

MUNICIPAL EXCESS LIABILITY
JOINT INSURANCE FUND
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED DECEMBER 31, 2015



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May 25, 2016

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, 2015, and have issued our report thereon dated May 25, 2016.

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 May 25, 2016 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

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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.

Suggestions to Management:

Membership in the Municipal Excess Liability Residual Claims Fund

The Fund is a member of the Municipal Excess Liability Residual Claims Fund (the "RCF"). In the 2015 Unaudited Financial Statements the RCF experienced a negative change in Net Position of \$1,471,809 to bring the RCF's Net Position to \$2,875,225 at December 31, 2015. The Fund should monitor the operations of the RCF for any continued negative financial performance during 2016 as the RCF's operations affects the Fund's financial position

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 \$324,193 for 2015. In addition, poor economic conditions generally lead to increased claim activity. The Fund has experienced an increase in claims and related expenses. As a result, the Fund's safety program, underwriting and assessment policies have an increased impact on the operations of the Fund.

Cyber Security

Cyber-crime has become much more prevalent in the last few years. Websites and internal networks, including personally identifiable information ("PII"), have been hacked and resulted in significant losses to organizations, both financial and reputational. We suggest that the Fund consider options to test and protect the Fund from cyber-crime, and encouraging members to review and test their own cyber security.

Status of Prior Year Comments and Recommendations

None

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.