for fiscal years ending after December 31, 2003. The Department should consider the threshold change when monitoring subrecipients and issuing award contracts.

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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 be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Department of Environmental Quality, the Auditor of Public Accounts, the Governor and members of the Legislature, and management of the state of Nebraska, and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate and thank all of the Department of Environmental Quality employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

**KPMG LLP**