

June 11, 2004

Mr. Larry Pearce  
Nebraska Energy Office  
State of Nebraska  
P.O. Box 95085  
Lincoln, Nebraska 68509-5085

Dear Mr. Pearce:

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. In planning and performing our audit, we considered the State's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

In connection with our audit described above, we noted certain internal control matters related to the activities of the Nebraska Energy Office (the Agency) and other operational matters that are presented below for your consideration. These comments and recommendations, which have been discussed with the appropriate members of Agency 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.

*State of Nebraska  
Nebraska Energy Office  
Mr. Larry Pearce  
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### **Reconciliation of Energy Loans**

The Agency is responsible for the monitoring and recording of activity related to the School Weatherization and Dollar and Energy Savings loan programs. During the current year, these loans and their activity were not 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 Agency to perform monthly reconciliation procedures and investigate any unreconcilable amounts.

### **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 Agency 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 Nebraska Energy Office 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 Auditor of Public Accounts, the Governor and members of the Legislature, Nebraska Energy Office, 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 Nebraska Energy Office employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

**KPMG LLP**