

MUNICIPAL EXCESS LIABILITY
JOINT INSURANCE FUND
AUDITORS' MANAGEMENT REPORT ON
ADMINISTRATIVE FINDINGS - FINANCIAL,
COMPLIANCE AND PERFORMANCE
YEAR ENDED DECEMBER 31, 2017



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April 23, 2018

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, 2017, and have issued our report thereon dated April 23, 2018.

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 23, 2018 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.

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. As of 1/1/18 the TPA that did not provide an SOC has been replaced with a TPA that submitted its latest SOC report and receives one every year.

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 \$371,100 for 2017. 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.

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. The recommendation regarding the Third-Party Claims Administrator resolve the disparity between the summary and detail claims reports has been resolved in the current year.

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.