

MUNICIPAL EXCESS LIABILITY
JOINT INSURANCE FUND
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED DECEMBER 31, 2012



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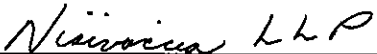
April 15, 2013

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, 2012, and have issued our report thereon dated April 15, 2013.

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 April 15, 2013 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.



NISIVOCCIA 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 Type 2 Service Organization Control ("SOC") report. A Type 2 SOC report is a report of the service organization's controls and whether or not the controls are functioning as intended. The TPA's computer controls are covered under another SOC report. Thus the controls to be reviewed would consist of those controls excluding computer controls. It is recommended that the TPA obtain a Type 2 SOC 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:

Clarity Project

To aid CPAs' understanding of generally accepted auditing standards (GAAS) and to improve compliance with their requirements, the Auditing Standards Board (ASB) in 2004 launched a significant effort to make U.S. GAAS easier to read, understand and apply. In 2009, the International Auditing and Assurance Standards Board (IAASB) completed a similar project to clarify its International Standards on Auditing (ISAs). The ASB is converging U.S. GAAS with the ISAs while avoiding unnecessary conflict with Public Company Accounting Oversight Board standards. In 2007, clarity drafting conventions were developed and are being applied to all standards issued by the ASB after January 2008. All AU sections of currently effective Statements on Auditing Standards (SASs) in AICPA *Professional Standards* are being clarified. With the issuance of Statements on Auditing Standards Number 122 through 127, the ASB's Clarity Project is substantially complete. There appears to be one outstanding issue which is not expected to have a major impact on the conduct of the Fund's audit.

Statements of the Governmental Accounting Standards Board

The Governmental Accounting Standards Board ("GASB") has issued several pronouncements that will be effective in the next two years. It appears that most of these pronouncements will not affect the financial accounting and reporting of the Fund. However, GASB Statement Number 69, *Government Combinations and Disposals of Government Operations* will require additional footnote disclosures. The disclosures do not appear to be onerous nor does it appear that it will be difficult for the Fund to obtain and present the disclosure information in order to comply with the standard. This statement will be effective for the Fund's calendar year 2014 financial statements although earlier application is encouraged by the GASB.

Committee of Sponsoring Organizations of the Treadway Commission

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Internal Control—Integrated Framework* is used by virtually all business and governmental entities in the United States and is widely used in major countries across the world in identifying the components of internal control and the fundamental concepts of internal control. In December 2011, COSO released for public comment an updated *Internal Control—Integrated Framework* that is intended to help organizations improve performance with greater agility, confidence, and clarity. The major objective is to update the COSO framework for (a) changes in the nature of organizations, IT, and the impact of new global structures and (b) to make it easier to use. On September 18, 2012, COSO released for public comment the exposure draft *Internal Control over External Financial Reporting: Compendium of Approaches and Examples*. The comment period ended on December 4, 2012. The updated COSO framework is expected to be released during spring or summer 2013.

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND
COMMENTS AND RECOMMENDATIONS

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 \$618,953 for 2012. 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.

Status of Prior Year Comments and Recommendations

Not Applicable.

MUNICIPAL EXCESS LIABILITY JOINT INSURANCE FUND
SUMMARY OF RECOMMENDATIONS

It is recommended that:

- 1) The Third Party Claims Administrator obtains a Type 2 SOC report or similar report, which covers each calendar year.