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October 27, 2004

Leslie J. Girard, Esq.
Assistant City Attorney
Office of the City Attorney
City of San Diego
1200 Third Avenue, Suite 1620
San Diego, CA 92101

Re: City of San Diego Fiscal Year 2003 Audit

Dear Mr. Girard:

We received your October 21, 2004 email with the attached proposed Investigation Program (Program). The Program appears to indicate that Vincent & Elkins will conduct some additional interviews, but does not appear to anticipate the conduct of a detailed investigation that will enable the City to reach necessary conclusions on the issues identified in our October 11, 2004 letter and attachments, which were discussed with you on October 14, 2004. Based on that discussion, we understood the City intended to propose an investigative plan that would address in detail the issues identified in our October 11 letter. We also believed, based on that discussion and our prior communications, that the City understood that such an investigation would necessarily include, not only interviews, but appropriate document collection and review (including emails and electronic documents), sufficient to answer the issues raised in our letter. In this regard, we also made clear that it is necessary that the investigator analyze all of the information accumulated and reach conclusions as to whether any conduct identified in its investigation constitutes a violation of any laws, rules or regulations having the force of law, and, if so, whether the City's actions have, or proposed actions will, adequately remediate any such violation or possible violation.

We believe that your engagement letter with Vincent & Elkins should include a clear statement of the expected scope of the investigation, including that it will address the questions raised by our October 11 letter, and the City's expectation that the Vincent & Elkins will state conclusions on those questions. Thus, contrary to the proposed Program sent to us, Vincent & Elkins, as investigating counsel, will be the party reaching those conclusions, not KPMG. KPMG's role, as independent auditor, is to evaluate whether the investigation, including its scope, methodology and conclusions, appears sufficiently comprehensive and reasonable and, thus, adequate for KPMG's audit purposes. We request that you provide us with a copy of any engagement letter entered into with Vincent & Elkins.

Additionally, please be advised, that to the extent the proposed Program appears to suggest that KPMG has or will undertake to promise that it will not require further work it may feel to be necessary and to issue its audit report without regard to the investigation's findings, KPMG cannot accept any limitations on, or conditions for, the performance of our audit. We intend to, and will, comply with generally accepted auditing standards and our engagement letter.





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We remain prepared to meet with the City to discuss how the City plans to conduct an adequately detailed investigation that will permit KPMG to conclude its audit. KPMG believes that resolution of these issues will be expedited if the City were to request Vincent & Elkins to prepare and forward to us a comprehensive and detailed work plan consistent with the concerns expressed above and in our previous communications.

Very truly yours,

KPMG LLP

A handwritten signature in black ink that reads "Steven G. DeVetter". The signature is written in a cursive, flowing style.

Steven G. DeVetter
Partner

cc: Mr. Dick Murphy, Mayor
Mr. P. Lamont Ewell, City Manager
Ms. Terri Webster, Acting City Auditor and Comptroller
City Council Members