

A Performance Audit of the Lifeguard Pension Program: City of 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 Wildwood (City or Wildwood) by ordinance created a pension plan for lifeguards effective January 1, 1991. The ordinance defines pension program terminology, provides additional information regarding plan membership, and establishes retirement eligibility criteria.

In 2022, Wildwood paid pension benefits to five retirees at a cost of about \$39,700. The City’s 2022 budget included approximately \$42,700 to meet the City’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, the City had approximately \$658,000 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	\$ 463,126	\$ 19,683	-	\$ 3,865	\$ 32,714	\$ 453,961
2021	\$ 453,961	\$ 19,914	-	\$ 1,755	\$ 36,215	\$ 439,415
2022	\$ 439,415	\$ 22,750	\$ 231,197	\$ 4,333	\$ 39,717	\$ 657,979

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	88	4
2021	85	5
2022	95	5

Executive Summary

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

Specifically, our audit found that the City:

- 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.

We make three recommendations to improve the City’s internal controls and improve 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 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 ordinances 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 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

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 tracking system did not accurately record the lifeguard service years.

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-pay⁴ 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 City must also comply with Ordinance 269-91, which creates the lifeguard pension program. Subsequently, the council approved Ordinances 729-08, 939-12, and 1059-16 to supplement guidance for the pension program. Lifeguard Pension Ordinances 269-91, 729-08, and 939-12 provide that lifeguard employees must work a minimum of 40 days within a calendar year to earn one year of service credit towards the 20 years required for pension 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 issued by local and state governments.⁵ 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 local ordinances;
- Interviewed relevant City officials;
- Reviewed payroll and other financial documentation; and
- Performed audit procedures designed to meet our audit objectives.

⁴ Wildwood Ordinance 269-91 describes the amount and form of pension benefits as 50 percent of an employee's average compensation. Average compensation is the average of the three years in which the employee's total cash wages were the greatest.

⁵ 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](#).

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

We did not identify significant noncompliance with statutes or local ordinances.

Compliance with Financial Reporting Standards

We reviewed the City's audit reports for 2020 through 2022 and found Wildwood's 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 advised us that it decided to cease City contributions to the pension fund in 2010. However, Wildwood contributed \$231,200 to its lifeguard pension fund in 2022 for the period 2010 through 2022.

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.

We reviewed the City's tracking system used to monitor the pension-eligible service credit earned. The City provided a report that included the service years for 86 lifeguards with dates of hire ranging from 1984 to 2023. We determined that the City's tracking system did not accurately measure the years of pension-eligible service credit earned by lifeguards throughout their employment. For 18 of 86 lifeguards, the City reported years of employment that were inconsistent with both the employees' reported dates of hire and first years of service. The City relied on inaccurate data and performed inconsistent calculations. The report did not include all lifeguards who had earned wages from 2020 through 2022. Specifically, the City's system did not include 91 of 268 lifeguards. Our review of payroll records from 2020 to 2022 identified 35 employees that earned 47 years of pension-eligible service credit that were not accounted for in the City's lifeguard tracking system. More significantly, our review also identified 31 lifeguards awarded from one to three years of service credit in the system but who worked less than 40 days during those years. Consequently, we determined the City's internal controls were not effectively designed, implemented, or operating correctly to accurately track the years of service credits and salaries earned by lifeguard employees. A well-designed system to track lifeguard employee years of service and salaries can prevent errors when determining retirement eligibility.

Causes

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

The City's tracking system did not maintain accurate and complete records of lifeguards' service credit.

Effects/Potential Effects

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

The failure to accurately document the service credit years earned by lifeguards is likely to result in inaccurate pension payment approvals. The lack of reliable documentation also prevents employees from being able to make informed decisions regarding continued employment and retirement.

Recommendations

1. 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.
2. Improve the City's tracking system to ensure accurate calculations and tracking of total pension-eligible service credit earned and total wages earned for lifeguards.
3. Implement procedures to reconcile service credits earned to payroll records and examine any identified difference on an annual basis.

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, 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 WILDWOOD

Corrective Action Plan for the City of Wildwood Lifeguard Pension Program Audit

For Period January 1, 2020 through December 31, 2022

NJ Office of the State Comptroller

Rec Number	Recommendation	Corrective Action	Method of Implementation	Person Responsible for Implementation	Anticipated Date of Implementation
1	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.	Contract with an Acturiary to periodically perform Valuation Reports.	Contract with Actuary Consultant, RAE Consulting to perform a Vauatin Report for the Wildwood Lifeguard Pension Plan.	Human Resource Director & Chief Financial Officer	Report expected by September, 2025
2	Improve the City's tracking system to ensure accurate calculations and tracking of total pension-eligible service credit earned and total wages earned for lifeguards.	Accounting of days sent from Lifeguard Administration to Human Resource Department	Per Pay Period correspondence	Lifeguard Administration	Immediate
3	Implement procedures to reconcile service credits earned to payroll records and examine any identified difference on an annual basis.	Annual Accounting of days and wages verified by Human Resource & Finance Departments	Compare Lifeguard Administration's Account to the Payroll System and forward for next Actuary Report	Chief Financial Officer & Human Resource Director	October, 2025

Agency Official Name:

Susan Plaza

Signature:



Title:

Chief Financial Officer