

June 11, 2004

Mr. Stephen B. Curtiss, Finance and Support Director  
Health and Human Services System  
State of Nebraska  
P. O. Box 95026  
Lincoln, Nebraska 68509-5026

Dear Mr. Curtiss:

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 Health and Human Services System (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. Comments related to internal control and compliance with requirements applicable to federal award programs are reported in the schedule of findings and questioned costs, which is included in the statewide single audit report. We encourage the Agency to review this report.

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. Medicaid TEFRA Settlement Receivable**

The receivable is based on an estimate; however, there is information available to enable the Agency to calculate the actual amount. To ensure the receivable balance is accurately valued and reported, we recommend the Agency adjust their calculation procedures accordingly, and also take into consideration any other known facts in calculating the receivable balance.

**2. Medical and Dental Student Loan Receivable**

Currently, no allowance account is estimated for the loan receivable balance. We recommend that the accounting department set up an allowance for the receivable balances that are expected to be forgiven.

**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 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 Agency 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 Health and Human Services System, 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 Health and Human Services System's employees for the courtesy and cooperation extended to us during our audit.

Very truly yours,

**KPMG LLP**