

June 11, 2004

Dr. Doug D. Christensen, Commissioner
Department of Education
State of Nebraska
P.O. Box 94987
Lincoln, Nebraska 68509-4987

Dear Dr. Christensen:

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 Education (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 pages.

1. Single Audit Findings

The following comments and recommendations relate to the findings reported in the statewide single audit report.

Finding #03-13-01

Program: CFDA #84.048—Vocational Rehabilitation—Reporting

Federal Grantor Agency: U.S. Department of Education

Criteria: The Department is required to submit a quarterly SF-269, *Financial Status Report*, for all open grants.

Condition: The September 30, 2002 and December 31, 2002 SF-269 for the H126A010039 grant incorrectly reported cumulative total outlays.

Questioned Costs: None.

Context: Cumulative total outlays for the grant was underreported on both of the SF-269 reports by \$132,000; however, the error is considered an isolated instance.

Cause: To help complete the SF-269 and to provide evidence the report reconciles to the accounting records, the Department prepares a spreadsheet to accumulate the appropriate information from the accounting records. The spreadsheet contained an incorrect formula causing indirect costs to be excluded from the cumulative total outlays line item.

Effect: Cumulative total outlays was incorrectly reported to the federal agency.

Recommendation: We recommend the Department correct the formula in the spreadsheet, submit a corrected report, and expand the current review procedures of the spreadsheet to ensure that data is properly reported.

Management Response: The reports in question and all subsequent reports through June 30, 2003 were revised and re-submitted in August 2003. The spreadsheet was revised to accommodate NIS and includes indirect cost data, which is routinely compared with NDE records.

2. 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 Auditor of Public Accounts, the Governor and members of the Legislature, the Department of Education, 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 Education employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

KPMG LLP