STATE OF CONNECTICUT

AUDITORS' REPORT
INTERSTATE ENVIRONMENTAL COMMISSION
FOR THE FISCAL YEARS ENDED
JUNE 30, 2001

AUDITORS OF PUBLIC ACCOUNTS

KEVIN P. JOHNSTON ♦ ROBERT G. JAEKLE

The Board of Commissioners
Interstate Environmental Commission

Governor John G. Rowland
Members of the Connecticut General Assembly

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2001. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Interstate Environmental Commission as of June 30, 2001, and the results of its operation for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also included our report on our considerations of the Interstate Environmental Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

March 13, 2002
State Capitol
Hartford, Connecticut

EXHIBIT A

INTERSTATE ENVIRONMENTAL COMMISSION
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
AS OF JUNE 30, 2001
(With comparative totals as of June 30, 2000)

	Governmental Fund	Account Group	Total	
	General	General	Memorandum Only	
	Fund	Fixed Assets	2001	2000
ASSETS AND OTHER DEBITS				
Assets				
Cash and Cash Equivalents (Notes 1 and 2)	172,063		172,063	128,267
Investments (Notes 1 and 2)	937,466		937,466	1,038,959
Receivables				
State of New York (Note 3)	388,000		388,000	388,000
Federal-Water Pollution Control Program	103,656		103,656	87,031
Interest	8,495		8,495	16,122
Fixed Assets				
Furniture and Equipment (Notes 1 and 4)		679,290	679,290	652,737
Security Deposit (Note 7)	6,390		6,390	6,390
Total Assets	$1,616,070	$679,290	$2,295,360	$2,317,506
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities				
Accounts Payable	$16,956		$16,956	$12,226
Compensated Absences Payable (Notes 1 and 5)	59,180		59,180	64,530
Total Liabilities	76,136		76,136	76,756
Equity and Other Credits				
Investment in General Fixed Assets		679,290	679,290	652,737
Fund Balance, Unreserved	1,539,934		1,539,934	1,588,013
Total Equity and Other Credits	1,539,934	679,290	2,219,224	2,240,750
Total Liabilities, Equity and Other Credits	$1,616,070	$679,290	$2,295,360	$2,317,506

The Notes to the Financial Statements are an integral part of this statement.

EXHIBIT B

INTERSTATE ENVIRONMENTAL COMMISSION
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AS OF JUNE 30, 2001
(With comparative totals as of June 30, 2000)

	2001	2000
Revenues		
State of New York	$388,000	$388,000
State of New Jersey	388,000	388,000
State of Connecticut	3,470	3,400
Federal Grants	401,631	405,235
Interest Income	59,426	53,081
Miscellaneous Income	13,032	691
Total Revenues	1,253,559	1,238,407
Expenditures		
Personal Services	679,752	677,284
Contractual Services	27,986	39,078
Fringe Benefits and Payroll Taxes	143,642	142,713
Travel and Car Expense	67,803	46,121
Boat Expense	10,262	19,888
General Office Supplies	68,664	58,323
Printing and Advertising	21,390	10,110
Communications	32,319	26,239
Utilities	9,890	9,389
Laboratory Supplies	65,031	39,996
Office, Lab and Equipment Rentals	99,503	98,991
Equipment	75,396	37,555
Total Expenditures	1,301,638	1,205,687
Excess (Deficiency) of Revenues Over Expenditures	(48,079)	32,720
Fund Balance, Beginning of Year	1,588,013	1,555,293
Fund Balance, End of Year	$1,539,934	$1,588,013

The Notes to the Financial Statements are an integral part of this statement.

INTERSTATE ENVIRONMENTAL COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Interstate Environmental Commission (Commission) have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB Codification establishes seven fund types and two account groups to be used by governmental units when reporting financial position and results of operations in accordance with GAAP.

A. Reporting Entity

On October 27, 2000, the Interstate Environmental Commission, formerly known as the Interstate Sanitation Commission, received Congressional approval for its name change. The official citation for the Federal authorization changing the name is contained in the Congressional Energy and Water Development Appropriations Act, 2001, Public Law #106-377, Title VI, Section 606(a) and (b).

The Commission is a Tri-State agency created by the States of Connecticut, New Jersey and New York through enabling legislation and a Tri-State Compact (Compact). The statutory authorities are contained in Connecticut General Statutes Section 22a-294 et seq.; New Jersey Permanent Statutes, Title 32, 32:18 et seq.; New York State Consolidated Laws, Title 5, Section 21-0501 et seq.; Congressional Consent 49 Stat. 932 (1935).

The Commission is responsible for water within the established Interstate Environmental District (district), which extends approximately from Sandy Hook on the New Jersey coast to include all of New York Harbor, North on the Hudson River to the northerly boundaries of Westchester and Rockland counties, easterly into Long Island Sound to New Haven Connecticut, to Port Jefferson on the north shore of Long Island, and along the south shore of Long Island extending easterly to the Fire Island Inlet.

The Commission consists of five commissioners from each state who, except for the Attorney General of Connecticut, are Gubernatorial appointments and serve in the individual states.

The Commission formulates rules, regulations, and orders for the abatement of water pollution and may resort to the courts for its enforcement needs. It is the official planning and coordinating agency for the New Jersey-New York-Connecticut Air Quality Control Region.

The Commission also has broad financial responsibilities including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

State funds for the operation of the Commission are appropriated per the Compact formula of contribution: New Jersey (45 percent), New York (45 percent) and Connecticut (10 percent). In addition, the Commission receives yearly grant funding from the United States

Environmental Protection Agency through the Water Pollution Control – State and Interstate Program Support Grant.

B. Fund Accounting

The Commission uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial administration by segregating transactions related to certain Commission functions or activities. An account group, on the other hand, is designed to provide accountability for certain assets and liabilities that are not recorded in those funds.

The Commission has the following fund and account groups:

General Fund –

The General Fund is the general operating fund of the Commission. It is used to account for resources and expenditures for operations of a general nature, including Federal grants.

General Fixed Assets –

All fixed assets used in governmental fund type operations are accounted for in the general fixed assets account group, rather than in governmental funds.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounting and financial reporting treatments applied to a fund are determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

All governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e. they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Commission considers revenues as available if they are collected within the next fiscal year. Expenditures are recorded when the related fund liability is incurred.

Those revenues susceptible to accrual are State and Federal revenues and interest.

D. Budgets/Budgetary Control

In accordance with the requirements of the Tri-State Compact, the Commission annually prepares its operating budget for the forthcoming year. The budget, which is prepared in accordance with GAAP, serves as a formal plan for expenditures and the proposed means for financing them.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and GAAP.

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date ranging from within three months to 8 months of the date acquired by the Commission. Maturity is determined by the bonds available at the time of purchase. Investments are stated at fair market value.

F. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

G. Inventories

The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets.

H. General Fixed Assets

The Commission maintains a formal system of accounting for its general fixed assets. General fixed assets acquired or constructed are recorded at original cost.

General fixed assets are reflected as expenditures in the applicable governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Expenditures that enhance the asset or significantly extend the useful life of the asset are considered improvements and are added to the fixed asset's currently capitalized cost. The cost of normal repairs and maintenance are not capitalized.

Depreciation has not been provided for in the financial statements.

I. Expenditures

GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable.

J. Compensated Absences

The Commission employees are allowed to accumulate, with certain restrictions, unused vacation pay up to a maximum of forty (40) days at any time during their working careers and to redeem such unused leave time in cash upon termination, death, or retirement. Amounts of vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources are reported in the General Fund.

K. Fund Equity

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations.

L. Total Columns

The combined financial statements include a total column that is captioned ‘Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with GAAP. Neither is such data comparable to a consolidation.

M. Use of Estimates

The preparation of financial statements requires management of the Commission to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

N. Comparative Data

Comparative total data for the prior fiscal year has been presented in selected sections of the accompanying financial statements in order to provide an understanding of the changes in the Commission’s financial position and operations.

NOTE 2 – DEPOSITS AND INVESTMENTS

Deposits

Bank balances are insured up to $100,000 in the aggregate by the FDIC for each bank. At June 30, 2001, the book value of the Commission’s deposits was $172,063 and bank balances of the Commission’s cash and deposits amounted to $227,061. The Commission’s deposits, which are displayed on the Combined Balance Sheet as “cash”, are categorized as:

Category 1
Insured or collateralized with securities held by the Commission or its agent in the Commission’s name.

Category 2
Collateralized with securities held by the pledging financial institution’s trust department or agent in the Commission’s name.

Category 3
Uncollateralized or collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the Commission’s name.

	Categories (1)	(2)	(3)	Bank Balance
Deposits	$227,061	$0	$0	$227,061

Investments

At June 30, 2001, the book value of the Commission's investments totaled $937,466 and the bank balance amounted to $945,945. The investments are categorized as follows:

Category 1
Insured or registered, or securities held by the Commission or its agent in the Commission's name.

Category 2
Uninsured or unregistered, with securities held by the counterparty's trust department or agent in the Commission's name.

Category 3
Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the Commission's name.

	Categories (1)	(2)	(3)	Fair Value
U. S Treasury Bills	$945,945	$0	$0	$945,945

NOTE 3 – APPROPRIATIONS RECEIVABLE

The Commission's accounting records are maintained on a fiscal year basis that begins July 1 of each year. The fiscal years for New Jersey and Connecticut also begin on July 1 of each year. The New York fiscal year begins April 1. A New York State appropriation receivable existed June 30, 2001, which represented the New York fiscal year 2002 appropriation to the Commission.

Federal government receivables are composed of amounts established as appropriations based upon grant awards, the expenditure of which is the basis for reimbursement. Federal receivables are reported in accordance with GAAP as defined in NCGA Statement 2 – *Grant Entitlement and Shared Revenue Accounting and Reporting by State and Local Governments*, published by the National Council on Governmental Accounting. Under this basis, encumbrances do not constitute expenditures, and recognition of grants and entitlements as revenue is primarily based on expenditures. Since the amounts due from the Federal government are considered to be collectible, no allowance has been established for doubtful collections.

NOTE 4 – FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group for the year ended June 30, 2001.

	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Office Equipment	$ 78,795	$48,696	$42,800	$ 84,691
Office and Lab Furniture	35,697	-	-	35,697
Laboratory Equipment	390,416	17,263	946	406,733
Automobile and Boat Equipment	147,829	16,752	12,412	152,169
	$652,737	$82,711	$56,158	$679,290

The majority of additions represent the purchase of replacement computers for the central office.

NOTE 5 – COMPENSATED ABSENCES PAYABLE

Commission employees are allowed to accumulate a maximum of forty (40) days of unused vacation time and to redeem such unused leave time in cash, with certain limitations, upon retirement, death, or termination. Amounts of vested or accumulated vacation leave that are expected to be liquidated with expendable available financial resources are reported in the General Fund. These amounts are accrued as a liability at June 30, 2001 totaling $59,180.

NOTE 6 – APPROPRIATIONS AND GRANTS

Under the Compact, the signatory States agreed to provide annual appropriations for the salaries, office and other administrative expenses of the Commission in the following percentages of the total State funding:

New York	45 percent
New Jersey	45
Connecticut	10
Total	100 percent

The minimum statutory funding under the Compact for the States of New York and New Jersey is $15,000 each in any one year. The minimum funding for the State of Connecticut is $3,333 in any one year.

Appropriations and grants for the fiscal year ending June 30, 2001 were as follows:

New York	$ 388,000	
New Jersey	388,000	
Connecticut	3,470	
Total Appropriations	$ 779,470	
Grants		
EPA Water Pollution Control	$ 380,306	Note; The EPA grant was later increased to $570,500 and extended to December 31, 2001
Total Appropriations and Grants	$1,159,776	

NOTE 7 – LEASE OBLIGATIONS

The Commission leases office space for administrative functions. The lease is considered for accounting purposes to be an operating lease. The current lease was renewed on April 30, 2000 and extended for five years through April 30, 2005. The commission was required to submit a security deposit of $6,390. The future minimum lease payments for this lease are as follows (excluding required escalation costs):

Fiscal Year Ending	
June 30, 2002	$48,902
June 30, 2003	$48,902
June 30, 2004	$48,902
June 30, 2005	$40,572

The above amounts reflect the future minimum lease payments based on the current index, which is subject to change.

NOTE 8 – EMPLOYEE RETIREMENT SYSTEMS

The New Jersey State Public Employees' Retirement System (NJPERS) and the New York State and Local Employees' Retirement System (NYERS) cover employees of the Interstate Environmental Commission.

The systems are cost-sharing, multiple-employer, contributory defined benefit plans which were established in 1944 and 1961 under New Jersey and New York statutes, respectively. Statutory changes removed the three percent employee contributions from the New York retirement program. Payroll of the Commission is covered 45 percent under the New Jersey system and 45 percent under the New York system.

The systems' designated purposes are to provide retirement benefits and other benefits to their members. Membership in the systems is mandatory for substantially all full-time employees of the Commission, provided the employee is not required to be a member of another state administered retirement system or other state or local jurisdiction. The systems' Boards of Trustees are responsible for their organization and administration.

Vesting and Benefit Provisions (NJPERS)

The vesting and benefit provisions are set by statute (N.J.S.A. 43:15A and 43:B). The system provides retirement, death and disability benefits. All benefits vest after ten years of service. Retirement benefits for age and service are available at the age of 60 and are generally determined to be 1/60 of final average salary for each year of service credit (as defined). Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years).

Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for two percent of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Significant Legislation

During the year ended June 30, 2000, legislation was enacted providing for the reduction in the contribution rate required of State and local government employees who are members of the NJPERS. The reduction equals two percent of compensation for calendar years 2000 and 2001. It also provides for a contribution rate reduction of up to two percent of compensation in future calendar years if the NJ State Treasurer determines that excess valuation assets will be used to reduce the normal contributions made to the system in a fiscal year beginning immediately prior to a calendar year.

Funding Policy

The contribution policy is set by statutes, and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by the State of New Jersey legislation. NJPERS provides for employee contributions of three percent of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in NJPERS. The actuarially determined contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

Trend Information

Ten-year historical trend information showing the plan's progress in accumulating sufficient assets to pay benefits when due was presented in the State of New Jersey's June 30, 2000 NJPERS financial report. The report may be obtained by writing State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

Vesting and Benefit Provisions (NYERS)

The vesting and benefit provisions are set by statute. The system provides retirement benefits related to years of service and final average salary, death, and disability benefits, vesting of benefits after a set period of credited service, and optional methods of benefit payment.

There are four "tiers" of membership related to date of initial membership. Provisions for each tier differ as to the qualifying age or years of service requirement for service retirement, the benefit formula used in calculating the retirement allowance, the date of membership, and the contributory or noncontributory nature of the plan. Although fully vested with five years of service, members with less than ten years of service may continue to choose to terminate their retirement system membership when they leave covered employment, receive a refund of their contributions, and forego any future benefit for themselves or their beneficiaries.

Significant Legislation

Legislation enacted January 18, 2000, altered Chapter 126 of the NY Laws of 2000 to provide that Tier 3 and 4 members with ten years of membership or service credit will no longer have to make the mandatory three percent of salary contributions. Eligible members saw their contributions discontinued with the first payroll period following October 1, 2000. Additionally, the new language provides, for eligible Tier 1 and 2 members, one additional month of service credit for each year of credited service they will have acquired by the time they retire, up to a maximum of 24 months of additional service.

Funding Policy

The contribution policy is set by statute and requires contributions by active members and the State. Once members are assigned a rate, it is not normally adjusted. However, those employees who joined the NYERS prior to July 27, 1976, or those employees with ten years of membership as discussed above, are not required to make contributions. Employees who became members of the NYERS on July 27, 1976 and thereafter, or do not have ten years of membership, are presently required to contribute three percent of 45 percent of their annual gross wages. The state's contribution on behalf of Commission employees is not included in these statements.

The NYERS Financial Report may be obtained by writing The New York State and Local Retirement Systems, Office of the State Comptroller, A.E. Smith State Office Building, Albany, NY 12244.

NOTE 9 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets, errors and omission, injuries to employees, and natural disasters. The Commission has obtained insurance coverage to guard against these events which will provide minimum exposure to the Commission should they occur.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage in any of the prior three years.

NOTE 10 – CLAIMS AND JUDGEMENTS

The Commission participates in a Federal program that is partially funded by grants received from the Federal Environmental Protection Agency. Expenditures financed by the grant are subject to audit by the appropriate grantor agency. If expenditures were disallowed due to a noncompliance with grant program regulations, the Commission would be required to reimburse the grantor government. As of June 30, 2001, significant amounts of grant expenditures had not been audited by the Federal agency, but the Commission believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Commission.

SINGLE AUDIT

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners
Interstate Environmental Commission

Governor John G. Rowland
Members of the General Assembly

We have audited the financial statements of the Interstate Environmental Commission, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 13, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which would 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 that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered the Interstate Environmental Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Interstate Environmental Commission Board of Commissioners, the Governor, the State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, and Federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts

March 13, 2002
State Capitol
Hartford, Connecticut

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

The Board of Commissioners
Interstate Environmental Commission

Governor John G. Rowland
Members of the General Assembly

Compliance:

We have audited the compliance of the Interstate Environmental Commission 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 its major Federal program for the year ended June 30, 2001. The Interstate Environmental Commission's major Federal program is 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 its major Federal program are the responsibility of the Interstate Environmental Commission's management. Our responsibility is to express an opinion on the Interstate Environmental Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards, 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 Interstate Environmental Commission'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 on the Interstate Environmental Commission's compliance with those requirements.

In our opinion, the Interstate Environmental Commission complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended June 30, 2001.

Internal Control Over Compliance:

The management of the Interstate Environmental Commission 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 Interstate Environmental Commission's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards:

We have audited the general purpose financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2001, and have issued our report thereon dated March 13, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements of the Interstate Environmental Commission taken as a whole. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedure applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information of the Interstate Environmental Commission audit committee, management and Board of Commissioners, Connecticut Governor, Members of the General Assembly, State Comptroller, the Appropriations Committee of the General Assembly, the Legislative Committee on Program Review and Investigations, the Office of Policy and Management and those Federal agencies that provided financial assistance. However, this report is a matter of public record and its distribution is not limited.

Kevin P. Johnston	Robert G. Jaekle
Auditor of Public Accounts	Auditor of Public Accounts

March 13, 2002
Hartford, Connecticut

Interstate Environmental Commission
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2001

	CFDA #	Grant Number	Grant Period	Award Amount	Balance July 1, 2000	Cash Received	Cash Expended	Balance Accounts Receivable June 30, 2001
U.S. Environmental Protection Agency Water Pollution Control Agreement	66.419	1002990-00	10/1/99-9/30/00	$380,306	($87,031)	$127,606	$40,575	$0
U.S. Environmental Protection Agency Water Pollution Control Agreement	66.419	1002990-01	10/1/00-9/30/01	$380,306		$257,400	$361,056	($103,656)
					($87,031)	$385,006	$401,631	($103,656)

INTERSTATE ENVIRONMENTAL COMMISSION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

NOTE 1 – GENERAL

The accompanying schedule of expenditures of Federal awards presents the activity of all Federal award programs of the Commission. The Commission is defined in Note 1 of the Financial Statements. All Federal awards received directly from Federal agencies, as well as Federal awards passed through other government agencies are included on the schedule of expenditures of Federal awards.

NOTE 2 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of Federal awards is presented using the accrual basis of accounting.

NOTE 3 – FEDERAL GRANT REVENUE RECOGNITION

Federal grant funds are considered to be earned to the extent of expenditures made under the provision of the grant, and accordingly, when such funds are received they are recorded as deferred revenues until earned.

NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related Federal financial reports.

INTERSTATE ENVIRONMENTAL COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

Part I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on financial statements	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	___Yes	_X_No
Reportable condition(s) identified that are not considered to be material weakness(es)?	___Yes	_X_No
Noncompliance material to financial statements noted?	___Yes	_X_No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	___Yes	_X_No
Reportable condition(s) identified that are not considered to be material weakness(es)?	___Yes	_X_No
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 section .510(a) of Circular A-133	___Yes	_X_No

Identification of major Federal programs:

CFDA Number	Name of Program or Cluster
66.419	Water Pollution Control - State & Interstate Program Support

Dollar threshold used to distinguish between Type A And Type B programs	$300,000	
Auditee qualified as low risk Auditee?	_X_Yes	___No

Part 2 – Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the general-purpose financial statements that are required to be reported in accordance with *Government Auditing Standards*.

THERE ARE NONE

Part 3 – Schedule of Federal Award Findings and Questioned Costs

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major Federal programs, as required by OMB Circular A-133.

<u>Current Year Federal Awards</u>

THERE ARE NONE

INTERSTATE ENVIRONMENTAL COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

This section identifies the status of prior audit findings related to the general-purpose financial statements and Federal awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, and U.S. OMB Circular A-133 (Section .315(a) (b)).

<u>Status of Prior Audit Findings</u>

THERE WERE NONE

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies shown to our representatives during the course of our audit. The assistance and cooperation extended to them by the personnel of the Interstate Environmental Commission greatly facilitated the conduct of this examination.

Patricia Mulroy
Associate Auditor

Approved:

Kevin P. Johnston
Auditor of Public Accounts

Robert G. Jaekle
Auditor of Public Accounts