

A Performance Audit of the Lifeguard Pension Program: City of North Wildwood

AUDIT DIVISION REPORT



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Acting State Comptroller

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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)¹ 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 cities² 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 North Wildwood (City or North Wildwood) by Ordinance 1078 created a pension plan for lifeguards effective December 18, 1990. The ordinance defines pension program terminology, provides additional information regarding plan membership, and establishes eligibility criteria.

In 2022, the City paid pension benefits to 11 retirees at a cost of approximately \$48,500. North Wildwood’s 2022 budget included approximately \$27,600 to meet the City’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, the City had approximately \$171,400 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	\$ 201,114	\$ 20,501	\$ 20,501	\$ 1,638	\$ 48,952	\$ 194,802
2021	\$ 194,802	\$ 19,585	\$ 19,585	\$ 632	\$ 70,871	\$ 163,734
2022	\$ 163,734	\$ 27,510	\$ 27,511	\$ 1,108	\$ 48,477	\$ 171,386

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

² 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	76	11
2021	72	11
2022	97	11

Executive Summary

Our audit identified weaknesses related to the administration of the North Wildwood's lifeguard pension program in the areas of compliance, financial reporting, and internal controls.

Specifically, our audit found that the City:

- Improperly paid an ineligible retiree approximately \$62,000;
- Did not obtain actuary reports and disclose pension liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement 73; and
- Failed to accurately track lifeguard service years, review eligibility, and maintain payroll records needed to administer its pension plan.

We make five recommendations to improve the City's internal controls and improve compliance with applicable law, local ordinances, and financial reporting requirements.

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 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 local ordinance addressing the administration of its lifeguard pension program. We

reviewed financial records, payroll records, and other supporting documentation. Additionally, we interviewed local officials responsible for the lifeguard pension program 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,"³ 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 communicate internal control deficiencies that are not significant to our audit objectives through separate correspondence to those charged with governance.

As part of our review, we selected a judgmental sample of records. Our samples were designed to provide conclusions about the validity of the sampled transactions and the adequacy of internal controls and compliance with applicable laws, regulations, policies, and procedures. Because we used a non-statistical sampling approach, the results of our testing cannot be projected over the entire population of like transactions or contracts.

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 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 City approved retirement benefits for an ineligible retiree, resulting in improper payments of approximately \$62,000.

³ 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>.

Annual audit reports did not disclose the City's total lifeguard pension liability calculated by an actuary as required by GASB Statement 73.

The City's service credit tracking system did not accurately record the total number of lifeguard service years. The pension commission did not review the verification of retiree eligibility or the calculation of retiree benefits.

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.

In addition to complying with the Lifeguard Pension Law, the City must also meet the obligations imposed by ordinance. Ordinance 1078 defines that lifeguard employees must have worked for 20 years and for a period of ten consecutive years to be fully vested in the City's pension plan. Additionally, members shall not be eligible to receive pension benefits until they have reached 45 years of age. Lifeguard employees must work a minimum of 45 days within a calendar year to earn one year of service credit towards the 20 years of service required for retirement benefit eligibility.

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 of local and state governments.⁴ 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 and the City's plan documentation;

⁴ 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, 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 identified one individual receiving higher pension payments than permitted under the City's ordinance. Our review found the City failed to take half of the lifeguard's average earnings when calculating benefits as required by the Lifeguard Pension Law. The City took steps to correct a portion of the improper payments once alerted to our finding. The City's attorney notified the retiree of the error in June 2024. The retiree was given the option to either return the overpaid funds or immediately discontinue future pension payments until the full amount was recovered. Upon further review, it was determined that the employee was initially ineligible for pension payments. The employee had fewer than 20 years of pension-eligible service by not working a minimum of 45 days during multiple years. The pension payments began in 2016, with the retiree receiving approximately \$62,000 in ineligible payments. In response to our findings, the City reported that it discontinued payments to the ineligible retiree, conducted a review of all retirees' eligibility, and confirmed that there were no additional ineligible recipients.

Compliance with Financial Reporting Standards

We reviewed the City's audit reports for 2020 through 2022 and found that its financial disclosures related to its lifeguard pension failed to meet the requirements of GASB Statement 73. Most significantly, the City did not disclose its pension plan liability in its annual audit reports. In addition, the City's auditor did not report the City's failure to disclose required and likely material information about the pension program in the City's annual audit reports. The City's failure to obtain required actuary reports limits transparency and impairs oversight of program funding by the governing body.

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 identified weaknesses in internal control related to the calculating and tracking of pension-eligible service years and found improper authorization of an employee's retirement payments. The City maintained sufficient payroll data enabling the verification of pension-eligible service and wages to permit the recalculation of retirement benefits. However, the City did not have a centralized process to track service and wage data. After receiving an application for retirement, the City's human resources unit assembles the employee's wage data while the chief financial officer calculates the retirement benefits. The City did not require an independent review

to verify retiree eligibility or benefit calculations. The weaknesses in internal controls created a situation in which mistakes occurred and remain uncorrected.

Causes

The City incorrectly approved benefits for one retiree who did not meet retirement eligibility criteria.

The City did not obtain actuary reports required for annual financial report disclosures.

The City's tracking system did not accurately maintain records of lifeguard service credit. In addition, the City lacked a separate review process for verifying retirees' benefits eligibility and calculations of those benefits.

Effects/Potential Effects

The City provided retirement benefits of approximately \$62,000 to an ineligible retiree.

Inadequate disclosures prevent public transparency into total pension costs and the sufficiency of City contributions.

The failure to accurately document service credit years earned by lifeguards resulted in inaccurate pension payment approvals. This failure may also prevent transparency into years of pension-eligible service when an employee is considering continued employment or retirement. In addition, the lack of a review of accumulated payroll data and retirement benefit calculations may allow for mistakes or errors to persist without being identified and corrected.

Recommendations

1. Develop and implement written procedures that require the pension commission to verify employees' eligibility and approve benefit calculations.
2. Obtain periodic actuary calculations of the City's lifeguard pension fund as required by GASB Statement 73. Improve the adequacy of lifeguard pension disclosures to comply with the requirements of GASB Statement 73.
3. Improve the City's tracking system to ensure accurate calculations and tracking of total pension-eligible service credit and total wages earned for lifeguards.
4. Implement procedures to annually reconcile service credits earned to payroll records and examine any identified differences.
5. Seek legal guidance to recover all improperly paid retirement benefits and discontinue payments to the retiree who did not meet the eligibility requirements.

Reporting Requirements

We provided a draft copy of this report to City officials for their review and comment. The City generally agreed with our audit findings and conclusions. However, its response indicated that GASB Statement 68⁵ may be a more appropriate financial reporting standard for pension disclosures. The City's use of GASB Statement 68 is appropriate if, in the opinion of the City's actuaries and auditors, the City's trust fund meets the requirements in Paragraph 4 of GASB Statement 68. The City has taken steps and will continue to implement corrective actions to address our recommendations. The City's comments were considered in preparing our final report and are attached as Appendix A.

We are required by statute to monitor the implementation of our recommendations. In accordance with N.J.A.C. 17:44-2.8(a), within 90 days following the distribution of the final audit report, the City is required to provide a plan detailing the corrective action taken or underway to implement the recommendations contained in the report and, if not implemented, the reason therefore. We will review the corrective action plan to evaluate whether the steps taken by the City effectively implement our recommendations.

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

⁵ GOVERNMENTAL ACCOUNTING STANDARDS BOARD, STATEMENT NO. 68, "ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS: AN AMENDMENT OF GASB STATEMENT NO. 27" (June 2012), [GASB Statement No. 68](#).

Patrick T. Rosenello
Mayor



Todd Burkey
Chief Financial Officer

07/07/2025

[REDACTED]
Administrative Analyst/Auditor, Audit Division
New Jersey Office of the State Comptroller
[REDACTED]

[REDACTED],

I am in receipt of the draft version of the Performance Audit of Lifeguard Pension Program: City of North Wildwood. The report contains 3 findings and 5 recommendations which this letter will address individually.

Finding #1: The city approved retirement benefits for an ineligible retiree, resulting in improper payments of approximately \$62,000.

Response: The city has ceased payments to the individual that is in question for entitlement to pension benefits. In the records of time for this individual, 3 of the 20 years reflect that this individual did not have a full 45 days of service in a year. Records prior to 2008 are handwritten and at the time of retirement the Lifeguard Chief and Payroll Supervisor determined the years of service were adequate. Until 2024 lifeguards were paid for a day of service when on duty regardless of the hours of each day which can complicate a day of service calculation. In light of the findings by the State Comptroller's office, this case is being brought to the Lifeguard Pension Board and the attorney for the board to decide upon any further action.

Finding #2: Annual Audit reports did not disclose the City's total lifeguard pension liability calculated by an actuary as required by GASB Statement 73.

Response: In soliciting quotes from Actuaries, one Actuary indicated that the City is not subject to GASB 73 but instead GASB 68. The city has a separate dedicated trust account for Lifeguard Pension that separates it from other towns that have a Lifeguard Pension Plan. The city is soliciting quotes and will have the Lifeguard Pension Board approve the contract of an Actuary to calculate the liability within the next month.

Finding #3: The City's service credit tracking system did not accurately record the total number of lifeguard service years. The pension commission did not review the verification of retiree eligibility or the calculation of retiree benefits.

Response: North Wildwood now pays lifeguards on a per hour basis starting in 2024. Prior to that it was per day and since a lifeguard got paid for a day regardless of the number of hours in that day it was difficult to determine actual days worked as they were frequently rounded when entered in the payroll system. Also, lifeguards used timesheets and manual time clocks prior to 2024. Currently, an electronic means of tracking time is in place. ADP is utilized for timekeeping and it is imported into our payroll system (Edmunds GovTech). The Pension Board will now approve all calculations and payments paid out of the Lifeguard Pension Trust going forward.

Recommendation #1: Develop and implement written procedures that require the pension commission to verify employees' eligibility and approve benefit calculations.

Response: The city is currently developing written procedures and will have them implemented prior to anyone else being approved by the board.

Recommendation #2: Obtain periodic actuary calculations of the City's lifeguard pension fund as required by GASB Statement 73. Improve the adequacy of lifeguard pension disclosures to comply with the requirements of GASB Statement 73.

Response: The city has obtained three quotes for an Actuary Report of Pension Liabilities and will be presenting them to the Pension Board to approve one.

Recommendation #3: Improve the City's tracking system to ensure accurate calculations and tracking of total pension-eligible service credit and total wages earned for lifeguards.

Response: With the City now using ADP for electronic time keeping of the lifeguards and that time being imported to the payroll system (Edmunds Govtech) in actual hours I am confident in the accuracy of time worked per year going forward. No longer are there manual records or rounded time entered as days to the payroll system. The developing and implementing of written procedures will also aid in assuring the accuracy of records.

Recommendation #4: Implement Procedures to annually reconcile service credits earned to payroll records and examine any identified differences.

Response: Importing of time to payroll has made this happen every pay period.

Recommendation #5: Seek legal guidance to recover all improperly paid retirement benefits and discontinue payments to the retiree who did not meet the eligibility requirements.

Response: The City has already discontinued payments to the individual and is turning over the findings to the Pension Board and its attorney. They will be responsible to determine what action if any should be taken to recover funds paid.

Sincerely,



Todd N Burkey, CFO, CTC
City of North Wildwood