



KPMG LLP
Suite 1501
Two Central Park Plaza
Omaha, NE 68102

Telephone 402 348 1450
Fax 402 348 0152
Internet www.us.kpmg.com

Suite 1600
233 South 13th Street
Lincoln, NE 68508-2041

Telephone 402 476 1216
Fax 402 476 1944

December 22, 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, 2004, 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. 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, 2004 are shown on the following page.



*State of Nebraska
Nebraska Energy Office
Mr. Larry Pearce
December 22, 2004*

Reconciliation of Energy Loans

The Agency is responsible for the monitoring and recording of activity related to the Dollar and Energy Savings loan program. During the current year, these loans and their activity were not reconciled to the 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.

* * * * *

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