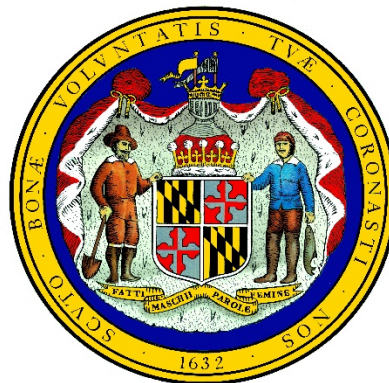


Audit Report

Subsequent Injury Fund

March 2025



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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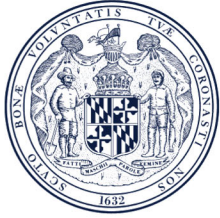
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OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

March 21, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Subsequent Injury Fund (SIF) for the period beginning November 1, 2020 and ending September 30, 2024. SIF pays workers' compensation awards in connection with certain claims for employees' subsequent occupational injuries or deaths, and collects assessments from certain employers and insurance companies to fund these awards and its operating costs. During fiscal year 2024, assessment collections totaled approximately \$30 million and claim payments totaled approximately \$17.9 million.

Our audit did not disclose any findings that warrant mention in this report.

We wish to acknowledge SIF's efforts to satisfactorily address the finding contained in our preceding audit report. We also wish to acknowledge the cooperation extended to us during the audit by SIF.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

Background Information

Agency Responsibilities and Financial Activity

The purpose of the Subsequent Injury Fund (SIF) is to encourage the employment of individuals with pre-existing health conditions by limiting an employer’s liability should a subsequent occupational injury render an individual permanently disabled or result in the individual’s death. Specifically, the employer’s liability under these circumstances is limited to compensation for damages from the current injury. SIF incurs the liability associated with the combined effects of all injuries. The administration of SIF is supervised by the Subsequent Injury Fund Board, which consists of three members appointed by the Governor. As shown in Figure 1, according to State records, during fiscal year 2024, SIF’s operating expenditures totaled approximately \$3 million, of which the majority represented payroll costs.

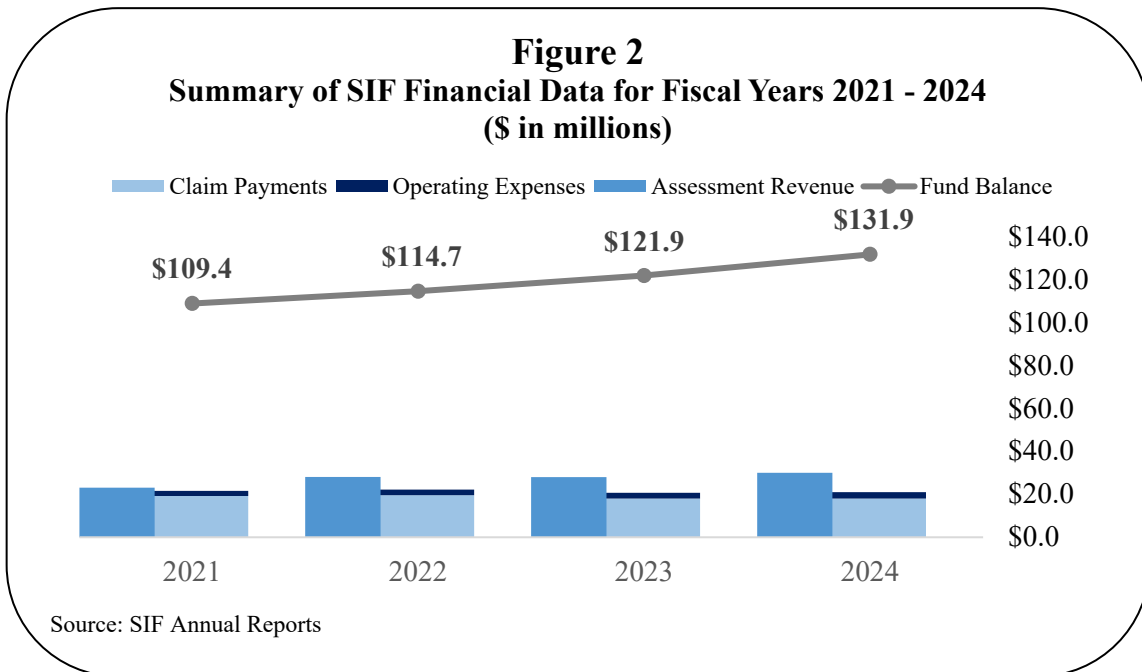
Figure 1
SIF Positions, Expenditures, and Funding Source

Full-Time Equivalent Positions as of June 30, 2024		
	Positions	Percent
Filled	17	100.0%
Vacant	0	0.0%
Total	17	
Fiscal Year 2024 Expenditures		
	Expenditures	Percent
Salaries, Wages, and Fringe Benefits	\$2,713,366	89.3%
Technical and Special Fees	50,461	1.7%
Operating Expenses	275,913	9.0%
Total	\$3,039,740	
Fiscal Year 2024 Funding Source		
	Funding	Percent
Special Fund	\$3,039,740	100.0%
Total	\$3,039,740	

Source: State financial and personnel records

SIF collects assessments against certain employers and insurance companies which are deposited into the Subsequent Injury Fund (Fund) to cover claim payments and SIF’s operating expenses. Specifically, SIF assesses each award against an employer or its insurer for permanent disability or death and each amount payable by an employer or its insurer under a settlement agreement approved by the Workers’ Compensation Commission. These assessments are currently 6.5 percent of the aforementioned award amounts. There was a temporary decrease in the assessment rate to 5.5 percent during fiscal year 2021.

According to State records, during fiscal year 2024, revenues including assessment collections totaled approximately \$30 million and claim payments totaled approximately \$17.9 million. The assessment revenue and related claims payments are not reflected in SIF’s reported operating revenue and expenditures. As shown in Figure 2, the Fund’s balance as of August 31, 2024, totaled approximately \$131.9 million, which represents a 20 percent increase over a three-year period.



Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated April 19, 2021. We determined that SIF satisfactorily addressed this finding.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of the Office's internal controls. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Findings that did not warrant inclusion in this report were separately communicated to SIF.

A draft copy of this report was provided to SIF. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Subsequent Injury Fund (SIF) for the period beginning November 1, 2020 and ending September 30, 2024. The audit was conducted in accordance with generally accepted government auditing standards. 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine SIF's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included assessment collections and billings, claim payments, and information systems security and control. Specifically, our review of information systems security and control addressed general controls, personally identifiable information, database security, system access and authentication, and malware prevention. We also determined the status of the finding contained in our preceding audit report.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of November 1, 2020 to September 30, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of SIF's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from SIF's automated accounts receivable and accounts payable system for the purpose of testing assessment accounts receivable and claim payment monitoring. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

SIF's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to SIF, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of

internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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