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Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

City of Albuquerque
Albuquerque, New Mexico
Honorable Mayor and City Council
and
Mr. Domingo Martinez, CGFM
New Mexico State Auditor

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the financial statements of each of the City's nonmajor governmental, nonmajor enterprise, and internal service funds of the City of Albuquerque, New Mexico (City) as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-09, 01-11, 01-17, 02-21, 04-01 through 04-18.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 01-09, 01-11, 01-17, 02-21, 04-01 through 04-18.

This report is intended solely for the information and use of the City council, City management, the Office of the State Auditor, the cognizant audit agency, other Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

Neff + Ricci LLP

Albuquerque, New Mexico
December 7, 2004