

A Performance Audit of the Lifeguard Pension Program: City of Sea Isle City

AUDIT DIVISION REPORT



Kevin D. Walsh
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 Sea Isle City (City or Sea Isle) instituted its pension plan for lifeguards effective January 22, 1991. The pension plan defines pension program terminology, provides additional information regarding plan membership, and establishes eligibility criteria.

In 2022, Sea Isle paid pension benefits to two retirees at a cost of approximately \$9,400. The City’s 2022 budget included \$10,000 to meet the City’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, the City had approximately \$1,058,100 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	\$ 955,375	\$ 26,309	\$ 10,060	\$ 3,341	\$ 9,359	\$ 985,726
2021	\$ 985,726	\$ 28,670	\$ 10,000	\$ (4,146)	\$ 9,359	\$1,010,891
2022	\$1,010,891	\$ 41,569	\$ 10,000	\$ 5,000	\$ 9,359	\$1,058,102

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	94	2
2021	103	2
2022	100	2

Executive Summary

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

Specifically, our audit found that the City:

- Failed to fund the employer’s required pension contributions according to the Lifeguard Pension Law; and
- Did not obtain actuary reports and disclose pension liabilities in accordance with Governmental Accounting Standards Board (GASB) Statement 73.

We make two recommendations to improve the City’s internal controls and improve compliance with its pension plan, applicable law, 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 policies and procedures 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.

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 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 budget the required four percent employer pension contribution. As a result, the City did not contribute approximately \$58,500 to its lifeguard pension fund for the period 2020 to 2022 as required by N.J.S.A. 43:13-27(b).

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

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>.

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 its pension plan. The plan provides that lifeguard employees must work a minimum of 50 days within a calendar year to earn one year of service credit toward the 20 years required for retirement. Further, employees must reach 45 years of age and have worked for a period of ten consecutive years to receive pension benefits.

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 and the City's plan documentation;
- 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 guidelines, and GASB Statement 73. We reviewed the pension program's operations, assessed internal controls, and tested the design and implementation of the program.

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](#).

Compliance with Statutes and Local Guidelines

The Lifeguard Pension Law requires each fourth-class city to provide a contribution to the fund in an amount equal to four percent of total employee wages. We reviewed the City's budgets and lifeguard pension fund transactions from 2020 to 2022. We found that the City withheld approximately \$88,500 in pension deductions from lifeguard compensation but failed to contribute at least an equal amount to the pension fund as mandated by the Lifeguard Pension Law. The City contributed \$10,000 each year instead of matching employee contributions. City budgets had sufficient funds to cover annual pension payments.

The Lifeguard Pension Law allows employers to suspend their matching contributions only after pension funds exceed the level of adequacy established through resolution by the governing body. We have not received documentation demonstrating that the decision to limit contributions was based upon an actuarial study of the pension program or memorialized by resolution as required by N.J.S.A. 43:13-27.

Compliance with Financial Reporting Standards

We reviewed the City's audit reports for 2020 through 2022 and found that its lifeguard pension disclosures failed to comply with GASB Statement 73 requirements. 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.

The City obtained an actuarial estimate of its total pension liability in June 2024. As of December 31, 2023, the actuarially calculated liability related to the City's lifeguard pension program was approximately \$1.7 million, but the City's pension fund had a balance of approximately \$1.1 million at the end of 2023. Based on this estimate, the City's lifeguard pension fund was underfunded by approximately \$600,000.

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 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

The City did not budget for or contribute its required lifeguard pension contributions.

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

Effects/Potential Effects

The City's lack of compliance negatively affected the solvency of its lifeguard pension program by failing to make employer pension fund contributions.

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

Recommendations

1. Comply with N.J.S.A. 43:13-27. Budget and contribute to the lifeguard pension fund an amount equal to the pension deductions withheld from lifeguard employees or pause City contributions by resolution as permitted by statute.
2. Continue to 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.

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.



City of Sea Isle City

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June 13, 2025

Mr. Christopher Jensen, CPA
Audit Director
Office of the State Comptroller
P.O. Box 024
Trenton, NJ 08625-0024

Dear Mr. Jensen,

The city has reviewed the performance audit of the Lifeguard Pension Program for the City of Sea Isle City. The city agrees with your audit recommendations and has already taken steps to implement corrective actions. Please see below my response to the two recommendations.

1 - The City has over one million dollars in the Lifeguard Trust Fund and at the time of the audit only two retirees collecting a pension. I have read through N.J. Statute 43:13-27 and will make sure in the future we either contribute the 4% or determine that the amount in the lifeguard pension fund exceeds an amount determined to be adequate for the fund and have a resolution approved by the governing body.

2- The City will continue to obtain actuary calculations every two years of the City's lifeguard pension fund as required by GASB Statement 73. The City contracted with Summit Benefit Consultants, LLC in 2024 and had an actuary valuation performed of the lifeguard pension plan as of 12/31/2023. I will continue to have this valuation performed. Our next valuation will be completed at the end of 2025. The Municipal Audits management letters for the period that was being audited by OSC on the lifeguard pension fund had wording in them that suggest the City contract to have a GASB 73 analysis performed. The 2023 GASB report came out after the 2024 audit was completed. In the future the municipal auditors will list in the footnotes the disclosures needed on the lifeguard pension fund.

If you require any additional information, feel free to reach out.

Sincerely,

A handwritten signature in blue ink that reads 'Jennifer McIver'.

Jennifer McIver
Chief Financial Officer