



THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

OMB Circular A-133 Reports

Year ended June 30, 2004

(With Independent Auditors' Reports Thereon)

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

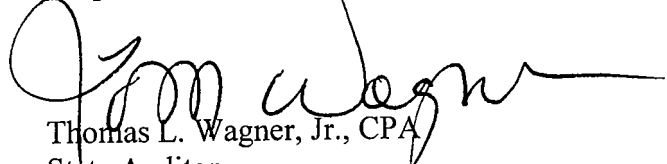
March 30, 2005

The Honorable Mark Sanford, Governor
and
Members of the Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina

The report on compliance and internal control over financial reporting, and the report on compliance and internal control over compliance applicable to each major program of The Medical University of South Carolina for the fiscal year ended June 30, 2004, were issued by KPMG, LLP, Certified Public Accountants, under contract with the South Carolina Office of State Auditor. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with the basic financial statements of The Medical University of South Carolina for the fiscal year ended June 30, 2004, issued by KPMG, LLP, Certified Public Accountants, dated September 24, 2004.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Table of Contents

	Page
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	6
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	9
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	11
Schedule of Findings and Questioned Costs	13

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Federal award expenditures:		
Research and Development – Cluster:		
US Department of Health and Human Services	93.RD	\$ 85,420,223
Pass-through programs from:		
Advanced Technology Institute	93.RD	323
American Academy of Child & Adolescent Psychiatry	93.RD	129,794
American College of Obstetricians and Gynecologists	93.RD	(5,146)
American College of Radiology	93.RD	300,965
American College of Surgeons Oncology Trials Group	93.RD	5,148
American Health Foundation	93.RD	45,295
Association of American Medical Colleges	93.RD	513,075
Boston Medical Center	93.RD	1,639
Case Western Reserve University	93.RD	156,842
Children's Hospital of Oakland	93.RD	2,934
Children's Hospital of Pennsylvania	93.RD	8,096
CODA, Incorporated	93.RD	20,322
Columbia University	93.RD	69,176
Department of Veteran Affairs – Maryland Health Care System	93.RD	(5,150)
Duke University	93.RD	355,996
Emory University	93.RD	157,700
Foundation for the Children's Oncology Group	93.RD	23,885
Fred Hutchinson Cancer Research Center	93.RD	7,381
George Washington University	93.RD	9,355
Greenwood Genetic Center	93.RD	157,041
Gynecologic Oncology Group	93.RD	12,510
Henry Ford Health System	93.RD	18,198
Hope Heart Institute	93.RD	28,814
Institute for Cancer Prevention	93.RD	15,574
Johns Hopkins University	93.RD	60,366
LifePoint	93.RD	11,373
Massachusetts Institute of Technology	93.RD	(1,109)
Mayo Clinic of Rochester	93.RD	21,602
Mcphahnemann University	93.RD	50,307
Medical College of Georgia	93.RD	79,163
Mt. Sinai Medical Center	93.RD	(198)
MUSC Foundation for Research Development	93.RD	10,616
National Childhood Cancer Foundation	93.RD	75,191
National Development and Research Institutes, Inc.	93.RD	7,261
National Surgical Adjuvant Breast and Bowel Project Foundation, Inc.	93.RD	10,097
New Jersey Medical School	93.RD	279,955
Northshore Long Island Jewish Research Institute	93.RD	19,824
Northwestern University	93.RD	2,038
Northwestern University Pediatric Oncology Group	93.RD	5,141
Organ Recovery Systems	93.RD	177,153
Portland State University	93.RD	(2,891)
Research Foundation for Mental Hygiene, Inc.	93.RD	113,113
Research Triangle Institute	93.RD	14,522
Savannah State College	93.RD	5,561
Scripps Research Institute	93.RD	46,535
Social and Scientific Systems, Inc.	93.RD	3,559
South Carolina Biomedical Research Infrastructure	93.RD	6,129
South Carolina Department of Health and Environmental Control	93.RD	53,619
South Carolina EPSCOR	93.RD	70,725
South Carolina Sea Grant Consortium	93.RD	4,718
South Carolina State University	93.RD	11,208
South West Oncology Group	93.RD	17,201
St. Jude Medical, Inc.	93.RD	36,589
St. Luke's – Roosevelt's Hospital Center	93.RD	865
Statistics and Epidemiology Research Corporation	93.RD	194
SUNY Research Foundation	93.RD	310
University of Alabama	93.RD	50,865
University of Alabama at Birmingham	93.RD	47,451
University of Arizona	93.RD	36,973
University of Arkansas for Medical Services	93.RD	6,155

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
University of California at San Diego	93.RD	\$ 96,817
University of California at San Francisco Stanford Health Care	93.RD	1,755
University of California at Los Angeles	93.RD	170,025
University of Cincinnati	93.RD	13,722
University of Colorado	93.RD	42,361
University of Illinois at Chicago	93.RD	22,279
University of Maryland	93.RD	12,484
University of Massachusetts	93.RD	1,714
University of Miami	93.RD	5,544
University of North Carolina	93.RD	230,048
University of North Carolina at Chapel Hill	93.RD	19,869
University of Pennsylvania	93.RD	44,716
University of Pittsburgh	93.RD	46,686
University of South Carolina	93.RD	1,060,217
University of South Florida	93.RD	174,491
University of Southern California	93.RD	833
University of Tennessee	93.RD	100,863
University of Texas	93.RD	42,836
University of Texas Southwestern Medical Center	93.RD	6,966
University of Virginia	93.RD	19,358
University of Washington at Seattle	93.RD	226,567
Vanderbilt University	93.RD	39,847
Virginia Commonwealth University	93.RD	59,775
Virtually Better, Inc.	93.RD	31,346
Wake Forest University Health Sciences Center	93.RD	50,235
Wake Forest University School of Medicine	93.RD	1,572
Wayne State University	93.RD	29,116
Yale University	93.RD	207,615
Total US Department of Health and Human Services		<u>91,541,828</u>
National Science Foundation	47.RD	595,877
Pass-through programs from:		
South Carolina EPSCOR	47.RD	65,757
South Carolina Research Authority	47.RD	1,045,858
Clemson University	47.RD	(174)
Total National Science Foundation		<u>1,707,318</u>
US Department of Defense	12.RD	5,065,518
Pass-through programs from:		
GEO Centers	12.RD	1,113,760
General Electric	12.RD	222,975
Wellesley College	12.RD	311,042
University of Iowa	12.RD	25,727
MUSC Foundation for Research Development	12.RD	59,547
Total US Department of Defense		<u>6,798,569</u>
US Department of Energy	81.RD	3,933,432
Pass-through programs from:		
South Carolina Universities Research and Education Foundation	81.RD	1,118,405
UT Batelle, LLC	81.RD	9,460
University of Montana	81.RD	7,215
The University of Georgia	81.RD	5,886
Total US Department of Energy		<u>5,074,398</u>
Environmental Protection Agency	66.RD	19,221
Pass-through programs from:		
University of South Carolina	66.RD	(4,257)
Total Environmental Protection Agency		<u>14,964</u>
National Aeronautics and Space Administration	43.RD	80,141
Pass-through programs from:		
Clemson University	43.RD	14,768
EPSCOR	43.RD	148,496

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
College of Charleston	43.RD	\$ 434
Total National Aeronautics and Space Administration		243,839
US Department of Veteran Affairs	64.RD	59,902
Total US Department of Veteran Affairs		59,902
US Department of Commerce	11.RD	287,240
Pass-through programs from:		
South Carolina Sea Grant Consortium	11.RD	128,325
Organ Recovery Systems	11.RD	13,254
South Carolina Department of Natural Resources	11.RD	164,448
Total US Department of Commerce		593,267
US Department of Agriculture	10.RD	124,123
Total US Department of Agriculture		124,123
US Department of Justice	16.RD	647,052
Pass-through programs from:		
Lowcountry Children's Center	16.RD	23,334
Total US Department of Justice		670,386
US Department of the Interior	15.RD	24,569
Total US Department of the Interior		24,569
US Department of Education	84.RD	275,097
Pass-through programs from:		
S.C. Department of Education	84.RD	19,353
Total US Department of Education		294,450
Total Research and Development		107,147,613
Student Financial Aid – Cluster:		
US Department of Education:		
Federal Perkins Loan Program	84.038	1,478,135
Federal Pell Grant Program	84.063	117,603
Federal Supplemental Educational Opportunity Grant	84.007	40,499
Federal Work Study Program	84.033	350,637
Federal Family Education Loans	84.032	33,249,360
Total US Department of Education		35,236,234
US Department of Health and Human Services		
Health Professions Student Loans	93.342	1,041,580
Loans for Disadvantaged Students	93.342	42,275
Nurse Faculty Loan Program	93.264	72,584
Total US Department of Health and Human Services		1,156,439
Total Student Financial Aid		36,392,673
Other Programs:		
US Department of Health and Human Services:		
Academic Administrative Units in Primary Care	93.984	161,784
Advanced Education Nursing Grant Program	93.247	73,432
Advanced Education Nursing Traineeships	93.358	65,717
Allied Health Special Projects	93.191	256,313
Applied Toxicological Research and Testing	93.114	(774)
Biomedical Research and Research Training	93.859	72,592
Bioterrorism Training and Curriculum Development Program	93.996	657,254
Drug Abuse National Research Service Awards for Research Training	93.278	226,704
Extramural Research in the Neurosciences and Neurological Disorders	93.853	33,460
Geriatric Education Centers	93.969	301,371
Grants for Faculty Development in Family Medicine	93.895	572,594
Grants for Residency Training in General Internal Medicine and/or		
General Pediatrics	93.884	106,348
Grants for State Loan Repayment	93.165	66,967

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grants/Pass-through Grants/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Health Administration Traineeships and Special Projects Program	93.962	\$ 264
Health Care and Other Facilities	93.887	3,509,457
Heart and Vascular Diseases Research	93.837	326,766
Kidney Diseases, Urology and Hematology Research	93.849	181,538
Lupus Educational and Awareness Outreach	93.999	2,461
Maternal and Child Health Federal Consolidated Programs	93.110	8,885
Medical Library Assistance	93.879	257,184
Mental Health National Research Service Awards for Research Training	93.282	218,602
Mental Health Research Grants	93.242	273,895
Model State-Supported Area Health Education Centers	93.107	465,516
National Center for Research Resources	93.389	1,290,026
National Health Service Corps Loan Repayment	93.162	42,845
Nurse Anesthetists Traineeships	93.124	13,853
Nurse Education, Practice and Retention Grants	93.359	250,247
Oral Diseases and Disorders Research	93.121	(75)
Predoctoral Training in Primary Care (Family Medicine, General Internal Medicine/General Pediatrics)	93.896	20,632
Research on Healthcare Costs, Quality and Outcomes	93.226	96,118
Research Related to Deafness and Communications Disorders	93.173	39,278
Senior International Fellowships	93.989	136,512
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	306,850
Tobacco Use Treatment	93.999	(357)
Pass-through programs from:		
Ambulatory Pediatric Association	93.999	48,972
Ambulatory Pediatric Association	93.185	40,216
American Medical Student Association Foundation	93.156	46,941
Association of Teachers of Preventative Medicine	93.185	241,692
Boston University	93.398	22,158
Family Resource Center	93.630	22,799
Physician Micro Systems	93.226	167,841
Society of Teachers Family Medicine	93.999	33,124
South Carolina Area Health Education Centers	93.107	11,459
South Carolina Department of Health and Environmental Control	93.999	41,669
South Carolina Department of Health and Environmental Control	93.917	1,147,618
South Carolina Department of Health and Environmental Control	93.153	134,342
South Carolina Developmental Disabilities Council	93.630	1,642
South Carolina Department of Health and Human Services	93.999	4
University of Maryland	93.999	21,090
Wayne State University	93.847	44,420
Total US Department of Health and Human Services		<u>12,060,246</u>
US Department of Housing and Urban Development:		
Pass-through programs from:		
City of Charleston	14.244	<u>(1,163)</u>
Total US Department of Housing and Urban Development		<u>(1,163)</u>
US Department of Energy:		
Pass-through programs from:		
Tennessee State University	81.999	70,221
South Carolina Universities Research and Education Foundation	81.114	<u>59,936</u>
Total US Department of Energy		<u>130,157</u>
National Science Foundation:		
Biological Sciences	47.074	27,591
Education and Human Resources	47.076	640,695
Pass-through programs from:		
University of South Dakota	47.076	(968)
South Carolina Department of Education	47.076	<u>14,399</u>
Total National Science Foundation		<u>681,717</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
US Department of Commerce:		
Measurement and Engineering Research and Standards	11.609	\$ 17,783,969
Total US Department of Commerce		<u>17,783,969</u>
US Department of Justice:		
Crime Victim/Assistance Discretionary Grants	16.582	(1,764)
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	(337,915)
Pass-through programs from:		
Church of the Holy Cross	16.999	14,691
South Carolina Department of Public Safety	16.588	49,695
South Carolina Department of Public Safety	16.523	72,126
South Carolina Department of Public Safety	16.575	144,119
Total US Department of Justice		<u>(59,048)</u>
Environmental Protection Agency:		
Pass-through programs from:		
City of Charleston	66.City of Charleston	<u>(1,614)</u>
Total Environmental Protection Agency		<u>(1,614)</u>
US Department of Education:		
Graduate Assistance in Areas of National Need	84.200	150,803
Pass-through programs from:		
South Carolina Department of Health and Environmental Control	84.181	39,246
Advocacy Coalition for People with Disabilities	84.328	43,039
Family Resource Center	84.328	66,648
Total US Department of Education		<u>299,736</u>
US Department of Transportation:		
Community Demonstration Program	20.999	12,938
Pass-through programs from:		
South Carolina State University	20.920	<u>(10,289)</u>
Total US Department of Transportation		<u>2,649</u>
US Department of Veteran Affairs:		
VA-IPA – Lileeth Kong	64.VAMC IPA - Lileeth Kong	9,928
VA-IPA – Sara Shaughnessy – Muscle Metabolism, Low Birth Weight and the Insulin Resistance Syndrome	64.VAMC IPA - Sara Shaughnessy	(10,197)
VA-IPA (Penny Wallace)	64.VAMC IPA – Penny Wallace	(15)
IPA for Rolf B. Fritz	64.VAMC IPA – Rolf B. Fritz	31,801
IPA – Charlyne Chessereau	64.VAMC IPA – Charlyne Chessereau	19,428
VA-IPA – Korey R. Johnson	64.VAMC IPA - Korey R. Johnson	49,685
VA-IPA – Xian-Kui (John) Zhang	64.VAMC IPA - Xian-Kui Zhang	(981)
IPA for Ivan Molano	64.IIPA - Ivan Molano	10,730
Clinical Demonstration Project-Dementia Caregiver Outreach Program	64.999	7,164
US Department of Veteran Affairs		<u>117,543</u>
Federal Emergency Management Agency		
Pass-through programs from:		
SC Emergency Preparedness Division	83.548	571,496
Total Federal Emergency Management Agency		<u>571,496</u>
Total Federal Award Expenditures		\$ <u>175,125,974</u>

See accompanying notes to schedule of expenditures of federal awards.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Medical University of South Carolina (the University) and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

(2) Summary of Significant Accounting Policies for Federal Award Expenditures

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable. Federal Pell grant awards are recognized as agency transactions and are not recorded as expenditures in the financial statements.

Expenditures for federal research and development programs are determined using the cost accounting principles and procedures set forth in OMB Circular A-21, *Cost Principles for Educational Institutions*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

(3) Federal Student Financial Aid Loan Programs

The Federal Perkins Loan, Health Professions Student Loan (HPSL), Loans for Disadvantaged Students (LDS) and the Nurse Faculty Loan (NFL) programs are administered directly by the University and balances and transactions relating to these programs are included in the University's basic financial statements. The balance of loans outstanding under the Federal Perkins, HPSL, LDS and NFL programs were \$5,707,788, \$6,677,777, \$295,438 and \$81,556 as of June 30, 2004.

The University is responsible only for the performance of certain administrative duties with respect to the Federal Family Education Loan Programs and, accordingly, these loans are not included in its financial statements. It is not practicable to determine the balance of loans outstanding to students and former students of the University under these programs as of June 30, 2004.

(4) Matching

Under the Federal Work Study (FWS) program, the University matched \$85,623 in total compensation for the year ended June 30, 2004 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

Under the Federal Supplemental Education Opportunity Grant (FSEOG) program, the University matched \$7,594 in funds awarded to students for the year ended June 30, 2004 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

(5) Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients as follows:

<u>Federal Granting Agency</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
US Department of Commerce		
Pass-through programs from:		
Sea Grant Support	11.417	\$ 14,286
National Oceanic and Atmospheric Administration	11.999	114,786
Total US Department of Commerce		129,072
US Department of Defense	12.300	182,155
US Department of Defense	12.420	57,722
Total US Department of Defense		239,877
National Aeronautics and Space Administration		
Pass-through programs from:		
Aerospace Education Services Program	43.001	47,893
Total National Aeronautics and Space Administration		47,893
National Science Foundation	47.074	43,133
National Science Foundation	47.076	258,339
Total National Science Foundation		301,472
US Department of Energy	81.049	271,316
US Department of Energy	81.092	75,944
US Department of Energy	81.108	279,380
Total US Department of Energy		626,640
US Department of Education	84.133	29,069
US Department of Health and Human Services	93.107	352,515
US Department of Health and Human Services	93.113	14,296
US Department of Health and Human Services	93.121	8,052
US Department of Health and Human Services	93.136	304,508
US Department of Health and Human Services	93.173	39,278
US Department of Health and Human Services	93.185	160,319
US Department of Health and Human Services	93.191	4,585
US Department of Health and Human Services	93.226	259,132

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2004

Federal Granting Agency	Federal CFDA Number	Amount Provided to Subrecipients
US Department of Health and Human Services	93.230	321,471
US Department of Health and Human Services	93.242	635,508
US Department of Health and Human Services	93.243	14,580
US Department of Health and Human Services	93.279	1,033,588
US Department of Health and Human Services	93.283	433,326
US Department of Health and Human Services	93.389	477,306
US Department of Health and Human Services	93.393	56,362
US Department of Health and Human Services	93.396	114,662
US Department of Health and Human Services	93.398	988
US Department of Health and Human Services	93.670	18,039
US Department of Health and Human Services	93.837	857,748
US Department of Health and Human Services	93.846	77,517
US Department of Health and Human Services	93.849	95,788
US Department of Health and Human Services	93.853	68,363
US Department of Health and Human Services	93.855	63,519
US Department of Health and Human Services	93.865	541,951
US Department of Health and Human Services	93.866	119,465
US Department of Health and Human Services	93.917	91,651
US Department of Health and Human Services	93.945	108,306
US Department of Health and Human Services	93.969	27,832
US Department of Health and Human Services	93.996	240,950
US Department of Health and Human Services	93.999	41,671
Total US Department of Health and Human Services		6,583,276
		\$ 7,957,299



KPMG LLP
Suite 700
301 N. Elm Street
Greensboro, NC 27401

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Basic Financial Statements Performed
in Accordance with *Government Auditing Standards***

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2004, which collectively comprise the University's basic financial statements. We did not audit the financial statements of the University Medical Associates, the Pharmaceutical Education and Development Foundation, the Health Sciences Foundation, and the MUSC Foundation for Research Development. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University Medical Associates, the Pharmaceutical Education and Development Foundation, the Health Sciences Foundation, and the MUSC Foundation for Research Development, is based on the reports of the other auditors. We have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management in separate letters dated August 27, 2004 and September 24, 2004.

This report is intended solely for the information and use of the State Auditor, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 24, 2004



KPMG LLP
Suite 700
301 N. Elm Street
Greensboro, NC 27401

Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of the Medical University of South Carolina (the University) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2004. The University's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 04-1 and 04-2.

Internal Control over Compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Medical University of South Carolina (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2004, and have issued our report dated September 24, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. We did not audit the financial statements of the University Medical Associates, the Pharmaceutical Education and Development Foundation, the Health Sciences Foundation, and the MUSC Foundation for Research Development. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts for the University Medical Associates, the Pharmaceutical Education Development Foundation, the Health Sciences Foundation, and the MUSC Foundation for Research Development, is based on the reports of the other auditors. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the State Auditor, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 17, 2005

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

(1) Summary of Auditors' Results

- (a) The type of report issued on the basic financial statements: **Unqualified opinion**
- (b) Reportable conditions in internal control were disclosed by the audit of the basic financial statements: **No**
Material weaknesses: **None**
- (c) Noncompliance which is material to the basic financial statements: **None**
- (d) Reportable conditions in internal control over major programs: **None reported**
Material weaknesses: **None**
- (e) The type of report issued on compliance for major programs: **Unqualified opinion**
- (f) Any audit findings which are required to be reported under Section .510(a) of OMB Circular A-133: **Yes**
- (g) Major Federal program: **Research and Development cluster (various CFDA numbers), Health Care and Other Facilities (CFDA 93.887) and Measurement and Engineering Research and Standards (CFDA 11.609)**
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section .530 of OMB Circular A-133: **No**

(2) Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*: None

(3) Findings and Questioned Costs Relating to Federal Awards:

Finding No. 04-1: Reporting – Research and Development

Federal Program

Research and Development Cluster

Criteria:

Federal regulations require that recipients submit financial and performance reports at least annually but not more frequently than quarterly.

Condition:

During 2004, there were financial reports which were not submitted in a timely manner. Out of thirty grants selected for testwork, we noted seven grants for which reports were not submitted in a timely manner.

Cause:

Administrative oversight.

Questioned Costs:

None.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Recommendation:

We recommend that the University maintain a listing of required reports and manage the listing in order to ensure all reports are filed in a timely manner.

Management's Response:

We concur with the auditor that the cause resulting in the finding was due to administrative oversight. MUSC does maintain a database with the required dates of when reports are due and the frequency of report submissions. Further, internal reports are produced and distributed to the managers and accountants responsible for preparing reports. We recently included enhancements to our system that should help reduce occurrences of these types of administrative oversights.

Finding No. 04-2: Reporting – Measurement and Engineering Research and Standards (CFDA 11.609)

Federal Program

Measurement and Engineering Research and Standards (CFDA 11.609)

Criteria:

Federal regulations require that recipients submit performance reports at least annually but not more frequently than quarterly.

Condition:

During 2004, there was a financial report, which was not submitted in a timely manner. The financial report is the only required report for this grant.

Cause:

Administrative oversight.

Questioned Costs:

None.

Recommendation:

We recommend that the University maintain a listing of required reports and manage the listing in order to ensure all reports are filed in a timely manner.

Management's Response:

We concur with the auditor that the cause resulting in the finding was due to administrative oversight. MUSC does maintain a database with the required dates of when reports are due and the frequency of report submissions. Further, internal reports are produced and distributed to the managers and accountants responsible for preparing reports. We recently included enhancements to our system that should help reduce occurrences of these types of administrative oversights.