

# A Performance Audit of the Lifeguard Pension Program: City of Margate City

AUDIT DIVISION REPORT



Kevin D. Walsh  
Acting State Comptroller

Issued July 23, 2025



# Table of Contents

<b><u>Audit Authority</u></b>	<b>1</b>
<b><u>Background</u></b>	<b>1</b>
<b><u>Executive Summary</u></b>	<b>2</b>
<b><u>Audit Objectives</u></b>	<b>2</b>
<b><u>Audit Scope</u></b>	<b>2</b>
<b><u>Audit Methodology</u></b>	<b>2</b>
<b><u>Audit Findings and Recommendations</u></b>	<b>3</b>
<b><u>Reporting Requirements</u></b>	<b>6</b>
<b><u>Auditee Response</u></b>	<b>Appendix A</b>

# Audit Authority

---

We performed this audit pursuant to the State Comptroller’s authority set forth in N.J.S.A. 52:15C-1 to -24. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS)<sup>1</sup> applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Background

---

In 1928, the Legislature adopted a law that required fourth-class cities<sup>2</sup> to provide a pension upon retirement to lifeguard officers and lifeguards. The law was amended in 1929 to provide pension benefits to surviving spouses and minor children. In 1936, the law was amended again to increase the retirement age, the required years of service, and the level of employee contributions. N.J.S.A. 43:13-23 to -29, which this report will refer to as the Lifeguard Pension Law, mandates that fourth-class cities establish a pension fund, with contributions from both the city and its lifeguard employees, and appoint a commission to manage the fund and its administration. The statutes empower the pension commission to make all necessary rules and regulations as long as they are consistent with the law.

The City of Margate City (City or Margate) by ordinance created a pension plan for lifeguards effective January 1, 1987. The ordinance defines pension program terminology, provides additional information regarding plan membership, and establishes eligibility criteria.

In 2022, Margate paid pension benefits to 10 retirees at a cost of about \$74,600. The City’s 2022 budget included approximately \$119,000 to meet the City’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, Margate had approximately \$740,000 in funds reserved to pay lifeguard pensions.

### Lifeguard Pension Reserve Activity 2020 through 2022

Year	Balance January 1st	Employee Contributions	Employer Contributions	Other Revenue	Payments to Retirees	Balance December 31st
2020	\$ 504,726	\$ 20,713	\$ 109,160	\$ 1,962	\$ 61,436	\$ 575,126
2021	\$ 575,126	\$ 19,452	\$ 145,919	\$ 1,702	\$ 69,321	\$ 672,878
2022	\$ 672,878	\$ 19,712	\$ 118,769	\$ 3,558	\$ 74,594	\$ 740,323

---

<sup>1</sup> UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE, GOVERNMENT AUDITING STANDARDS 2018 REVISION (Apr. 2021) (“GAGAS”), <https://www.gao.gov/assets/gao-21-368g.pdf>.

<sup>2</sup> Fourth-class cities include cities known as seaside or summer resorts that also border the Atlantic Ocean. N.J.S.A. 40A:6-4.

## Active and Retired Lifeguard Population

Year	Active Lifeguards	Retirees Receiving Benefits
2020	71	8
2021	65	9
2022	70	10

## Executive Summary

---

Our audit identified weaknesses related to the administration of Margate’s lifeguard pension program in the areas of compliance and financial reporting.

Specifically, our audit found that the City:

- Failed to appoint pension commission members in compliance with the Lifeguard Pension Law; and
- Did not report the lifeguard pension liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement 73.

City administrators took appropriate corrective actions when informed of the deficiencies above by adopting multiple resolutions to appoint pension commission members and by providing appropriate disclosures regarding its pension obligations in its 2023 audit report. Accordingly, our report does not include additional recommendations to the City.

## Audit Objectives

---

The objectives of our performance audit were to examine the operations of the City’s lifeguard pension program to determine whether the program complied with applicable local ordinance and state statutory requirements, disclosed required financial information, and maintained adequate internal controls.

## Audit Scope

---

The period January 1, 2020 through December 31, 2022.

## Audit Methodology

---

To accomplish our objectives, we reviewed relevant statutes, regulations, GASB requirements, and the City’s policies and procedures addressing the administration of its lifeguard pension program. We reviewed financial records, payroll records, collective bargaining agreements

(CBAs), and other supporting documentation. Additionally, we interviewed local officials responsible for the lifeguard pension programs to understand program operations.

GAGAS requires auditors to plan and perform audit procedures to assess internal control when internal control is determined to be significant to the objective. The Government Accountability Office's Standards for Internal Control in the Federal Government, or "Green Book,"<sup>3</sup> provides a framework for internal control systems for public entities. The Green Book establishes five components of an internal control system: control environment, risk assessment, control activities, information and communication, and monitoring. The five components include 17 principles that support the effective design, implementation, and operation of an internal control system. GAGAS requires written communication of deficiencies in internal control that warrant the attention of those charged with governance. Deficiencies significant to our audit objectives are included in this report. We communicated internal control deficiencies that are not significant to our audit objectives through separate correspondence to those charged with governance.

We reviewed all items within populations of like transactions identified during the scope of our audit to provide conclusions about the adequacy of internal controls and compliance with applicable laws, regulations, policies, and procedures.

## Audit Findings and Recommendations

---

### Lifeguard Pension Program

#### Objectives

*Determine whether the City complied with the Lifeguard Pension Law, N.J.S.A. 43:13-23 to -29.*

*Determine whether the City complied with local ordinance and CBA requirements.*

*Determine whether the City complied with GASB Statement 73 requirements for lifeguard pension program disclosures within its financial report.*

*Determine whether the City adequately designed and implemented internal controls to ensure compliance with program statutes and internal guidelines for the operation of its lifeguard pension program.*

#### Findings

The Mayor did not appoint pension commission members with the advice and consent of the governing body in accordance with N.J.S.A. 43:13-28.

---

<sup>3</sup> UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT, (SEPT. 2014) ("Green Book"), <https://www.gao.gov/assets/gao-14-704g.pdf>.

The City did not make adequate disclosures required by GASB Statement 73 related to the lifeguard pension program including the disclosure of pension plan liability. The estimated total plan liability is approximately \$2.4 million.

### Criteria

The Lifeguard Pension Law requires fourth-class cities to provide a retirement benefit equal to half-pay to lifeguard employees who are at least 45 years of age and have worked 20 years of eligible service. The pension benefits are funded by contributions from active employees, interest earnings, and budget appropriations. Every fourth-class city with a beach on the ocean that hires lifeguards must budget to provide the fund with the required annual four percent contribution plus any additional amount needed to meet the requirements of the pension program. The City accounts for funds in excess of the amount needed to pay current benefits in a separate fund designated for future pension payments.

The Lifeguard Pension Law requires the mayor or chief executive officer of municipalities subject to the law to appoint, with the advice and consent of the governing body of the city, a lifeguard pension commission consisting of four members, including a superior officer of the lifeguards, a lifeguard, and two citizens who are not lifeguards. They shall serve for a term of four years and until their successors are appointed and have qualified and shall not receive any compensation for their services.

The City must also comply with Ordinance 1987-16, which creates the lifeguard pension program and establishes the number of days an employee must work to obtain a year of pensionable service credit, and the CBA it negotiated with the lifeguards.

The financial activity and year-end balances for the City's lifeguard pension program are reported in its annual audit report. N.J.A.C. 5:30-6.1 establishes the guidelines for municipal audit reports and requires local governments to include GASB disclosures in the notes to the City's financial statements. GASB issued Statement 73 to improve the usefulness of information about pensions included in financial reports issued by local and state governments.<sup>4</sup> GASB Statement 73 requires actuarial reports and disclosure of pension liabilities and reserves.

The Green Book provides a framework for internal control systems for public entities. The Green Book's five components and the related 17 principles of an internal control system serve as the basis for our assessment of the design, implementation, and operation of the City's internal control system.

### Methodology

To meet these objectives, we:

- Reviewed the Lifeguard Pension Law, local ordinances, plan documentation, and CBAs;

---

<sup>4</sup> GOVERNMENTAL ACCOUNTING STANDARDS BOARD, STATEMENT NO. 73, "ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS AND RELATED ASSETS THAT ARE NOT WITHIN THE SCOPE OF GASB STATEMENT 68, AND AMENDMENTS TO CERTAIN PROVISIONS OF GASB STATEMENTS 67 AND 68" (June 2015), [GASB Statement No. 73](#).

- Interviewed relevant City officials;
- Reviewed payroll and other financial documentation; and
- Performed audit procedures designed to meet our audit objectives.

### **Audit Results**

We audited the City's lifeguard pension program to assess compliance with statutes, local ordinances, the CBA, and GASB Statement 73. We reviewed the pension program's operations, assessed internal controls, and tested the design and implementation of the program.

#### **Compliance with Statutes and Local Guidelines**

Our audit found that although the City has an operating pension commission, it was not able to provide documentation showing that each commission member was appointed to a four-year term by the mayor with the advice and consent of the governing body. As noted, each pension commission must be made up of four members: one officer of the lifeguards, one lifeguard, and two citizens who are not lifeguards. When informed of the lack of documentation, the City approved resolutions #293-2023, 127-2024, 128-2024, and 129-2024 to memorialize the Mayor's appointment of four pension commission members, and their respective designation, to four-year terms with the advice and consent of the governing body.

#### **Compliance with Financial Reporting Standards**

We reviewed the City's audit reports for 2020 through 2022 and found that the City's disclosures related to its lifeguard pension failed to meet the requirements of GASB Statement 73. Most significantly, Margate did not disclose its pension plan liability in its annual audit reports. The City obtained an actuary report calculating the lifeguard pension program liability in 2022 but did not include the required information in its annual audit report. As of January 1, 2022, the actuarially calculated total liability related to the City's lifeguard pension program was approximately \$2.4 million. The estimated value of assets at the measurement date was \$679,100. The shortfall of \$1.8 million between the amount in its account and the calculated total liability represents the estimated amount the City must include in future budgets to eliminate the shortfall. The City's 2023 audit report appropriately disclosed the liability associated with the lifeguard pension program.

#### **Design, Implementation, and Operation of Internal Controls**

We audited the City's internal policies, processes, and other internal lifeguard pension program activities. A well-designed system aids in compliance with applicable law, including local ordinances, and guards against errors.

Our audit procedures did not identify significant weaknesses in internal control related to calculating and tracking employee pensionable service years, calculating and approving employee retirement payments, or maintaining adequate documentation.

### Causes

Margate did not appoint the pension commission members by resolution and did not document how each pension commission member met statutory eligibility criteria.

Margate did not disclose its lifeguard pension program liability in its annual audit reports.

### Effects/Potential Effects

The City limits public transparency into the lifeguard pension program by failing to appoint its pension commission members by resolution.

Margate did not disclose an approximately \$2.4 million total pension liability in audit reports before 2023, which prevented the public from being aware of the cost of the City's lifeguard pension program.

### Recommendations

Margate addressed the deficiencies identified in this report during the course of our audit. We do not recommend any additional actions.

## Reporting Requirements

---

We provided a draft copy of this report to City officials for their review and comment. The City agreed with our audit findings and conclusions and its response indicated the City has taken corrective actions. The City's comments were considered in preparing our final report and are attached as Appendix A.

We thank the management and staff of the City for the courtesies and cooperation extended to our auditors during this engagement.



LISA F. MCLAUGHLIN, CPA, CMFO  
CHIEF FINANCIAL OFFICER

## CITY OF MARGATE CITY

MUNICIPAL BUILDING  
9001 WINCHESTER AVENUE  
MARGATE CITY, NEW JERSEY 08402  
(609) 822-4088  
FAX (609) 823 -0686  
Lmclaughlin@margate-nj.com

June 10, 2025

New Jersey Office of the State Comptroller  
Audit Division

Re: City of Margate City Lifeguard Pension Plan Performance Audit

To whom it may concern:

The Officials of the City of Margate City agree with the audit findings and conclusions noted in the audit report for the period January 1, 2020 through December 31, 2022 and have taken corrective actions. All corrective actions are included in the report and are detailed as follows:

### Findings:

1. The Mayor did not appoint pension commission members with the advice and consent of the governing body in accordance with N.J.S.A. 43:13-28.
2. The City did not make adequate disclosures required by GASB Statement 73 related to the lifeguard pension program including the disclosure of pension plan liability. The estimated total plan liability is approximately \$2.4 million.

### Corrective Action:

1. The City approved resolutions #293-2023, 127-2024, 128-2024, and 129-2024 to memorialize the Mayor's appointment of four pension commission members, and their respective designation, to four-year terms with the advice and consent of the governing body.
2. The City's 2023 audit report appropriately disclosed the liability associated with the lifeguard pension program.

Yours truly,

A handwritten signature in black ink, appearing to read "Lisa McLaughlin", is written over a horizontal line.

Lisa McLaughlin, CPA, CMFO  
Chief Financial Officer/Margate City Lifeguard Pension Plan Administrator