

# **SINGLE AUDIT COMPLIANCE**

**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**

The Honorable Mayor and Council  
City of Cottage Grove, Oregon  
Cottage Grove, Oregon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cottage Grove, Oregon (the City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 24, 2009. 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 *Government 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not

identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, and the Honorable Mayor and Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Merina & Company".

Merina & Company, LLP  
West Linn, Oregon  
December 24, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and Counsel  
City of Cottage Grove  
Cottage Grove, Oregon

Compliance

We have audited the compliance of the City of Cottage Grove, Oregon, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Cottage Grove, Oregon's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Cottage Grove, Oregon's management. Our responsibility is to express an opinion on the City of Cottage Grove, Oregon's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Cottage Grove, Oregon's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Cottage Grove, Oregon's compliance with those requirements.

In our opinion, the City of Cottage Grove, Oregon, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the City of Cottage Grove, Oregon, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Cottage Grove, Oregon's internal control over compliance with

the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Cottage Grove, Oregon's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Merina & Company, LLP  
West Linn, Oregon  
December 24, 2009

**CITY OF COTTAGE GROVE, OREGON**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2009**

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<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass Through Entity's DUNS Number</u>	<u>Expended</u>
<b>DEPARTMENT OF THE INTERIOR</b>			
BLM-HHA-051-U01	15.225		\$ 8,000
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	80-957-9543	<u>968,451</u>
<b>TOTAL</b>			<u><u>\$ 976,451</u></u>

**CITY OF COTTAGE GROVE, OREGON**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**June 30, 2009**

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Note 1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Cottage Grove, Oregon.

Note 2. Significant Accounting Policies

**Reporting Entity:** The reporting entity is fully described in Note 1 to the City's basic financial statements. The schedule includes all federal financial assistance programs administered by the City for the year ended June 30, 2009.

**Basis of Presentation:** The information in the Schedule is presented in accordance with OMB Circular A-133.

**Federal Financial Assistance:** Pursuant to the Single Audit Act and OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations. Accordingly, nonmonetary federal assistance, including federal surplus property, is included in federal financial assistance and, therefore, is reported on the Schedule, if applicable. Federal financial assistance does not include direct federal cash assistance to individuals. Solicited contracts between the state and federal government for which the federal government procures tangible goods or services are not considered to be federal financial assistance.

**Major Programs:** The Single Audit Act and OMB Circular A-133 establish criteria to be used in defining major federal financial assistance programs. Major programs for the City are those programs selected for testing by the auditor using a risk-assessment model, as well as certain minimum expenditure requirements, as outlined in A-133. Programs with similar requirements may be grouped into a cluster for testing purposes.

**Revenue Recognition:** The receipt and expenditure of federal awards are accounted for under the modified accrual method of accounting. Revenues are recorded as received in cash or when measurable and available. Expenditures are recorded when the liability is incurred.

**CITY OF COTTAGE GROVE, OREGON**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**June 30, 2009**

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**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued Unqualified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(s) identified that are  
Not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency (s) identified that are  
Not considered to be material weaknesses?  yes  none reported

Type of auditor’s report issued on compliance for major  
Programs: Unqualified

Any audit findings disclosed that are required to be  
Reported in accordance with OMB Circular A-133,  
Section 510(a)?  yes  no

**Identification of major programs:**

**CFDA Number**    **Name of Federal Program or Cluster**  
66.468                      Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between type A and  
Type B programs: \$300,000

Auditee qualified as low-risk auditee?  yes  no

**CITY OF COTTAGE GROVE, OREGON  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2009**

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**Section II – Financial Statement Findings**

None

**Section III – Federal Awards Findings and Questioned Costs**

None

**Section IV – Schedule of Prior Federal Award Findings and Questioned Costs for the Years  
Ended June 30, 2008**

None