

January 9, 2012

To the Audit Committee
of the City of San Diego

This letter is in response to the following questions asked by the City of San Diego's (City) Audit Committee with respect to the audit of San Diego Data Processing Corporation's (SDDPC) financial statements for the year ended June 30, 2011.

- 1. Was any audit work not performed due to any limitations placed on you by management (e.g., any areas scoped out by management, or any restriction on fees that limited the scope of your work)?**

No.

- 2. Explain the process your firm goes through to assure that all of your engagement personnel are independent and objective with respect to our audit. Do any non-audit services performed for SDDPC or its related entities affect the work that you do or the manner in which the engagement team or others are compensated?**

All MGO staff sign an annual independence statement effective July 1 of each year attesting to their independence related to all of our clients. MGO staff are provided with a complete listing of all active clients for review prior to completing the annual independence statement. The annual independence statements are reviewed by our Human Resources department and all instances of potential conflicts of interest are forwarded to the firm's Quality Control Partner for resolution. All prospective work with existing clients is reviewed in advance to determine potential conflicts of interest. MGO does not compensate staff for "selling" additional work. We are not aware of any independence issues related to the services performed for SDDPC.

- 3. Was the audit performed in accordance with generally accepted auditing standards (GAAS standards) or generally accepted government auditing standards (GAGAS standards)? If not, why?**

Yes, the audit was performed in accordance with GAAS and GAGAS.

- 4. Do the financial statements contain deviations from generally accepted accounting principles (GAAP)? If so, why?**

The financial statements do not contain material deviations from GAAP.

- 5. Were any new accounting principles adopted, were any changes made, or did you recommend any changes, in the accounting policies used or their application?**

There were no new accounting policies adopted for the year ended June 30, 2011 and we did not recommend any changes in the accounting principles used or their application.

- 6. Were there any significant accounting adjustments affecting the financial statements (prior year as well as current year)?**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of our audit procedures for SDDPC's FY 2010/11 or FY 2009/10 audits.

- 7. Are there any areas of the financial statements, including the notes, in which you believe we could be more explicit or transparent, or provide more clarity to help a user better understand our financial statements?**

No. We believe that the financial statements and disclosures are appropriate.

- 8. Based on your audit procedures, do you have any concerns as to whether management may be attempting to commit management override? Have you noticed any biases as a result of your audit tests with respect to accounting estimates made by management?**

Based on our audit procedures, we did not note any attempts by management to commit management override, nor did we notice any biases with respect to accounting estimates made by management.

- 9. Did you encounter any difficulties in dealing with management in performing the audit, including any disagreements with management regarding any accruals, estimates, reserves or accounting principles? Did you have the full cooperation of management and staff?**

We did not experience any significant difficulties in dealing with management throughout the audit process nor did we have any significant disagreements with management regarding accruals, estimates, or accounting principles. We received full cooperation from management and staff.

- 10. Were there any accounting issues on which you sought the advice of other audit firms or regulatory bodies?**

No. We did not seek the advice of other audit firms, nor did we consult with regulatory bodies concerning accounting issues related to SDDPC's FY 2010/11 financial statements.

- 11. Describe any difficulties you encountered while performing the audit (e.g., delays by management in allowing you to begin the audit, lack of access to information, unreasonable timetables, unavailability of personnel, etc.).**

We did not encounter any significant difficulties in performing the audit.

12. Describe any situation in which you believe management has attempted to circumvent the spirit of GAAP, but has yet complied with GAAP.

We are not aware of any situation in which management has attempted to circumvent the spirit of generally accepted accounting principles.

13. Would you characterize management’s application of GAAP as conservative, aggressive or somewhere in between?

Management’s application of GAAP is conservative in nature.

14. Are there any new pronouncements and or areas of potential financial risk affecting future financial statements of which the Audit Committee should be aware?

The following table outlines the new accounting and reporting standards that could have a future impact on SDDPC’s financial statements.

<i>New Accounting Standard</i>	<i>Required Implementation Date</i>
<i>GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements</i>	<i>FY 2012/13</i>
<i>GASB Statement No. 61, The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34</i>	<i>FY 2012/13</i>
<i>GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i>	<i>FY 2012/13</i>
<i>GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position</i>	<i>FY 2012/13</i>

With respect to potential financial risk affecting future financial statements the following matter has been highlighted in our audit opinion and disclosed in Note 11 to SDDPC’s financial statements:

The City issued a Request for Proposal (RFP) on April 15, 2011 for the purpose of selecting a qualified Information Technology (IT) vendor(s) that meets the City’s IT services requirements. SDDPC did not submit a proposal (or participate as a subcontractor) to the City’s RFP.

If the RFP continues (without cancellation or successful protest, if any) and a vendor(s) is selected and awarded an approved and executed City contract, SDDPC's contract for providing IT services to the City (MSA) would be terminated upon notice from the City and completion of the new selected vendor(s) transition. The City has indicated, in its RFP, that all transition activities are to be completed by June 30, 2013.

Although SDDPC provides services to customers other than the City, a termination of the MSA with the City would impact a substantial amount of SDDPC's total annual revenue. Additionally, since the City is the sole member of the corporation there would exist legal, corporate and tax considerations as to SDDPC's continued status as both a California Public Benefit Corporation and IRS 501(c)(3) tax-exempt entity. Management's plan is to begin "winding down" SDDPC as a legal entity based upon the direction received from the City. An expected date for the final wind-down is not able to be determined at this time.

At this time, management has not determined the financial statement impacts as to the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities. As such, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

15. Please explain the significance of any significant deficiencies or material weaknesses referenced in your letter or report dealing with the SDDPC's internal controls.

There were no significant deficiencies or material weaknesses identified.

16. Are there any questions we have *not* asked that should have been asked? If so, what are those questions?

No.

Sincerely,

Macias Jini & O'Connell LLP