

MUNICIPAL EXCESS LIABILITY
JOINT INSURANCE FUND
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED DECEMBER 31, 2016



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June 21, 2017

The Honorable Chairperson and Members
of the Board of Fund Commissioners
Municipal Excess Liability Joint Insurance Fund
Parsippany, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Municipal Excess Liability Joint Insurance Fund (the "Fund") for the year ended December 31, 2016, and have issued our report thereon dated June 21, 2017.

As part of our audit, we performed procedures required by the New Jersey Department of Community Affairs, Division of Local Government Services, and the findings and results thereof are disclosed on the following pages. This letter does not affect our report dated June 21, 2017 on the financial statements of the Fund.

We will review the status of comments, if any, made during our next audit engagement. We have already discussed any comments and suggestions made with various management personnel, and we will be pleased to discuss them in further detail at your convenience or to perform any additional study of these matters.

Nisivocia LLP

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND
COMMENTS AND RECOMMENDATIONS

Finding

One of the Fund's Third Party Claims Administrators ("TPA") does not have a SOC 1, Type 2 Service Organization Control ("SOC") report. A SOC 1, Type 2 report is a report of the service organization's controls and whether or not the controls are functioning as intended. It is recommended that the TPA obtain a SOC 1, Type 2 report or similar report, which covers each calendar year.

Recommendation

It is recommended that the Third Party Claims Administrator obtain a SOC 1, Type 2 report or similar report, which covers each calendar year.

Management's Response

Management will review options to ensure that the TPA obtains an appropriate report covering each year.

Finding

It was noted during our testing of claim files that the worker's compensation summary report did not agree with the detail reports for case reserves and payments in some cases. Detail and summary reports within a system should be in agreement in order to provide consistent, dependable information to all stakeholders. The Third-Party Claims Administrator was able to provide a temporary solution and is investigating the issue to provide a permanent solution.

Recommendation

It is recommended that the Third-Party Claims Administrator resolve the disparity between the summary and detail claims reports.

Management Response

Management will ensure that the Third-Party Claims Administrator will resolve the disparity between the summary and detail claim reports.

Suggestions to Management:

Economic Conditions and their Effect on Fund Operations

The prolonged period of low interest rates we are experiencing has negatively affected the Fund's investment yield and Net Position. Investment income has declined from a high of more than \$3,400,000 in 2007 to \$597,183 for 2016. In addition, poor economic conditions generally lead to increased claim activity. As a result, the Fund's safety program, underwriting and assessment policies have an increased impact on the operations of the Fund.

Projects of the Governmental Accounting Standards Board

The Governmental Accounting Standards Board currently has a number of projects under way, some of which could have an effect on the Fund's accounting and financial reporting practices. Projects include a review of Revenue and Expense Recognition, a Reexamination of the Financial Reporting Model, and Equity Interest Ownership Issues. In addition, Governmental Accounting Standards Board Statement No. 85 Omnibus 2017 is effective for the 2018 calendar year and may affect the recognition of certain money market investments among other items.

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND
COMMENTS AND RECOMMENDATIONS
(Continued)

Suggestions to Management: (Cont'd)

Insurance Industry Trends

Insurers and reinsurers are consolidating to create efficiencies, expand into new territories, and strengthen finances and risk exposures. Mergers and acquisitions have increased in life, non-life, and reinsurance sectors in recent years, according to the International Association of Insurance Supervisors. In addition, though regulations on the insurance industry vary by state, several national regulatory initiatives aimed at firming up insurance company solvency could have a significant impact on the industry in coming years. State insurance departments are also focusing on solvency regulation, since it is in their best interests to make sure that insurance companies are healthy and solvent. Although the MEL has had long term partnerships with their excess insurers and reinsurers and as a regular practice only associate with insurers and reinsurers with AM Best A+ ratings, our suggestion is to continue these best practices but be mindful that state regulations and requirements may be changing and may result in a need to reevaluate MEL's current practice.

Status of Prior Year Comments and Recommendations

The recommendation regarding the Third Party Claims Administrator to obtain a SOC 1, Type 2 report or similar report has not been corrected and is included in the current year audit.

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND
SUMMARY OF RECOMMENDATIONS

It is recommended that:

- 1) The Third Party Claims Administrator obtain a SOC 1, Type 2 report or similar report, which covers each calendar.
- 2) It is recommended that the Third-Party Claims Administrator resolve the disparity between the summary and detail claims reports.