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December 22, 2004

Ms. Kay Marti
Department of Labor
State of Nebraska
P.O. Box 94600
Lincoln, Nebraska 68508-4600

Dear Ms. Marti:

We have audited the basic financial statements of the State of Nebraska (the State) for the year ended June 30, 2004, and have issued our report thereon dated December 22, 2004. We have also audited the State's compliance with requirements applicable to major federal award programs and have issued our report thereon dated December 22, 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 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 audit described above, we noted certain internal control matters related to the activities of the Department of Labor (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, 2004 are shown on the following page.



*State of Nebraska
Department of Labor
Ms. Kay Marti
December 22, 2004*

Federal Expenditures

The Department did not report the correct amount of expenditures to DAS for inclusion on the Schedule of Expenditures of Federal Awards. The amount reported to DAS was \$4,917,000; however, the correct amount was \$7,777,000. The Department does not have documented review procedures in place to ensure someone other than the preparer of the information reviews the amounts reported to DAS. To reduce the risk of errors, we recommend the Department establish a documented review policy for amounts reported to DAS.

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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 Labor, 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 Labor employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

KPMG LLP