

STATE OF NEW JERSEY



**REPORT ON THE EXAMINATION
OF THE**

MIDDLESEX COUNTY MUNICIPAL JOINT INSURANCE FUND

1 Jocama Blvd, Suite 1C
Old Bridge, NJ 08857

AS OF DECEMBER 31, 2020

Filed

June 3, 2022

Commissioner

Department of Banking &

Insurance

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Old Bridge, New Jersey
June 3, 2022

Honorable Marlene Caride
Commissioner
State of New Jersey
Department of Banking and Insurance ("Department")
Trenton, New Jersey

Dear Commissioner:

Pursuant to N.J.A.C. 11:15-2.25 and your instructions, an examination was conducted of the:

MIDDLESEX COUNTY MUNICIPAL JOINT INSURANCE FUND

(hereinafter also referred to as the "Fund") at the primary location of its books and records, 1 Jocama Boulevard, Suite 1C, Old Bridge, New Jersey, 08857, which is also the Fund's statutory home office and main administrative office.

SCOPE OF EXAMINATION

The examination of the Fund was of a limited scope and was conducted in accordance with the procedures of N.J.A.C. 11:15-2.6(f) for the period from January 1, 2020, through December 31, 2020. The examination scope included the Fund's assets and liabilities, financial condition, method of conducting business and other affairs of the Fund. For purposes of completing the examination, the Department retained Examination Resources, LLC. as examination specialists under the direction of the Department's Office of Solvency Regulation. The examiners utilized a risk-focused process in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook ("Handbook"). A limited scope examination differs in various respects from that of a full-scope examination or an audit performed in accordance with generally accepted auditing standards. However, the examination did include a review of significant risks that could cause the Fund's surplus to be materially misstated, both currently and prospectively.

All accounts and activities of the Fund were considered in accordance with the risk-focused examination process. This included assessing significant estimates made by the Fund and evaluating the Fund's compliance with relevant accounting principles. The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment was identified during the course of the examination, the impact of such adjustment was documented alongside the Fund's financial statements. The adjustment was then presented to the Fund's Administrator who is responsible for the day-to-day management of the Fund and to coordinate with the Fund's auditor who is responsible for the annual audit of the financial statements of the Fund.

This examination report includes findings of fact and general information about the Fund and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to the Fund's Administrator.

FUND HISTORY

The Fund was granted permission to operate by the State of New Jersey effective August 6, 1986. The Fund's original eight members consisted of the following municipalities located in Middlesex County; Highland Park, New Brunswick, North Brunswick, Old Bridge, South Amboy, South Brunswick, Plainsboro, and Spotswood. In 1987, the Fund expanded its territorial operation to include Monmouth, Somerset, and Union Counties. In 1994, the Fund again expanded to include any local unit in the State of New Jersey. As of December 31, 2020, the Fund included twelve municipalities, three parking authorities, two development agencies, two rescue agencies, one utility authority, and one board of education (collectively, "local units").

MANAGEMENT AND CONTROL

The Fund is organized and governed under N.J.S.A. 40A:10-36 et seq. and N.J.A.C. 11:15-2.1 et seq. Pursuant to N.J.A.C. 40A:10-41 and N.J.A.C. 11:15-2.5 & 11:15-2.6, the Fund has adopted bylaws and a plan of risk management in order to provide insurance coverage to its member local units. Pursuant to N.J.S.A. 40A:10-37, each local unit appoints one member of the governing body or employee of the local unit to represent that local unit as an insurance fund commissioner who maintains such powers and authority under N.J.S.A. 40A:10-10 (a, b, c, & e). If the total number of member local units exceeds seven, the commissioners annually meet to select not more than seven commissioners to serve as the executive committee of the Fund. The executive committee shall exercise the full power and authority of the commission.

The Fund's executive committee manages the business and affairs of the Fund. The following are members of the executive committee of the Fund serving during Fund year 2020:

<u>Name</u>	<u>Location</u>
Bernie Hvozdovic (*)	Township of South Brunswick
Dawn McDonald	Borough of Spotswood
Paul Clark	Middlesex County Utilities Authority
Scott Frueh (**)	Borough of Jamesburg
Stacy Crawley (***)	New Brunswick Parking Authority
Joseph Zanaga	Borough of South River
Brandon Goldberg	City of New Brunswick

(*) Mr. Hvozdovic served as Chairperson of the Executive Committee during 2020.

(**) Mr. Frueh served as Secretary during 2020.

(***) Ms. Crawley served through May 2020 and an alternate served for the remainder of the year.

All member local units must pass resolutions to agree to join the Fund. The resolution provides for the execution of a written agreement specifically providing for acceptance of the Fund's bylaws as approved and adopted. The resolution also provides for the execution of an Indemnity and Trust Agreement, which is a written contract signed by and duly adopted by the member local units of the Fund under which each agrees to jointly and severally assume and discharge the liabilities of each and every party to such agreement arising from the participation in the Fund.

Under the Fund's bylaws (Section 3.03), after the beginning of each year, the commissioners or executive committee select Agencies and Officials to serve in the appointed positions, including:

- A. Administrator – William Kurtz: The Administrator serves as Executive Director of the Fund and may be an employee of the Fund. The administrator's duties include, but are not limited to: (i) carrying out the policies of the commissioners to provide for the day-to-day management of the Fund; (ii) reviewing and analyzing statistics and preparing an analysis, including assessment, loss and expense reports; (iii) preparing the Fund's budget; and, (iv) compiling and billing assessments. Glen Kurtz assists the Administrator in his duties and is designated as an Associate in Risk Management.
- B. Actuary – Marie Actuarial Consulting: The Actuary certifies the actuarial soundness of the Fund, and that the Fund's annual budget is actuarially sound with respect to funding for the claim or loss retention accounts.
- C. Auditor – Samuel, Klein and Company, LLP: The Auditor shall be an independent certified public accountant and not a commissioner. The auditor conducts the annual audit of the Fund and other duties as provided for by the Fund commissioners or executive committee.

- D. Attorney – Edward Testino, Esq: The Fund’s Attorney shall be admitted to the Bar of the State of New Jersey and shall not be a Fund commissioner, and shall not be general counsel to any member local unit. The attorney’s duties include, but are not limited to: (i) advise the Fund on legal matters and the appropriateness of claim settlements recommended by the claims administrator; (ii) along with the service agent, advise the commissioners on the selection of counsel to represent the Fund in the defense of claims; and, (iii) perform such other duties as provided for by the Fund commissioners, the bylaws, and the laws and regulations of the State of New Jersey.

Management Agreements

Since its inception in 1986, the Fund has maintained a series of one-year management agreements with the Governmental Risk Management Association (“GRMA”). Under the terms of this agreement, GRMA collects all premiums and payments of commissions and claims on behalf of the Fund. GRMA also performs day-to-day management of the Fund. The management fee for Fund years 2020 and 2019 was \$668,000 per year paid in 12 monthly installments.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2020, the Fund was authorized to insure member local units for Workers’ Compensation, General Liability, Motor Vehicle and Equipment Liability, and Property Damage coverages solely in New Jersey.

During 2020, the Fund assessed member local units \$10.8 million. The Fund’s business is distributed and marketed through the GRMA, which maintains an office in Old Bridge, New Jersey.

REINSURANCE

As of December 31, 2020, the Fund was party to several reinsurance agreements. The Fund maintained a reinsurance agreement with Old Republic Union Insurance Company that provided for \$10 million coverage on a per occurrence basis for Automobile, General Liability, Law Enforcement Liability, Error and Workers' Compensation after exceeding the self-insured retention limits of \$1 million per occurrence. Subsequent to the examination period, the Fund entered into agreements effective from January 1, 2021 through January 1, 2022 under the same terms as the prior year which was facilitated and supported by the Municipal Excess Liability Joint Insurance Fund.

ACCOUNTS AND RECORDS

Excess Claims Receivable

As of December 31, 2020, the Fund reported \$3,104,413 of Excess Claims Receivable. This balance largely related to four periods. The Fund had \$853,822, \$595,958, \$912,557 and \$638,220 of excess claims receivables for losses from 2014, 2013, 2012 and 1986-2000, respectively. The Fund was unable to provide sufficient evidence supporting the excess claims receivables for the losses related to 2012 and 2013.

Additionally, on March 15, 2021, the Fund received \$500,000 from its reinsurer for a claim with a 2017 loss date. The claim was settled on December 8, 2020 and therefore should have been recorded as a valid receivable as of December 31, 2020. However, the Fund had not recorded this settlement as a receivable.

As a result, of the items noted above, both the unsupported receivables and the unreported receivable, Excess Claims Receivable was determined to be overstated by \$1,008,515.

Supplemental Assessments Receivable

The Fund reported \$1,763,645 of Supplemental Assessments Receivable as of December 31, 2020. This balance included \$1,407,000 of supplemental assessments for the closed years of 1986 – 2000. However, this amount was a recommendation from the previous Actuary of the Fund and was never assessed to the member local units. As such, this balance should not have been reported as Supplemental Assessments Receivable. The remaining Supplemental Assessment Receivable of \$356,645 was not impacted by this matter. As a result, the Supplemental Assessment Receivable was determined to be overstated by \$1,407,000.

Claims Receivable, Assessments Due from Former Members, and Other Receivable

The Fund reported Claims Receivable of \$47,684, Assessments Due from Former Members of \$30,387, and Other Receivables of \$3,791 as of December 31, 2020. Based on a review of the financial records, these balances have been carried forward since at least 2012. The Fund was unable to provide evidence supporting these balances. As such, these receivable amounts of \$81,862 were determined to be overstated.

Assessments Receivable

The Fund reported Assessments Receivable of \$114,826 as of December 31, 2020. Based on a review of subsequent cash receipts, \$64,517 of the balance remained outstanding and determined to be uncollectible.

Based on a review of the adjustments proposed by the external auditor and discussions with Fund management, it was noted that certain cash collections that were not assessments were posted to the assessments receivable account, specifically, the receipt of \$293,073 as repayment of an advance made to a member local unit.

In 2019, the Fund advanced \$543,073 to the member local unit to cover expected legal

costs related to a claim. In December 2019, the member local unit repaid \$250,000 of the advance and the remaining balance of \$293,073 was classified as claims expense. Based on a review of the journal entries, it was determined there was an overstatement of 2019 claims expense of \$293,073.

In February 2020, the member local unit repaid the remaining balance of the advance, \$293,073. The Fund recorded the receipt of this payment as an assessment receivable. The external auditor requested the Fund adjust the amount out of assessments receivable and instead record it as a decrease of claims expense. This resulted in an understatement of 2020 claims costs by \$293,073. Overall, \$64,517 of the Assessments Receivable amount of \$114,826 was determined to be overstated.

Cash and Cash Equivalents

The Fund reported Cash and Cash Equivalents of \$5,332,865 as of December 31, 2020. Based on a review of the December 2020 bank reconciliations, the cash balance for one of the Fund's bank accounts was overstated by \$35,818.

Accounts Payable and Accrued Expenses

Based on a review of cash disbursements, the Accounts Payable and Accrued Expenses balance excluded payments approved in December but held for mailing until January. As such, Accounts Payable and Accrued Expenses was understated by \$159,271.

Payroll Taxes and Withholding Payable

The Fund reported \$155,587 of Payroll Taxes and Withholding Payable at December 31, 2020. Based on a review of the cash disbursements and discussions with Fund management, this amount consisted of several years' worth of activity. The cash disbursements journal showed the Fund subsequently paid only \$28,334 of payroll taxes and withholdings related to the year ended December 31, 2020. As such, Payroll Taxes and Withholding Payable was overstated by \$127,253.

FINANCIAL STATEMENTS

The following financial statements are based on the audited financial statements filed by the Fund with the New Jersey Department of Banking and Insurance and present the financial position of the Fund for the period ending December 31, 2020. These financial statements also include all proposed examination adjustments discussed in the Accounts and Records section of this report.

Statement of Net Position as of December 31, 2020

Assets	As Reported	Proposed Adjustments	Adjusted Balance	Notes
Cash and Cash Equivalents	\$ 5,332,865	\$ (35,818)	\$ 5,297,047	(1)
Assessments Receivable	114,826	(64,517)	50,309	(2)
Claims Receivable	47,684	(47,684)	-	(3)
Assessments Due from Former Members	30,387	(30,387)	-	(3)
Accrued Interest Receivable	11,462	-	11,462	
Supplemental Assessments Receivable	1,763,645	(1,407,000)	356,645	(4)
Excess Claims Receivable	3,104,413	(1,008,515)	2,095,898	(5)
Other Receivable	3,791	(3,791)	-	(3)
Total Current Assets	<u>10,409,073</u>	<u>(2,597,712)</u>	<u>\$ 7,811,361</u>	
<u>Deferred Outflows of Resources</u>				
Deferred Amount Related to Pension	<u>169,814</u>	<u>-</u>	<u>169,814</u>	
<u>Liabilities and Net Position</u>				
Current Liabilities				
Accounts Payable and Accrued Expenses	26,351	159,271	185,622	(6)
Payroll Taxes and Withholding Payable	155,587	(127,253)	28,334	(7)
Unemployment and Disability Reserves	1,393	-	1,393	
Reserve for Unclaimed Checks	19,033	-	19,033	
Unearned Revenue	117,229	-	117,229	
Case Reserves	12,730,104	-	12,730,104	(8)
Incurred but Not Reported Reserves (IBNR)	21,376,670	-	21,376,670	(8)
Authorized and Unpaid	246,920	-	246,920	
Total Current Liabilities	<u>34,673,287</u>	<u>32,018</u>	<u>34,705,305</u>	
Long-Term Liabilities				
Net Pension Liability	<u>902,418</u>	<u>-</u>	<u>902,418</u>	
Total Liabilities	<u>35,575,705</u>	<u>32,018</u>	<u>35,607,723</u>	
<u>Deferred Inflows of Resources</u>				
Deferred Amount Related to Pension	<u>541,741</u>	<u>-</u>	<u>541,741</u>	
<u>Net Position</u>				
Unrestricted	<u><u>(\$25,538,559)</u></u>		<u><u>(\$28,168,289)</u></u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Cash and Cash Equivalents

As noted above in the Accounts and Records section, the balance of one of the Fund's checking accounts was determined to be overstated by \$35,818.

(2) Assessments Receivable

As noted above in the Accounts and Records section of this report, the Fund reflected \$64,517 in assessments receivable that had aged over a year and were uncollectible.

(3) Claims Receivable, Assessments Due from Former Members and Other Receivable

As noted above in the Accounts and Records section of this report, the Fund carried \$81,862 of unsupported balances forward since at least 2012. There was no evidence to support the balances for these amounts at December 31, 2020.

(4) Supplemental Assessments Receivable

As noted above in the Accounts and Records section, the Fund never assessed the \$1,407,000 supplemental assessment.

(5) Excess Claims Receivable

As noted above in the Accounts and Records section, the Fund could not provide sufficient support for the excess claim receivable balances for loss years 2012 and 2013 of \$912,557 and \$595,958, respectively. Additionally, the Fund had an unreported receivable of \$500,000 at December 31, 2020.

(6) Accounts Payable and Accrued Expenses

As discussed in the Accounts and Records section, the Fund approved \$159,271 of claims payments, and prepared the checks for these payments, in December 2020. The Fund held these checks for mailing until January 2021. These amounts should have been included in the Accounts Payable and Accrued Expenses balance at December 31, 2020.

(7) Payroll Taxes and Withholding Payable

As noted above in the Accounts and Records section, the Fund included \$127,253 of payroll withholdings that had been paid in prior periods.

(8) Case and IBNR Reserves

For purposes of completing the examination, Baker Tilly US LLP was engaged through Examination Resources, LLC. as actuarial specialists under the direction of the Department's Office of Solvency Regulation to perform an actuarial analysis of the Case Reserves and IBNR Reserves. No adjustments were recommended to the balances as of December 31, 2020.

SUBSEQUENT EVENTS

On December 8, 2021, due to increased excess insurance, workers compensation and liability claim costs for the Fund year 2021, and continuing cash flow needs, the Fund issued a supplemental assessment of \$2,097,000 upon its member local units. The supplemental assessment was allocated by line and member and was due no later than April 1, 2022.

RECOMMENDATIONS

Excess Claims Receivable (page 6) – It is recommended that the Fund maintain accurate books and records in such a manner as to be able to provide sufficient evidence of balances submitted for reinsurance. Uncollectible amounts should be written off.

Supplemental Assessments Receivable (page 7) – It is recommended that the Fund only post balances for valid assets to ensure accurate financial reporting.

Claims Receivable, Assessments Due from Former Members, and Other Receivable (page 7) – It is recommended that the Fund maintain complete and accurate accounting records. Any unsupported or uncollectible items should be written off.

Assessments Receivable (page 7) – It is recommended that the Fund maintain accurate accounting records and review all assessment receivable balances periodically to determine collectability. Further, if it is necessary to make an advance to a member local unit at a future date, the Fund should set up a separate account to track the activity including any repayments in order to avoid misstating assessments or claims.

Cash and Cash Equivalents (page 8) – It is recommended that the Fund maintain complete and accurate accounting records. The accounting records should be supported by the reconciliations.

Accounts Payable and Accrued Expenses (page 8) – It is recommended that the Fund maintain complete and accurate accounting records.

Payroll Taxes and Withholding Payable (page 8) – It is recommended that the Fund maintain complete and accurate accounting records.

CONCLUSION

Based on the findings noted during this examination, the Fund's Net Position was overstated by \$2,629,730 as of December 31, 2020. It is recommended the Fund record the proposed examination adjustments and re-submit its December 31, 2020 financial statements to the New Jersey Department of Banking and Insurance.

ACKNOWLEDGMENT

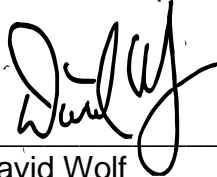
Acknowledgment is made of the cooperation and assistance extended by the Fund's officers and employees during the course of this examination.

Respectfully submitted,



Don Roof, CFE, MCM
Managing Director
Examination Resources on behalf of the
New Jersey Department of Banking and Insurance

Under the supervision of,



David Wolf
Acting Assistant Commissioner
Office of Solvency Regulation
New Jersey Department of Banking and Insurance