

A Performance Audit of the Lifeguard Pension Program: City of Ocean 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 Ocean City (City or Ocean City) created a pension plan for lifeguards effective January 1, 1988. The plan document defines pension program terminology, provides additional information regarding plan membership, and establishes eligibility criteria.

In 2022, the City paid pension benefits to 46 retirees at a cost of about \$300,300. Ocean City’s 2022 budget included approximately \$240,000 to meet the City’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, the City had approximately \$28,700 in funds reserved to pay lifeguard pensions.

Lifeguard Pension Reserve Activity 2020 through 2022

Year	Balance January 1st	Employee Contributions	Employer Contributions	Payments to Retirees	Balance December 31st
2020	\$ 33,237	\$ 61,011	\$ 230,000	\$ 277,428	\$ 46,820
2021	\$ 46,820	\$ 58,787	\$ 230,000	\$ 300,281	\$ 35,326
2022	\$ 35,326	\$ 53,660	\$ 240,000	\$ 300,281	\$ 28,705

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	190	44
2021	171	46
2022	163	46

Executive Summary

Our audit identified weaknesses related to the administration of Ocean City's lifeguard pension program in the area of compliance with financial reporting. Specifically, our audit found that the City did not obtain actuary reports and disclose its total lifeguard pension liability in accordance with Governmental Accounting Standards Board (GASB) Statement 73.

We make one recommendation to improve the City's compliance with 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.

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 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.

Finding

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

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

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>.

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 City's lifeguard pension plan provides additional guidelines for the program. Under the plan, lifeguard employees must work a minimum of 45 days, or 360 hours, 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 10 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.

Compliance with Statutes and Local Guidelines

We did not identify significant noncompliance with statutes or local guidelines. We communicated minor issues related to employee contributions to management.

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

Cause

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

Effect/Potential Effect

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

Recommendation

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 generally agreed with our audit finding and conclusion, and its response indicated the City has taken corrective action. 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.



CITY OF OCEAN CITY

AMERICA'S GREATEST FAMILY RESORT

DEPARTMENT OF FINANCIAL MANAGEMENT

To: New Jersey Office of the State Comptroller

From: Frank Donato III, CFO

Date: 6/19/2025

Re: Response to Draft Audit Report (previously emailed)

Hello everyone, as promised please accept this email as our response to the draft audit report that was forwarded to the City on 6/6/25.

First and foremost I want to address a portion of the report on page 4 under the section titled "Compliance with Financial Reporting Standard". This section states that the City's auditor did not report the failure to disclose required and likely material information about the pension program in the City's annual audit reports. As part of this engagement with the OSC the City supplied the requested annual audits for the audit period. The reports themselves are each unqualified audits, meaning they contained no findings. However other recommendations or comments are often listed in the management letters that accompany the audit. I've attached copies for the prior three years. You'll notice that in the 2021 letter the GASB 73 requirement was first mentioned. Since then it's been mentioned as a repeat comment. Please take this information into account and consider rewording this section of the audit.

I also want to take the opportunity to explain what actions the City has taken since the 2021 audit management letter which would have been issued in 2022. The City began searching for an actuary right away that could fulfill the GASB 73 obligation. Firms that perform this type of analysis are few and far between apparently. We searched for several months to find a willing actuary, starting with the firm that does our GASB report for health benefits, however they had no interest in this type of engagement. We finally found a company out of Virginia who was willing to take on the report and sent us a quote. However subsequent to supplying us with a quote the company failed to continue to be responsive to the City over the course of several more months. We finally found a willing and capable actuary in 2024 and issued a purchase order to formalize the engagement. Please note in the 2023 management letter (issued in 2024) this activity is mentioned as a subsequent event update. Although the City is actively engaged with Summit Benefit Consultants, we are still exchanging the necessary reports and statistics to allow them to complete the GASB report. Therefore, unfortunately as of the issuance of the OSC audit, the City doesn't have the report in hand. If consideration could be given to also mention a subsequent event update, similar to our 2023 management letter, we would appreciate it.

Thanks.