

A Performance Audit of the Lifeguard Pension Program: City of Ventnor City

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 for 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 Ventnor City (City or Ventnor) by ordinance created a pension plan for lifeguards effective January 1, 1987. The ordinance defines pension program terminology, provides additional information regarding plan membership, and establishes retirement eligibility criteria.

In 2022, Ventnor paid pension benefits to nine retirees at a cost of about \$58,400. In 2022, the City did not contribute or budget any funds to meet the employer’s statutory contribution requirement and obligations under its pension plan. As of December 31, 2022, the City had approximately \$149,100 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	\$ 243,908	\$ 22,248	-	\$ 255	\$ 53,024	\$ 213,386
2021	\$ 213,386	\$ 22,091	-	\$ 4,896	\$ 55,704	\$ 184,670
2022	\$ 184,670	\$ 22,104	-	\$ 664	\$ 58,364	\$ 149,074

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	69	8
2021	86	8
2022	75	9

Executive Summary

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

Specifically, our audit found that the City:

- Did not maintain an operating lifeguard pension commission;
- Failed to fund the employer’s required pension contributions in compliance with the Lifeguard Pension Law;
- Partially complied with statutes and local ordinance requirements related to employee contributions and retirement benefit calculations;
- Did not obtain actuary reports and disclose pension liabilities of approximately \$3.5 million in accordance with Governmental Accounting Standards Board (GASB) Statement 73; and
- Failed to accurately track lifeguard service years.

We make seven recommendations to improve the City’s internal controls and improve compliance with applicable law, local ordinance, 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 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 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.

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.

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>.

Findings

The City did not maintain an operating lifeguard pension commission, which impeded the separate management and oversight of the lifeguard pension fund required by N.J.S.A. 43:13-28 to -29.

The City did not budget the required four percent employer pension contribution. As a result, the City failed to contribute approximately \$66,500 to its lifeguard pension fund for the period 2020 to 2022 as required by N.J.S.A. 43:13-27(b).

The City inconsistently applied the required four percent pension deduction required by N.J.S.A. 43:-27(a) to total lifeguard wages.

The City did not use the three highest years of salaries when calculating a lifeguard pension retirement payment in accordance with Ordinance 8714 Section 1(a).

Annual audit reports did not disclose the City's total lifeguard pension liability calculated by an actuary as required by GASB Statement 73. The estimated total lifeguard pension liability was approximately \$3.5 million as of December 31, 2022.

The City's tracking system did not accurately record the total lifeguard service years.

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 Lifeguard Pension Law requires the mayor or chief executive officer of municipalities subject to the law to appoint, with the advice and consent of the governing body of the city, a lifeguard pension commission consisting of four members, including a superior officer of the lifeguards, a lifeguard, and two citizens who are not lifeguards. They shall serve for a term of four years and until their successors are appointed and have qualified and shall not receive any compensation for their services. N.J.S.A. 43:13-29 authorizes the pension commission to manage the fund and approve expenditures.

The City must also comply with Ordinance 8714, which stipulates that lifeguard employees must work a minimum of 50 days within a calendar year to earn one year of retirement service credit.

⁴ Ventnor Ordinance 8714 describes the amount and form of pension 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.

Section 1(a) provides the basis for calculating retirement benefits. The ordinance also requires annual retiree benefits equal to 50 percent of an employee's average compensation.

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 ordinance;
- 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 ordinance, 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

The City failed to maintain an operating pension commission, as required by N.J.S.A. 43:13-28. Ventnor explained it would take appropriate corrective actions to address pension commission deficiencies. The lack of a lifeguard pension commission prevents the secondary review of lifeguard retirement payments.

We reviewed the benefit calculation of the only employee who retired during our testing period and determined that the payment was not based on the employee's three greatest years of salaries.⁶ During our audit, the City adjusted the retiree's payment. The annual payment was increased by \$174 and the City paid \$261 in retroactive pension payments. Despite the adjustment, the City still did not calculate the payment using the employee's three greatest years

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](#).

⁶ City of Ventnor Ordinance 8714 Section 1(a).

of salaries. Our review identified 2021 total gross wages, as identified on the payroll register, to be \$20,934, but the City used \$19,619 in its calculation. The City explained that the difference of \$1,315, a stipend payment, was not included in the calculation because the four percent pension deduction was not withheld against the income. Consequently, the City used 2017 gross wages of \$20,664 instead of 2021 total gross wages. The City's ordinance defines compensation for pension purposes as, "the total cash remuneration (as reported on his Form W-2) earned by an employee during a calendar year for his services on the employer's lifeguard force." Therefore, the calculation of retirement benefits must use the total wages related to lifeguard service regardless of whether the City withheld pension deductions related to that income to comply with the Lifeguard Pension Law and the City's ordinance.

We reviewed lifeguard pension deductions between 2020 and 2022 and determined that the City did not apply the deductions consistently in accordance with the Lifeguard Pension Law and its local ordinance. Our testing found that the City did not withhold the required four percent pension contribution for 104 of 157 lifeguard stipends, totaling around \$47,200. The failure to properly withhold lifeguard pension deductions cost the City approximately \$1,900.

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 \$66,500 in pension deductions from lifeguard compensation but failed to contribute at least an equal amount to the fund as mandated by the Lifeguard Pension Law. The City explained it did not contribute because the pension fund was sufficiently funded. However, the decision to limit contributions was not 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.

We engaged an actuary to estimate the City's pension liability. This calculation included assumptions regarding salaries, inflation, and life expectancy subject to professional judgement and relied on the data obtained as part of this audit. We made reasonable assumptions when requested data was not provided.⁷ We estimated the future costs associated with Ventnor's lifeguard pension program as of December 31, 2022 was approximately \$3.5 million. The City's pension fund had a balance of approximately \$149,000 at the end of 2022. Based on this estimate, the City's lifeguard pension fund was underfunded by approximately \$3.3 million.

⁷ Actuarial calculations of total pension program liabilities could change materially based upon changes in assumptions used to calculate the pension liability and the availability of historical pension program data.

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.

The City approved an ordinance providing guidelines for the operation of its lifeguard pension program but failed to implement provisions within the ordinance designed to ensure compliance with the Lifeguard Pension Law. As noted above, the City failed to appoint a lifeguard pension commission; failed to provide the required employer's contribution to the pension fund; did not accurately calculate pension benefit payments; and did not withhold the four percent pension deductions from total gross wages. Formal internal policies and procedures communicate management's expectations to employees and contribute to an internal control system that is well designed, properly implemented, and operating effectively.

We reviewed the City's tracking system used to monitor the pension-eligible service credit earned. Our review found the City awarded service credit to lifeguards who worked less than the 50 days per year established in Ordinance 8714. For the period of 2020 through 2022, we identified 66 of 111 lifeguards that received a year of service credit without working at least 50 days. More significantly, 14 of the 66 employees were awarded a total of 19 years of service credit without earning any wages during the same time period. An accurate system of tracking employee years of pension-eligible service and total wages would improve the reliability of the City's retirement benefit calculations and provide management the ability to plan for the impact of future lifeguard pension program retirees.

Causes

The City failed to maintain an operating lifeguard pension commission and did not budget for or contribute its required lifeguard pension contributions.

The City did not implement provisions within Ordinance 8714 designed to ensure operating effectiveness of the lifeguard pension program and compliance with the Lifeguard Pension Laws.

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

The City's service credit tracking system failed to produce a reliable record of pension-eligible service years for lifeguards.

Effects/Potential Effects

The lack of an operating lifeguard pension commission limits public transparency and prevents a secondary review of lifeguard retirement payments, including payments to one employee who retired during our testing period.

Failing to make employer pension fund contributions and not withholding deductions on employees' total income negatively affected the solvency of the City's lifeguard pension program.

Inadequate disclosures prevent public transparency into total pension costs and the sufficiency of City contributions. In addition, Ventnor's failure to disclose approximately \$3.5 million total liability resulted in less transparency to the public.

An inaccurate system tracking pension-eligible service may result in improper lifeguard retirement approvals.

Recommendations

1. Appoint a lifeguard pension commission in accordance with N.J.S.A. 43:13-28. Memorialize member appointment by resolution that documents each member's status as senior lifeguard, lifeguard, or citizen.
2. 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.
3. Develop and implement written procedures to ensure the four percent pension deduction is applied to lifeguards' total gross wages, including stipend payments related to employment as a lifeguard.
4. 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.
5. Obtain lifeguard pension commission approval for all lifeguard retirements and retirement benefit payments. As part of the approval process, provide sufficient documentation to permit the lifeguard pension commission to verify the retiree's eligibility and determine the accuracy of retirement payment calculations.
6. Improve the City's system of tracking pension eligible service to ensure the accuracy of pension data including days worked and total W-2 wages earned.
7. Implement procedures to annually reconcile days worked for pension purposes and wages in the tracking system to payroll records annually. Examine any discrepancies.

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 Ventnor City

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Department of Revenue and Finance

Amy Stover, CFO

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June 24, 2025

Kevin D. Walsh
Acting State Comptroller
New Jersey Office of the State Comptroller

RE: Lifeguard Pension Audit/Corrective Active Plan

In response to audit findings performed during the period of January 1, 2020, through December 31, 2022, the City offers the following comments and correction action plan.

The city did have an established lifeguard commission, but it was not active during the time covered. The Board of Commissioners will be appointing a new board soon.

During this period the city did not contribute the required employer contribution, as the fund had sufficient funding in place to support the retirement benefits to the current retirees. Since 2023, the city has budgeted \$40,000, which exceeds the 4% mandatory employer contribution to the pension system. These funds are moved into the lifeguard pension trust fund in an interest-bearing account. The City will maintain its current practice of contributing at least 4% each year but reserves the right to suspend contributions when not needed.

Pension deductions were established for all employees at 4% for all hours worked. Although the Plan does define total wages to be as reported on the employees W2, the city followed the lead of the State of NJ PERS and PFRS funds and did not include stipends in the pensionable base. When calculating the highest years of salary those same stipends were not included as no employee contribution was made. The Board of Commissioners will be asked to amend the current ordinance to codify this practice.

In 2024, the city contracted CBIZ to complete the actuary and the final draft is provided.

Thank you for your cooperation during this process.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Amy Stover', written over a horizontal line.

Amy Stover
Chief Financial Officer
City of Ventnor