Enclosed is our audit report of the Interstate Environmental Commission for the year ended June 30, 2000. The audit was performed and this report is submitted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

May 29, 2001
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INDEPENDENT AUDITOR’S REPORT

We have audited the accompanying financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2000. 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, 2000, 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 issued our report dated April 30, 2000 on our consideration of the Interstate Environmental Commission’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts and grants. That report 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.

Richard L. Fair
State Auditor
April 30, 2001
### INTERSTATE ENVIRONMENTAL COMMISSION

**COMBINED BALANCE SHEET—ALL FUND TYPES AND ACCOUNT GROUP**

**AS OF JUNE 30, 2000**

(With Comparative Totals as of June 30, 1999)

<table>
<thead>
<tr>
<th>Assets and Other Debts</th>
<th>Governmental Fund General Fund</th>
<th>Account Group General Fixed Assets</th>
<th>Total (Memorandum Only) 2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents (Notes 1 and 2)</td>
<td>$128,267</td>
<td>$128,267</td>
<td>$206,406</td>
<td></td>
</tr>
<tr>
<td>Investments (Notes 1 and 2)</td>
<td>1,038,959</td>
<td>1,038,959</td>
<td>949,044</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State of New York (Note 3)</td>
<td>388,000</td>
<td>388,000</td>
<td>388,000</td>
<td></td>
</tr>
<tr>
<td>Federal-Water Pollution Control Program</td>
<td>87,031</td>
<td>87,031</td>
<td>65,520</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>16,122</td>
<td>16,122</td>
<td>7,592</td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture and Equipment (Notes 1 and 4)</td>
<td>$652,737</td>
<td>652,737</td>
<td>666,913</td>
<td></td>
</tr>
<tr>
<td>Security Deposit (Note 7)</td>
<td>6,390</td>
<td>6,390</td>
<td>6,390</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$1,664,769</td>
<td>$652,737</td>
<td>$2,317,506</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities, Equity and Other Credits</strong></td>
<td>$652,737</td>
<td>652,737</td>
<td>666,913</td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>$12,226</td>
<td>$12,226</td>
<td>$15,097</td>
<td></td>
</tr>
<tr>
<td>Compensated Absences Payable (Notes 1 and 5)</td>
<td>64,530</td>
<td>64,530</td>
<td>52,562</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>76,756</td>
<td>76,756</td>
<td>67,659</td>
<td></td>
</tr>
<tr>
<td><strong>Equity and Other Credits</strong></td>
<td>$652,737</td>
<td>652,737</td>
<td>666,913</td>
<td></td>
</tr>
<tr>
<td>Investment in General Fixed Assets</td>
<td>1,588,013</td>
<td>1,588,013</td>
<td>1,555,293</td>
<td></td>
</tr>
<tr>
<td>Fund Balance, Unreserved</td>
<td>1,588,013</td>
<td>1,588,013</td>
<td>1,555,293</td>
<td></td>
</tr>
<tr>
<td><strong>Total Equity and Other Credits</strong></td>
<td>1,588,013</td>
<td>652,737</td>
<td>2,240,750</td>
<td>2,222,206</td>
</tr>
<tr>
<td><strong>Total Liabilities, Equity and Other Credits</strong></td>
<td>$1,664,769</td>
<td>$652,737</td>
<td>$2,317,506</td>
<td>$2,289,865</td>
</tr>
</tbody>
</table>

The Notes to Financial Statements are an integral part of this statement.
## INTERSTATE ENVIRONMENTAL COMMISSION

### STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

**FOR THE FISCAL YEAR ENDED JUNE 30, 2000**

*WITH COMPARATIVE TOTALS FOR JUNE 30, 1999*

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>(Memo Only)</td>
<td></td>
</tr>
<tr>
<td>State of New York</td>
<td>$388,000</td>
<td>$388,000</td>
</tr>
<tr>
<td>State of New Jersey</td>
<td>388,000</td>
<td>388,000</td>
</tr>
<tr>
<td>State of Connecticut</td>
<td>3,400</td>
<td>3,333</td>
</tr>
<tr>
<td>Federal Grants</td>
<td>405,235</td>
<td>446,736</td>
</tr>
<tr>
<td>Interest Income</td>
<td>53,081</td>
<td>47,604</td>
</tr>
<tr>
<td>Miscellaneous Income</td>
<td>691</td>
<td>12,613</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>1,238,407</td>
<td>1,286,286</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Services</td>
<td>677,284</td>
<td>623,649</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>39,078</td>
<td>71,695</td>
</tr>
<tr>
<td>Fringe Benefits and Payroll Taxes</td>
<td>142,713</td>
<td>127,343</td>
</tr>
<tr>
<td>Travel and Car Expense</td>
<td>46,121</td>
<td>47,945</td>
</tr>
<tr>
<td>Boat Expense</td>
<td>19,888</td>
<td>7,654</td>
</tr>
<tr>
<td>General Office Supplies</td>
<td>58,323</td>
<td>55,796</td>
</tr>
<tr>
<td>Printing and Advertising</td>
<td>10,110</td>
<td>11,311</td>
</tr>
<tr>
<td>Communications</td>
<td>26,239</td>
<td>21,246</td>
</tr>
<tr>
<td>Utilities</td>
<td>9,389</td>
<td>9,118</td>
</tr>
<tr>
<td>Laboratory Supplies</td>
<td>39,996</td>
<td>32,981</td>
</tr>
<tr>
<td>Office, Lab and Equipment Rentals</td>
<td>98,991</td>
<td>90,343</td>
</tr>
<tr>
<td>Equipment</td>
<td>37,555</td>
<td>169,621</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td>1,205,687</td>
<td>1,268,702</td>
</tr>
</tbody>
</table>

**Excess of Revenues Over Expenditures**

- **2000**: 32,720
- **1999**: 17,584

**Fund Balance, Beginning of Year**

- **2000**: 1,555,293
- **1999**: 1,537,709

**Fund Balance, End of Year**

- **2000**: $1,588,013
- **1999**: $1,555,293

The Notes to the Financial Statements are an integral part of this statement.
NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Interstate Environmental 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 generally accepted accounting principles (GAAP).

A. Reporting Entity

The Interstate Environmental Commission (Commission), formerly known as the Interstate Sanitation Commission, has received on October 27, 2000 Congressional approval for a 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 district 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 shall consist of five commissioners from each state who, except for the Attorney General of Connecticut, are Gubernatorial appointed 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. The Commission 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 to be appropriated per the Tri-State Compact formula of contribution: New Jersey (45%), New York (45%), and Connecticut
In addition, the Commission receives yearly grant funding from the United States Environmental Protection Agency (EPA).

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 treatment 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.

The modified accrual basis of accounting is used by all governmental fund types. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when 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 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 generally accepted accounting principles, 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 generally accepted accounting principles.

E. Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Commission. 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 which 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.

No depreciation has 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 generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund transactions have not been eliminated from the total column of each financial statement.

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 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, 2000, the book value of the Commission's deposits was $128,267 and bank balances of the Commission's cash and deposits amounted to $217,381. 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 institutions’ 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.

<table>
<thead>
<tr>
<th>Categories</th>
<th>Bank Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits</td>
<td>$217,381</td>
</tr>
</tbody>
</table>

Investments

At June 30, 2000, the Commission had investments 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.
### NOTE 3 - APPROPRIATIONS RECEIVABLE

The Commission's accounting records are maintained on a fiscal year basis which begins July 1. The fiscal years for New Jersey and Connecticut also begin on July 1. New York’s fiscal year begins on April 1. A New York State appropriation receivable existed at June 30, 2000 which represents its fiscal year 2001 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 generally accepted accounting principles as defined in NCGA Statement 2 - Grant, Entitlement and Shared Revenue Accounting and Reporting by Statement 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, 2000.

<table>
<thead>
<tr>
<th></th>
<th>Balance, July 1, 1999</th>
<th>Additions</th>
<th>Retirements</th>
<th>Balance, June 30, 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office Equipment</td>
<td>$74,660</td>
<td>$5,126</td>
<td>$991</td>
<td>$78,795</td>
</tr>
<tr>
<td>Office and Lab Furniture</td>
<td>35,697</td>
<td>-</td>
<td>-</td>
<td>35,697</td>
</tr>
<tr>
<td>Laboratory Equipment</td>
<td>388,691</td>
<td>1,725</td>
<td>-</td>
<td>390,416</td>
</tr>
<tr>
<td>Automobile and Boat Equipment</td>
<td>167,865</td>
<td>31,501</td>
<td>51,537</td>
<td>147,829</td>
</tr>
<tr>
<td></td>
<td>$666,913</td>
<td>$38,352</td>
<td>$52,528</td>
<td>$652,737</td>
</tr>
</tbody>
</table>

### 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. These amounts are accrued as a liability at June 30, 2000 and amount to $64,530.
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%
- New Jersey 45
- Connecticut 10

Total 100%

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

Appropriations and grants for the fiscal year ending June 30, 2000 are as follows:

Appropriations

- New York $388,000
- New Jersey 388,000
- Connecticut 3,400

Total Appropriations 779,400

Grants

- EPA Water Pollution Control 405,235

Total Appropriations and Grants 1,184,635

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 lease which expired on April 30, 2000 required certain expenditures such as property taxes and utilities above the base rent. The Commission was also required to submit a security deposit of $6,390. On March 1, 2000, the Commission renewed and extended the lease for five years through April 30, 2005. The future minimum lease payments for this lease is as follows (excluding required escalation cost):

Fiscal Year Ending
The above amount reflects the future minimum lease payments based on the current index which is subject to change.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEMS

Employees of the Interstate Environmental Commission are covered by the New Jersey State Public Employees' Retirement System (NJPERS) and New York State and Local Employees' Retirement System (NYERS).

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. Payroll of the Commission is covered 45% under the New Jersey system and 45% under the New York system.

The systems' designated purposes are to provide retirement benefits and other benefits to their members. Membership in the systems are 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 (NJ PERS)

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 2% 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, 1997, legislation was enacted authorizing the New Jersey Economic Development Authority (Authority) to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. On June 30, 1997, the Authority issued bonds pursuant to this legislation and $241,106,642 from the proceeds of the bonds were deposited into the investment accounts of NJ PERS.

As a result of additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997), the asset valuation method was changed from a market' related value to full-market value for the valuation reports dated March 31, 1996.

Due to the enactment of the legislation described above, the State of New Jersey's portion of the unfunded accrued liability under each retirement system was eliminated.

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 State of New Jersey legislation. NJPERS provides for employee contributions of 3% 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.

**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, contributions are not required by those employees who joined the NYERS prior to July 27, 1976. Employees who became members of the NYERS on July 27, 1976 and thereafter are presently required to contribute three percent of 45% 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 JUDGMENTS

The Commission participates in certain federal programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to a noncompliance with grant program regulations, the Commission may be required to reimburse the grantor government. As of June 30, 2000, significant amounts of grant expenditure have not been audited by the various grantor agencies 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.
The Board of Commissioners  
Interstate Environmental Commission

The Honorable Donald T. DiFrancesco  
Acting Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

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

We have audited the general purpose financial statements of the Interstate Environmental Commission as of and for the year ended June 30, 2000, and have issued our report thereon dated April 30, 2001. 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 Interstate Environmental Commission’s financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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 over financial reporting 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 solely for the information and use of the audit committee, management, Board of Commissioners, federal awarding agency, and a pass-through entity and is not intended to be and should not be used by anyone other than these specified parties.

Richard L. Fair  
State Auditor  
April 30, 2001
The Board of Commissioners  
Interstate Environmental Commission  

The Honorable Donald T. DiFrancesco  
Acting Governor of New Jersey  

The Honorable Donald T. DiFrancesco  
President of the Senate  

The Honorable Jack Collins  
Speaker of the General Assembly  

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services  

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

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, 2000. 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 requirement 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 Interstate Environmental Commission 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 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 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, 2000.

**Internal Control Over Compliance**

The management of 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 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, 2000, and have issued our report thereon dated April 30, 2001. 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 schedules of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are 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 and use of the audit committee, management, Board of Commissioners, federal awarding agency, and a pass through entity and is not intended to be and should not be used by anyone other than these specified parties.

Richard L. Fair
State Auditor
April 30, 2001
<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Account Number</th>
<th>Grant Period</th>
<th>Amount</th>
<th>Balance</th>
<th>Cash</th>
<th>(Accounts Receivable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>66.419</td>
<td>1002990-99</td>
<td>10/1/98–9/30/99</td>
<td>$410,306</td>
<td>$(65,520)</td>
<td>$131,024</td>
</tr>
<tr>
<td>U.S. Environmental Protection Agency</td>
<td>66.419</td>
<td>1002990-00</td>
<td>10/1/99–9/30/00</td>
<td>$380,306</td>
<td>_______</td>
<td>252,700</td>
</tr>
</tbody>
</table>

$ (65,520) $ 383,724 $ 405,235 $ (87,031)
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 Commission's 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, 2000  

Part I - Summary of Auditor’s Results  

Financial Statement Section  
Type of auditor’s report issued on financial statements.  
Unqualified  

Internal control over financial reporting:  
1) Material weakness(es) identified?  
___Yes  
___No  

2) Reportable condition(s) identified that are not considered to be material weakness(es)?  
___Yes  
___No  

Noncompliance material to general purpose financial statements noted?  
___Yes  
___No  

Federal Awards Section  
Internal Control over major programs:  
___Yes  
___No  

1) Material weakness(es) identified?  

2) Reportable condition(s) identified that are not considered to be material weakness(es)?  
___Yes  
___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  
___No  

Identification of major federal programs:  

<table>
<thead>
<tr>
<th>CFDA Number(s)</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.419</td>
<td>Water Pollution Control-State</td>
</tr>
<tr>
<td></td>
<td>and Interstate Program Support</td>
</tr>
</tbody>
</table>

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

Auditee qualified as low-risk auditee?  
___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.

CURRENT YEAR FEDERAL AWARDS

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, 2000

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)).

STATUS OF PRIOR AUDIT FINDINGS

THERE WERE NONE