

OTAY WATER DISTRICT
FINANCE, ADMINISTRATION AND COMMUNICATIONS
COMMITTEE MEETING
and
SPECIAL MEETING OF THE BOARD OF DIRECTORS

2554 SWEETWATER SPRINGS BOULEVARD
SPRING VALLEY, CALIFORNIA
BOARDROOM

TUESDAY
January 18, 2011
12:30 P.M.

This is a District Committee meeting. This meeting is being posted as a special meeting in order to comply with the Brown Act (Government Code Section §54954.2) in the event that a quorum of the Board is present. Items will be deliberated, however, no formal board actions will be taken at this meeting. The committee makes recommendations to the full board for its consideration and formal action.

AGENDA

1. ROLL CALL
2. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

DISCUSSION ITEMS

3. APPROVE AN ENGAGEMENT LETTER WITH THE AUDITING FIRM OF DIEHL, EVANS & COMPANY, LLP TO PROVIDE AUDIT SERVICES TO THE DISTRICT FOR THE FISCAL YEAR ENDING JUNE 30, 2011 (CUDLIP) [5 minutes]
4. AUTHORIZE THE GENERAL MANAGER TO NEGOTIATE AND ENTER INTO AN AGREEMENT WITH DMI DIGITAL MAPPING INC. IN AN AMOUNT NOT TO EXCEED \$68,000 FOR ORTHOPHOTOGRAPHY SERVICES (STEVENS) [5 minutes]
5. DISCUSS COMMITTEE MEETING DATES
6. ADJOURNMENT

BOARD MEMBERS ATTENDING:

Gary Croucher, Chair
David Gonzalez

All items appearing on this agenda, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

The Agenda, and any attachments containing written information, are available at the District's website at www.otaywater.gov. Written changes to any items to be considered at the open meeting, or to any attachments, will be posted on the District's website. Copies of the Agenda and all attachments are also available through the District Secretary by contacting her at (619) 670-2280.

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the District Secretary at 670-2280 at least 24 hours prior to the meeting.

Certification of Posting

I certify that on January 14, 2011 I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Otay Water District, said time being at least 24 hours in advance of the meeting of the Board of Directors (Government Code Section §54954.2).

Executed at Spring Valley, California on January 14, 2011.



Susan Cruz, District Secretary



AGENDA ITEM 3

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 2, 2011
SUBMITTED BY:	James Cudlip, Finance Manager	W.O./G.F. NO:	DIV. NO. All
APPROVED BY: (Chief)	Joseph R. Beachem, Chief Financial Officer		
APPROVED BY: (Asst. GM):	German Alvarez, Assistant General Manager, Administration and Finance		
SUBJECT:	Appointment of Auditor for Fiscal Year Ending June 30, 2011		

GENERAL MANAGER'S RECOMMENDATION:

That the Board approve an engagement letter from the auditing firm of Diehl, Evans & Company, LLP, to provide audit services to the District for the fiscal year ending June 30, 2011.

COMMITTEE ACTION: _____

Please see Attachment A.

PURPOSE:

To retain the services of Diehl, Evans & Company to serve as the District's auditors for the fiscal year ending June 30, 2011.

ANALYSIS:

The District is required to retain the services of an independent accounting firm to perform an audit of the District's financial records each year. At the Board meeting on March 9, 2009, the Board approved Diehl, Evans & Company as the District's auditors for a one-year contract, with four one-year options, with each option year subject to Board review and approval. In March 2010, the Board subsequently approved the first contract option to perform the FY-2010 audit.

Staff is again recommending the appointment of Diehl, Evans & Company based on their knowledge of the District's operations and finances, their technical qualifications, and their performance as the District's auditors during the FY-2009 and FY-2010 audits. Also, at the conclusion of these audits, the Diehl, Evans staff provided significant advice and review of staff's draft Comprehensive Annual Financial Report (CAFR) prior

to submission to the Government Finance Officers Association (GFOA) for award consideration.

The following is a tentative planning schedule for the major activities involved in completing the FY-10 financial audit:

- Apr-11: Pre-audit (3 - 4 days).
- Aug-11: Year-end audit (4 - 5 days).
- Nov-11: Board presentation of audited financials.
- Dec-11: Completed CAFR.

The audit will consist of four major components: 1) standard audit services, to provide an audit opinion on the District's financial statements; 2) review of the District's Investment Policy procedures; 3) a State Controllers Report, required by the State of California; and 4) assistance in preparation of the District's CAFR.

In response to earlier discussions with members of the Finance, Administration, and Communications Committee, the audit firm has also proposed a rotation of the senior partner assigned to the audit. The new partner will be Mr. Nitin Patel, from the firm's Irvine office. This will provide a continuing fresh perspective concerning both audit methodology and review, at no additional cost for the overall auditing services.

FISCAL IMPACT:



The fee for auditing services for the fiscal year ending June 30, 2011, will not exceed \$33,000. This maintains audit fees at the same amount as each of the last two year's fees.

STRATEGIC GOAL:

Required by law.

LEGAL IMPACT:

None.



General Manager

Attachments:

- A) Committee Action Form
- B) Audit Engagement Letters



ATTACHMENT A

SUBJECT/PROJECT:	Appointment of Auditor for Fiscal Year Ending June 30, 2011
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COMMITTEE ACTION:

The Finance, Administration, and Communications Committee recommend that the Board approve an engagement letter from the auditing firm of Diehl, Evans & Company, LLP, to provide audit services to the District for the fiscal year ending June 30, 2011.

NOTE:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.



DIEHL, EVANS & COMPANY, LLP
 CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

A PARTNERSHIP INCLUDING ACCOUNTANCY CORPORATIONS

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 CRAIG W. SPRAKER, CPA
 NITIN P. PATEL, CPA
 ROBERT J. CALLANAN, CPA

* A PROFESSIONAL CORPORATION

January 10, 2011

Mr. Joseph R. Beachem
 Chief Financial Officer
 Otay Water District
 2554 Sweetwater Springs Boulevard
 Spring Valley, CA 91978-2004

Dear Mr. Beachem:

We are pleased to confirm our understanding of the services we are to provide Otay Water District (the District) for the year ending June 30, 2011. We will audit the financial statements of Otay Water District as of and for the year ending June 30, 2011. Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement Otay Water District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the Otay Water District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted principles and will be subjected to certain procedures, but will not be audited:

1. Management's Discussion and Analysis
2. Schedule of Funding Progress for PERS
3. Schedule of Funding Progress for DPHP

If a Single Audit is required, supplementary information other than RSI also would accompany Otay Water District's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

1. Schedule of Expenditures of Federal Awards

OTHER OFFICES AT:

613 W. VALLEY PARKWAY, SUITE 330
 ESCONDIDO, CALIFORNIA 92025-2598
 (760) 741-3141 • FAX (760) 741-9890

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The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will not provide an opinion or any assurance.

1. Introductory Section
2. Statistical Section

Audit Objective

The objective of our audit is the expression of an opinion as to whether your basic financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and to report on the fairness of the supplemental information referred to in the second paragraph when considered in relation to the basic financial statements taken as a whole. Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America and will include tests of the accounting records and other procedures we consider necessary to enable us to express such an opinion. If our opinion on the financial statements is other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to express an opinion, we may decline to express an opinion or may not issue a report as a result of this engagement.

If the District is subject to a Single Audit the objective of our audit also includes reporting on:

- Internal control related to the financial statements and compliance with laws, regulations, and the provisions of contracts or grant agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended solely for the information and use of management, the body or individuals charged with governance, others within the District, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

If the District is subject to a Single Audit, our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of accounting records, a determination of major program(s) in accordance with OMB Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance opinions are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

Management Responsibilities

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein. If the District is subject to a Single Audit, management is also responsible for identifying government award programs and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal awards in accordance with the requirements of OMB Circular A-133. As part of the audit, we will assist with preparation of your financial statements and related notes. You are responsible for making all management decisions and performing all management functions relating to the financial statements and related notes and for accepting full responsibility for such decisions. You will be required to acknowledge in the management representation letter our assistance with preparation of the financial statements and that you have reviewed and approved the financial statements and related notes prior to their issuance and have accepted responsibility for them. Further, you are required to designate an individual with suitable skill, knowledge, or experience to oversee our assistance with the preparation of your financial statements and related notes and any nonaudit services we provide and for evaluating the adequacy and results of those services and accepting responsibility for them.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met and that there is reasonable assurance that government programs are administered in compliance with compliance requirements. You are also responsible for the selection and application of accounting principles; for the fair presentation in the financial statements of the financial position of the Otay Water District and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for ensuring that management and financial information is reliable and properly recorded. Your responsibilities also include identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Your responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the District complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, if a Single Audit is required, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures - General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform you of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit (if required). Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from you about the financial statements and related matters.

Audit Procedures - Internal Controls

Our audit will include obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

If a Single Audit is required, as required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to OMB Circular A-133.

Audit Procedures - Internal Controls (Continued)

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures - Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the *OMB Circular A-133 Compliance Supplement* and related addenda for the types of compliance requirements that could have a direct and material effect on each of the District's major programs. The purpose of these procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to OMB Circular A-133.

Audit Administration Fees, and Other

Noted below is a listing of work required by District staff to assist in the audit.

1. Preparation of trial balances for all funds, after posting of all year end journal entries.
2. Preparation of schedules supporting all major balance sheet accounts, and selected revenue and expense accounts.
3. Typing of all confirmation requests.
4. Pulling and refileing of all supporting documents required for audit verification.
5. Preparation of the Management's Discussion and Analysis.

The workpapers for this engagement are the property of Diehl, Evans and Company, LLP and constitute confidential information. However, we may be requested to make certain workpapers available to grantor agencies pursuant to authority given to it by law or regulation. If requested, access to such workpapers will be provided under the supervision of our personnel. Furthermore, upon request, we may provide photocopies of selected workpapers to the grantor agencies. The grantor agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies.

In accordance with our firm's current record retention policy, all of your original records will be returned to you at the conclusion of this engagement. Our accounting workpaper files will be kept for a period of seven years. All other files will be kept for as long as you retain us as your accountants. However, upon termination of our service, all records will be destroyed after a period of seven years. Physical deterioration or catastrophic events may further shorten the life of these records. The working papers and files of our firm are not a substitute for your original records.

Audit Administration Fees, and Other (Continued)

We expect to begin our audit on approximately April 25, 2011 and to issue our reports no later than October 31, 2011. Nitin Patel is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign them. Our fee for these services will be at our standard hourly rates plus out-of-pocket costs (such as report reproduction, word processing, postage, travel, copies, telephone, etc.) except that we agree that our gross fee, including expenses, for the year ending June 30, 2011 will not exceed \$33,000. Our standard hourly rates vary according to the degree of responsibility involved and the experience level of the personnel assigned to your audit. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket costs through the date of termination. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2010 peer review accompanies this letter.

We appreciate the opportunity to be of service to the Otay Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

DIEHL, EVANS & COMPANY, LLP

By: 
Nitin P. Patel, CPA
Engagement Partner

RESPONSE:

This letter correctly sets forth the understanding of the Otay Water District

By: 

Title: CHIEF FINANCIAL OFFICER

Date: 1-10-2011

HEIDENREICH & HEIDENREICH, CPAs, PLLC

10201 S. 51st Street #170
Phoenix, AZ 85044
(480)704-6301 fax 785-4619

System Review Report

January 28, 2009

To the Owners of
Diehl, Evans & Company, LLP
and the Peer Review Committee of the CA Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of Diehl, Evans & Company, LLP (the firm) in effect for the year ended September 30, 2008. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Diehl, Evans & Company, LLP in effect for the year ended September 30, 2008, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Diehl, Evans & Company, LLP has received a peer review rating of *pass*.

Heidenreich & Heidenreich

Heidenreich & Heidenreich, CPAs, PLLC



DIEHL, EVANS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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NITIN P. PATEL, CPA
ROBERT J. CALLANAN, CPA

* A PROFESSIONAL CORPORATION

January 10, 2011

Mr. Joseph R. Beachem
Chief Financial Officer
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

Dear Mr. Beachem:

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for the Otay Water District.

We will apply the agreed-upon procedures which the District's senior management has specified, listed in Attachment A solely to assist the District's senior management in evaluating the investments of the District for the fiscal year ending June 30, 2011. Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached schedule either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restrictions on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

Because the agreed-upon procedures listed in the attached schedule do not constitute an examination, we will not express an opinion on the evaluation of the investments of the District. In addition, we have no obligation to perform any procedures beyond those listed in Attachment A.

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of District senior management, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are responsible for the presentation of the evaluation of the investments of the District; and for selecting the criteria and determining that such criteria are appropriate for your purposes. You are also responsible for making all management decisions and performing all management functions; and for evaluating the adequacy and results of those services and accepting responsibility for them.

OTHER OFFICES AT:

613 W. VALLEY PARKWAY, SUITE 330
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IRVINE, CALIFORNIA 92606-5165
(949)-399-0600 • FAX (949) 399-0610

Nitin P. Patel, CPA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

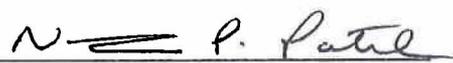
We plan to begin our procedures on approximately September 1, 2011 and, unless unforeseeable problems are encountered, the engagement should be completed by September 30, 2011. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of the evaluation of the investment of the District.

Our fee to prepare the report is included in the \$33,000 maximum fee quoted in the engagement letter to conduct the June 30, 2011 financial audit of the District dated January 10, 2011. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. If the need for additional procedures arises, our agreement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

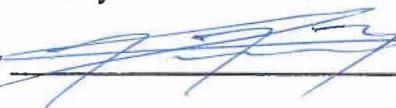
Very truly yours,

DIEHL, EVANS & COMPANY, LLP

By 
Nitin P. Patel CPA
Engagement Partner

RESPONSE:

This letter correctly sets forth the understanding
of the Otay Water District.

By 

Title CHIEF FINANCIAL OFFICER

Date 1-10-2011

Attachment A

Agreed Upon Procedures

1. Obtain a copy of the District's investment policy and determine that it is in effect for the time period under review.
2. Select 4 investments held at year end and determine if they are allowable investments under the District's Investment Policy.
3. For the four investments selected in #2 above, determine if they are held by a third party custodian designated by the District.
4. Confirm the par or original investment amount and market value for the four investments selected above with the custodian or issuer of the investments.
5. Select two investment earnings transactions that took place during the year and recompute the earnings to determine if the proper amount was received.
6. Trace amounts received for transactions selected at #5 above into the District's bank accounts.
7. Select five investment transactions (buy, sell, trade or maturity) occurring during the year under review and determine that the transactions are permissible under the District's investment policy.
8. Review the supporting documents for the five investments selected at #7 above to determine if the transactions were appropriately recorded in the District's general ledger.



DIEHL, EVANS & COMPANY, LLP
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NITIN F. PATEL, CPA
ROBERT J. CALLANAN, CPA

* A PROFESSIONAL CORPORATION

January 10, 2011

Mr. Joseph R. Beachem
Chief Financial Officer
Otay Water District
2554 Sweetwater Springs Blvd.
Spring Valley, CA 91978-2004

Dear Mr. Beachem:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide.

We will compile and provide the Special Districts Financial Transaction Report and Supplement to the Annual Report of the Otay Water District (District) for the year ending June 30, 2011 to be included in the form prescribed by the California State Controller's Office. Our report is presently expected to read:

"We have compiled the accompanying Annual Report of Financial Transactions of Otay Water District for the year ending June 30, 2011, included in the accompanying prescribed form and as filed electronically with the California State Controller's Office, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the California State Controller information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the State Controller of California, which differ from generally accepted accounting principles. These financial statements omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the District's financial position and results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters."

OTHER OFFICES AT:

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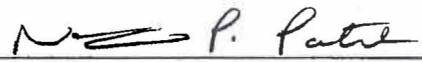
5 CORPORATE PARK, SUITE 100
IRVINE, CALIFORNIA 92606-4906
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Our fee to prepare the report is included in the \$33,000 maximum fee quoted in the engagement letter to conduct the June 30, 2011 financial audit of the District dated January 10, 2011. This fee contemplates that conditions satisfactory to the normal progress and completion of the Report will be encountered and that the District personnel will furnish assistance in connection with the Report preparation.

We appreciate the opportunity to be of service to the Otay Water District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

DIEHL, EVANS & COMPANY, LLP

By 
Nitin P. Patel, CPA
Engagement Partner

RESPONSE:

This letter correctly sets forth the understanding
of the Otay Water District.

By 

Title CHIEF FINANCIAL OFFICER

Date 1-10-2011



AGENDA ITEM 4

STAFF REPORT

TYPE MEETING:	Regular Board	MEETING DATE:	February 2, 2011
SUBMITTED BY:	Geoff Stevens Chief Information Officer	W.O./G.F. NO:	DIV. NO.
APPROVED BY:	German Alvarez (Asst. GM): Assistant General Manager, Finance and Administration		
SUBJECT:	PURCHASING DIGITAL COLOR ORTHOPHOTOGRAPHY FOR GIS		

GENERAL MANAGER'S RECOMMENDATION:

That the Board of Directors authorize the General Manager to negotiate and enter into an agreement with DMI Digital Mapping Inc. in an amount not to exceed \$68,000 for orthophotography services.

COMMITTEE ACTION: _____

See Attachment "A".

PURPOSE:

To authorize the purchase of orthophotography services to update the District's land-based images in GIS for the District's service territory.

ANALYSIS:

The District regularly updates its orthophotographic imagery in its GIS system to provide accurate information for use in planning, preliminary design, assessment of easements and hazards, and in general to support daily operations. Five years ago, the District was able to work with a consortium of regional utilities and cities to purchase imagery to a 6" pixel level accuracy. Within the last five years the new standard is now a 4" pixel, which appears to be a diminutive difference but it is important in identifying detailed items like valves or hydrants. During the same period many physical changes have occurred to the parcels in the District's boundary like new buildings, roads, and other infrastructure. Consequently, the time has come again to participate with a group of local agencies, headed by the Sweetwater Authority, to purchase updated ortho images.

IT, Operations, and Engineering (as part of the 2011 budget), have all agreed that the updates were necessary to provide required

services. The total cost for the updates for Otay is \$68,000. This comprises 53% of the total area and cost of the larger contract. Otay is one of at least four agencies that are participating in this group purchase. Aside from Sweetwater, the other organizations are National City and the City of Chula Vista. Sweetwater, as the lead agency, negotiated the combined agreement which included a thorough analysis and competitive assessment of orthophotography vendors. The actual imagery will be flown in within the next few months and following post processing will be available to the District by July 1st. GIS staff will review all deliverables for quality and accuracy.

FISCAL IMPACT: 

This project is budgeted. The total expenditures requested are for a not-to-exceed amount of \$68,000 with funds from the Capital Improvement Program CIP 2470. The approved FY 2011 budget is \$408,000 for CIP P2470. Expenditures to date are \$161,600. This project will leave a balance of \$178,840. The Project Manager anticipates, based on financial analysis, that the budget will be sufficient to support this project. Finance has determined that 40% of the funding for the project is available from the "Expansion Fund" and 60% from the "Replacement Fund".

STRATEGIC GOAL:

This project will achieve in total or part the following goals and objectives in the 2011 Strategic Plan.

- 3.2.2.3. Enhance the District's data management, data update process, and data architecture including enterprise standard data. Update process for ensuring GIS data is accurate.
- 3.3.3.5 Develop optimized field work processing using integrated technology

LEGAL IMPACT: _____

None.



General Manager



ATTACHMENT A

SUBJECT/PROJECT:	PURCHASING DIGITAL COLOR ORTHOPHOTOGRAPHY FOR GIS
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COMMITTEE ACTION:

The Finance, Administration and Communications Committee met on January 18, 2011, to review this item. The Committee supports presentation to the full Board for their consideration.

Note:

The "Committee Action" is written in anticipation of the Committee moving the item forward for board approval. This report will be sent to the Board as a committee approved item, or modified to reflect any discussion or changes as directed from the committee prior to presentation to the full board.