

A Performance Audit of the Lifeguard Pension Program: City of Cape May

AUDIT DIVISION REPORT



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Acting State Comptroller

Issued July 23, 2025



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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 Cape May (City or Cape May) instituted its Beach Patrol Pension Plan (Pension Plan) for lifeguards effective January 1, 1994. The Pension Plan defines pension program terminology, provides additional information regarding plan membership, and establishes eligibility criteria.

In 2022, Cape May paid pension benefits to 11 retirees at a cost of about \$78,900. The City’s 2022 budget included approximately \$40,000 to meet the City’s statutory contribution requirement and obligations under the Pension Plan. As of December 31, 2022, the City had approximately \$652,000 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	\$ 628,273	\$ 28,681	\$ 40,000	\$ 2,321	\$ 56,720	\$ 642,555
2021	\$ 642,555	\$ 57,799	\$ 40,000	\$ 389	\$ 73,110	\$ 667,634
2022	\$ 667,634	\$ 21,594	\$ 40,000	\$ 1,687	\$ 78,932	\$ 651,983

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	85	11
2021	96	13
2022	88	11

Executive Summary

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

Specifically, our audit found that the City:

- Did not withhold approximately \$13,400 in employee contributions as required by the Lifeguard Pension Law and the Pension Plan;
- 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 and maintain payroll records needed to administer the Pension Plan.

We make four recommendations to improve the City's internal controls and improve compliance with its Pension Plan, applicable law, financial reporting requirements, and collective bargaining agreements.

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 law and its Pension Plan, 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 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 its Pension Plan 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 City did not deduct the required four percent contribution from total employee compensation, which cost the City approximately \$13,400.

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 did not provide sufficient payroll data to verify retiree eligibility and whether pension benefits were accurately calculated.

The City's system of tracking days worked by lifeguards did not include all lifeguards and contained numerous inaccuracies.

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 the Pension Plan and the CBA with the lifeguards. The Pension Plan and CBA define the number of days an employee must work to obtain a year of pensionable service credit. The City's Pension Plan limits pension membership to employees who are 18 years or older.

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.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, the City's Pension Plan, and CBAs;
- Interviewed relevant City officials;

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](#).

- 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, the Pension Plan, 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 examined whether the City collected pension contributions from lifeguards between 2020 and 2022. The Lifeguard Pension Law requires the City to withhold four percent of an employee's total compensation. We found that the City failed to deduct the required employee pension contribution for 83 of 269 lifeguards over the three-year period. The failure to apply the four percent deduction to total compensation cost the City \$13,400.

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 guidelines, and guards against errors.

Our audit revealed weaknesses in internal control related to the tracking of pension-eligible service years and maintenance of records. We found that the City designed and implemented a system to track employees' years of service by documenting the number of days worked for payroll purposes. We compared the City's tracking system to payroll records during the period 2020 through 2022 to determine whether the City accurately tracked how many days each employee worked. The City's payroll records reported time and wages for 269 lifeguard employees. Our testing identified 42 employees who worked 60 or more days in a single year who were not recorded in the City's tracking system, which could lead to not providing a pension to a person who is entitled to it.

We judgmentally selected 2 of the 13 employees who received retirement benefit payments during our testing period. We requested documentation to determine whether the two employees met eligibility criteria established by the City's Pension Plan and whether the payments were properly calculated. Cape May provided evidence to support the retirement of both employees, however, it did not provide payroll data to verify whether the employees worked the minimum

number of days for at least 20 years or that the retirement benefit calculation used accurate wage data.

Our review did not identify ineligible retirees or improperly calculated retirement benefits. However, the lack of complete data creates an environment in which errors could occur and not be identified. The City must retain sufficient payroll data to ensure that it can verify that every retiree meets the minimum pension eligibility criteria and that retirement benefits are based on an average of each employee's final three years of wages. The maintenance of retiree payroll data can help the City correct mistakes and avoid improper payments.

Causes

The City lacked detailed policies and procedures for withholding employee contributions from total compensation.

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

The City failed to maintain sufficient records allowing the verification of payroll data, including employees' years of service and final three years of salary at retirement.

Effects/Potential Effects

The failure to withhold employee contributions from total compensation cost the pension fund approximately \$13,400.

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

The failure to maintain or provide sufficient historical payroll records prevented the review of the eligibility determinations and calculations of retiree benefits.

Recommendations

1. Develop and implement written policies and procedures to ensure the four percent deduction is applied to the lifeguards' total compensation as required by the Pension Plan.
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. Develop and implement a written procedure to track employees' pension-eligible years of service and wages over time. The procedure for tracking employee time and wages should include an annual reconciliation between the tracking system data and City payroll records.
4. Develop and implement a written procedure requiring the maintenance of sufficient supporting documentation to permit the verification of an employee's time worked and

allow for identification of an employee's final three years of compensation when determining a retiree's pension benefit eligibility.

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 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.



PAUL E. DIETRICH
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ERIN C. BURKE
City Clerk

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Deputy Mayor
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Councilmember
STEVE BODNAR
Councilmember
SHAINE P. MEIER
Councilmember

Memorandum

To: [REDACTED] / State of NJ / Administrative Analyst/Auditor, Audit Division
From: Paul Dietrich, City Manager
CC: Justin Riggs, Deputy City Manager; Kevin Hanie, Acting CFO; Patti Taub, Deputy CFO
Date: 6/23/2025
Subject: Response to Cape May's Lifeguard Pension Program

The purpose of this memo is to formally serve as the City's response to the audit report regarding Cape May's Lifeguard Pension Program and to confirm our agreement with the audit findings. We are committed to implementing the corrective action recommendations as outlined in the report.

Below is a summary of our response and the steps we have taken:

- 1. Written Policies and Procedures for the 4% Deduction:**
We have developed written policies and procedures to ensure proper administration of the required 4% pension deduction. Please see the attached written procedures.
- 2. Actuarial Services:**
An actuary has been contacted, and a resolution to recommend and award a professional services contract is scheduled for consideration on the July 1, 2025 City Council Agenda.
- 3. Tracking Pension-Eligible Service and Wages:**
A written procedure is now in place to accurately track employees' pension-eligible years of service and wages over time. Please see the attached documentation.
- 4. Documentation of Time Worked and Highest Compensation Years:**
We have implemented a written procedure requiring the maintenance of sufficient supporting documentation to verify employees' time worked and to identify their three highest years of compensation. Please see the attached procedure.

Additionally, we would like to request that an exit interview be scheduled, as indicated in your report.

We appreciate your time and guidance throughout this process and look forward to closing out this matter in full compliance.

Thank you.

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Date: June 23, 2025

TO: Paul Dietrich, City Manager

From: Kevin Hanie, Acting CFO

CC: Justin Riggs, Deputy City Manager
Patricia Taub, Deputy CFO/Payroll Coordinator

RE: Beach Patrol Pension Plan – Employee 4% Deduction

The audit of the City of Cape May’s Beach Patrol Pension Plan conducted by the New Jersey Office of the State Comptroller for the period January 1, 2020 through December 31, 2022 found that the City did not accurately withhold the required four percent deduction from Beach Patrol employee salaries for contribution to the Plan.

It was recommended that the City “develop and implement written policies and procedures to ensure the four percent deduction is applied to the lifeguards’ total compensation as required by the Pension Plan.”

As such, we have developed and implemented a written policy as follows:

Per the City of Cape May’s Beach Patrol Pension Plan effective January 1, 1994 *“there shall be deducted from every payment of salary to each Plan Member four (4%) percent of the amount thereof for all pay periods subsequent to January 1, 2000.”*

Eligible Employees become Plan Members upon employment. An Eligible Employee is defined as *“an individual who is employed by the City of Cape May as a lieutenant or a lifeguard on its Beach Patrol.”*

When an employee is hired by the City a profile is created for the employee within PrimePoint, the City’s payroll platform, as a prerequisite for the employee to receive pay. All employees hired as lifeguards or lieutenants are assigned to the “Beach Patrol” department within PrimePoint. A deduction code has been implemented which automatically applies to all employees under the Beach Patrol department, including new hires. Each time payroll is run, this deduction code withholds 4% of each Beach Patrol employee’s salary.

At the end of the season, the Payroll Coordinator with the supervision of the CFO will run a deduction report from PrimePoint (payroll software) to determine the total amount withheld from Beach Patrol employee’s salary for contribution to the Pension Trust. The CFO will then make the appropriate transfer of said amount to the Trust Account, thus funding it in accordance with the Plan document.

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Date: June 23, 2025

TO: Paul Dietrich, City Manager

From: Kevin Hanie, Acting CFO

CC: Justin Riggs, Deputy City Manager
Patricia Taub, Deputy CFO/Payroll Coordinator

RE: Beach Patrol Pension Plan – Retiree Eligibility

The audit of the City of Cape May’s Beach Patrol Pension Plan conducted by the New Jersey Office of the State Comptroller for the period January 1, 2020 through December 31, 2022 found that the City did not maintain sufficient records to verify eligibility and pension benefit calculations for retirees applying to receive pension benefits.

It was recommended that the City “develop and implement a written procedure requiring the maintenance of sufficient supporting documentation to permit the verification of an employee’s time worked and allow for identification of an employee’s **three highest years of compensation* when determining a retiree’s pension benefit eligibility.

As such, we have developed and implemented a written procedure as follows:

Per the City of Cape May’s Beach Patrol Pension Plan effective January 1, 1994

*“Any member of the Beach Patrol, whether employed as an officer or a guard, who has twenty (20) years of service on the Beach Patrol, who shall have attained the age of forty-five (45) years, and for a period of ten (10) years preceding his application has been continuously in such service, may be retired at half pay either upon his own application or by the decision of the governing body of the City. The annual pension of such retiree shall be equal to fifty (50%) percent of the **average of the last three (3) year's salary* received by the lifeguard or officer during employment in the Beach Patrol, which shall be paid in quarterly installments, starting on his/her actual retirement date and ending with the payment for the month in which his/her death occurs.”*

Further

Members of the Beach Patrol who are qualified and desire to retire and collect the pension benefits, as described herein, shall forward a written notice of their intention to retire to the Commission established hereafter, with copies to the Captain of the Beach Patrol, and the Mayor of the City.

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Such notice shall specify the date of retirement. In the event the governing body decides to retire a Plan Member who is eligible for retirement hereunder, notice of such decision shall be given to the Plan Member by the Mayor, and shall specify the date of retirement.

Following the receipt of the written notice by the Commission it is sent to the CFO to verify eligibility and calculate the pension benefit to be received by the retiree.

To confirm that the retiree has met requirement of completing twenty years of service on the Beach Patrol, the report "Beach Patrol Pension Eligible Years" is run from PrimePoint, the City's payroll platform. This report shows all years in which a beach patrol employee worked sixty or more days, thus meeting the requirement of a "Year of Service" per the Pension document.

The CFO uses the same report to ensure that each of the 10 years prior to the retirement of the employee meet this same requirement.

The employee's date of birth is confirmed from their payroll profile to ensure that they are age forty-five or older.

Once these criteria have been verified, the CFO obtains the retiree's three most recent form W-2s to confirm their last three year's salaries. The average is taken from these salaries and reduced by 50% to determine the annual benefit available to the retiree. This annual benefit is then divided by four to determine the quarterly benefit to be paid out.

The verification of eligibility, along with the calculation of the annual and quarterly benefit, is documented in a memo by the CFO and sent to the Commission members for review and confirmation.

Upon confirmation, the retiree is added to the paygroup "QUARTERLY-Pension Payment" within PrimePoint to begin receiving their benefit.

**Audit states that it is "three highest years of compensation", however our plan documents state "average of the last three (3) year's salary".*



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Date: June 23, 2025
TO: Paul Dietrich, City Manager
From: Kevin Hanie, Acting CFO
CC: Justin Riggs, Deputy City Manager
Patricia Taub, Deputy CFO/Payroll Coordinator

RE: Beach Patrol Pension Plan – Employee Years of Service

The audit of the City of Cape May’s Beach Patrol Pension Plan conducted by the New Jersey Office of the State Comptroller for the period January 1, 2020 through December 31, 2022 found that the City did not maintain sufficient records to track pension-eligible years of service.

It was recommended that the City “develop and implement a written procedure to track employees’ pension-eligible years of service and wages over time. The procedure for tracking employee time and wages should include an annual reconciliation between the tracking system data and City payroll records.

As such, we have developed and implemented a written procedure as follows:

Per the City of Cape May’s Beach Patrol Pension Plan effective January 1, 1994 “A "Year of Service" shall consist of such part of the calendar year as the Beach Patrol is normally employed. In no case shall a period of less than sixty (60) working days employment in a calendar year be considered a year of service on the Beach Patrol. Employment with any other municipality or government unit as a lifeguard will not be counted in determining an individual's Years of Service of this Plan.”

To track Beach Patrol employee’s years of service, a report has been implemented with PrimePoint, the City’s payroll platform. This report “Beach Patrol Pension Eligible Years” shows all years in which a Beach Patrol employee worked sixty or more days, thus meeting the requirement of a “year of service” per the Pension document.

Note that the City began using PrimePoint in July of 2024. As such, payroll records from January 1, 1994 (the inception of the Plan) through June 30, 2024 were obtained for all employees under the Beach Patrol department, with service years counted and verified by the Payroll Coordinator and CFO. This information was incorporated into the report as a fixed data set. From July 2024 onward, the report pulls data from employee timesheets to determine the number of days worked.

Annually, at the end of the Beach Patrol season, the report is run and reconciled to all Beach Patrol employee timesheets to ensure that the data captured is accurate.