

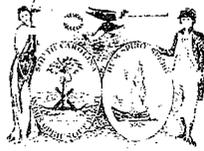
THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

OMB Circular A-133 Reports

Year ended June 30, 2003

(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

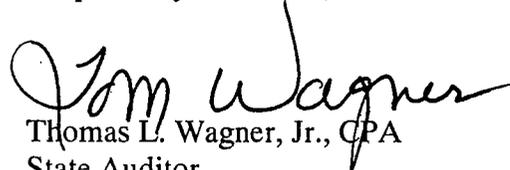
March 4, 2004

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, 2003, 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, 2003, issued by KPMG, LLP, Certified Public Accountants, dated October 3, 2003.

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 Compliance and on Internal Control Over Financial Reporting 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 and on the Schedule of Expenditures of Federal Awards	11
Schedule of Findings and Questioned Costs	13

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

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	\$ 71,973,804
Pass-through programs from:		
The University of Washington – Seattle	93.RD	149,297
The Agency for Healthcare Research and Quality	93.RD	235,157
The University of Illinois at Chicago	93.RD	19,879
The New Jersey Medical School	93.RD	239,737
Emory University	93.RD	137,132
The MUSC Foundation for Research Development	93.RD	93,777
The University of Massachusetts	93.RD	44,150
The American College of Radiology	93.RD	271,236
Gynecologic Oncology Group	93.RD	19,371
South West Oncology Group	93.RD	15,584
The University of Alabama	93.RD	13,088
The Brigham and Women's Hospital	93.RD	9,323
Children's Hospital of Pennsylvania	93.RD	10,290
Mt. Sinai Medical Center	93.RD	12,067
Social and Scientific Systems, Inc.	93.RD	7,099
The University of South Florida	93.RD	151,361
American Medical Student Association	93.RD	13
(KAI) Kunitz and Associates, Inc.	93.RD	83,696
The University of South California – Los Angeles	93.RD	254,846
George Washington University	93.RD	763
American College of Surgeons	93.RD	(7,436)
BSI Corporation	93.RD	(734)
National Development and Research Institutes, Inc	93.RD	121,201
SUNY Research Foundation	93.RD	2,944
John Hopkins University	93.RD	11,765
Duke University	93.RD	374,624
South Carolina Department of Health and Environmental Control	93.RD	117,848
University of South Carolina	93.RD	616,536
Portland State University	93.RD	17,608
American Health Foundation	93.RD	106,434
Advanced Technology Institute	93.RD	82,992
American College of Obstetricians and Gynecologists	93.RD	6,458
University of Alabama at Birmingham	93.RD	68,659
South Carolina Department of Mental Health	93.RD	11,563
Children's Hospital Research Foundation	93.RD	(6,160)
University of Maryland	93.RD	13,465
Research Triangle Institute	93.RD	7,630
Wake Forest University School of Medicine	93.RD	75,516
American Academy of Child & Adolescent Psychiatry	93.RD	286,478
University of Pennsylvania	93.RD	152,288
Yale University	93.RD	177,007
University of Texas Southwestern Medical Center at Dallas	93.RD	(9,931)
University of Florida	93.RD	63,398
Greenwood Genetic Center	93.RD	64,173
Association of American Medical Colleges	93.RD	304,538
University of Arkansas	93.RD	6,922
University of Pittsburgh	93.RD	67,202
University of Arizona	93.RD	61,956
Fred Hutchinson Cancer Research Center	93.RD	5,190
Dana-Farber Cancer Institute	93.RD	(3,228)
Bioreliance Corporation	93.RD	1,245
University of Cincinnati	93.RD	100,096
Wake Forest University – Bowman Gray Campus	93.RD	6,372
University of California – San Diego	93.RD	105,886
Northwestern University	93.RD	493
Saint Jude Medical, Incorporated	93.RD	103,591
Virginia Tech University	93.RD	10,283
South Carolina EPSCOR	93.RD	119,243
National Surgical Adjuvant Breast and Bowel Project Foundation, Inc	93.RD	10,700
Thromgen, Incorporated	93.RD	5,154
Organ Recovery Systems	93.RD	70,903

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
St. Luke's – Roosevelt's Hospital Center	93.RD	\$ 1,964
Cardiovascular Tissue Technologies	93.RD	(2,106)
Henry Ford Health System	93.RD	272,289
University of Colorado	93.RD	29,397
Medical College of Georgia	93.RD	200,363
Vanderbilt University	93.RD	113,804
University of North Carolina at Chapel Hill	93.RD	549,761
Mcphahnemann University	93.RD	37,318
Arizona Institute for Biomedical Research, Inc.	93.RD	(10,209)
Boston Medical Center	93.RD	21,604
Boston University	93.RD	(773)
Columbia University	93.RD	92,638
University of Texas	93.RD	97,936
Massachusetts Institute of Technology	93.RD	54,150
Statistics and Epidemiology Research Corporation	93.RD	359
University of Tennessee	93.RD	18,833
CODA, Incorporated	93.RD	57,279
University of California at San Francisco Stanford Health Care	93.RD	7,658
University of Virginia	93.RD	24,824
Washington University in St. Louis	93.RD	(111)
Savannah State College	93.RD	45,725
Children's Oncology Group	93.RD	4,189
WESTAT	93.RD	25,337
Department of Veteran Affairs – Maryland Health Care System	93.RD	128,521
Virginia Commonwealth University	93.RD	40,121
Total US Department of Health and Human Services		78,883,413
National Science Foundation	47.RD	696,766
Pass-through programs from:		
South Carolina EPSCOR	47.RD	240,217
South Carolina Research Authority	47.RD	287,569
Clemson University	47.RD	(8,655)
Total National Science Foundation		1,215,897
US Department of Defense	12.RD	8,668,912
Pass-through programs from:		
University of Arizona	12.RD	1,131
General Electric	12.RD	113,044
University of New Hampshire	12.RD	40,703
Wellesley College	12.RD	346,442
University of Iowa	12.RD	22,451
MUSC Foundation for Research Development	12.RD	23,506
The University of Key West Florida	12.RD	(1,310)
Total US Department of Defense		9,214,879
US Department of Energy	81.RD	3,809,531
Pass-through programs from:		
South Carolina Universities Research and Education Foundation	81.RD	1,194,239
UT Batelle, LLC	81.RD	32,970
Batelle Memorial Institute, Pacific NW Division	81.RD	(745)
Tulane Educational Fund	81.RD	(1,982)
The University of Georgia	81.RD	843
Total US Department of Energy		5,034,856
Environmental Protection Agency	66.RD	25,762
Total Environmental Protection Agency		25,762
National Aeronautics and Space Administration	43.RD	196,902
Pass-through programs from:		
National Opinion Research Center	43.RD	25,820
South Carolina Sea Grant Consortium	43.RD	4,023
EPSCOR	43.RD	152,032
College of Charleston	43.RD	8,712
Total National Aeronautics and Space Administration		387,489

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
US Department of Veteran Affairs	64.RD	\$ 179,590
Total US Department of Veteran Affairs		<u>179,590</u>
National Oceanic and Atmospheric Administration	11.RD	78,835
Pass-through programs from:		
South Carolina Sea Grant Consortium	11.RD	205,198
University of Alaska – Fairbanks	11.RD	26,084
Organ Recovery Systems	11.RD	14,033
South Carolina Department of Natural Resources	11.RD	42,914
National Marines Fisheries Service	11.RD	<u>(1,541)</u>
Total US Department of Commerce		<u>365,523</u>
US Department of Agriculture	10.RD	<u>168,693</u>
Total US Department of Agriculture		<u>168,693</u>
US Department of Justice	16.RD	19,633
Pass-through programs from:		
Lowcountry Children's Center	16.RD	<u>19,633</u>
Total US Department of Justice		
US Department of the Interior	15.RD	<u>23,568</u>
Total US Department of the Interior		<u>23,568</u>
US Department of Education	84.RD	<u>55,817</u>
Total US Department of Education		<u>55,817</u>
Total Research and Development		<u>95,575,120</u>
Student Financial Aid – Cluster:		
US Department of Education:		
Federal Pell Grant Program	84.063	128,914
Federal Supplemental Educational Opportunity Grant	84.007	23,833
Federal Work Study Program	84.033	269,232
Federal Family Education Loans	84.032	<u>28,420,362</u>
Total US Department of Education		<u>28,842,341</u>
Total Student Financial Aid		<u>28,842,341</u>
Other Programs:		
US Department of Health and Human Services:		
Cell Biology and Biophysics Research	93.821	24,071
Kidney Diseases, Urology and Hematology	93.849	114,207
Health Care and Other Facilities	93.887	1,265,096
National Health Service Corps Loan Repayment	93.162	12,040
Allied Health Special Projects	93.191	181,123
Model State-Supported Area Health Education Centers	93.107	450,132
Maternal and Child Health Federal Consolidated Programs	93.110	(5,106)
Oral Diseases and Disorders Research	93.121	10,473
Nurse Anesthetist Traineeships	93.124	45,286
Grants for State Loan Repayment	93.165	114,449
Research Related to Deafness and Communications Disorder:	93.173	38,311
Health Education and Training Centers	93.189	108,399
Mental Health Research Grants	93.242	573,524
Advanced Education Nursing Grant Program	93.247	258,430
Drug Abuse National Research Service Awards for Research Training	93.278	152,626
Mental Health National Research Service Awards for Research Training	93.282	193,477
Advanced Education Nursing Traineeships	93.358	90,895
Basic Nurse Education and Practice Grants	93.359	290,622
Heart and Vascular Diseases Research	93.837	252,526
Aging Research	93.866	12,596
Medical Library Assistance	93.879	112,742
Grants for Faculty Development in Family Medicine	93.895	553,684
Predoctoral Training in Primary Care (Family Medicine, General, Internal Medicine/General Internal Medicine/General Pediatrics)	93.896	171,130
Health Administration Traineeships and Special Projects Program	93.962	54,505

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Geriatric Education Centers	93.969	\$ 182,955
Academic Administrative Units in Primary Care	93.984	164,971
Senior International Fellowships	93.989	78,562
Network Members Exhibit	93.999	2,066
Research Infrastructure	93.389	147,199
Pass-through programs from:		
The Association of Teachers of Prevent	93.185	107,099
Physician Micro Systems	93.226	34,598
Boston University	93.398	21,036
Society of Teachers Family Medicine	93.999	29,958
Medical Student Association	93.999	13
South Carolina Area Health Education Centers	93.107	19,557
South Carolina Department of Health and Environmental Control	93.153	107,843
Ambulatory Pediatric Association	93.185	57,763
South Carolina Developmental Disabilities Council – Office of the Governor	93.630	35,349
Wayne State University	93.847	36,297
South Carolina Department of Health and Environmental Control	93.917	886,127
South Carolina Department of Health and Environmental Control	93.945	727
South Carolina Department of Health and Environmental Control	93.999	29,481
American Medical Student Association	93.156	41,635
South Carolina Health and Human Services (SC DHHS)	93.999	243,901
The Family Resource Center	93.630	19,498
University of Maryland – Baltimore	93.999	21,321
Total US Department of Health and Human Services		<u>7,343,194</u>
US Department of Defense:		
Basic and Applied Scientific Research	12.300	17,947
Total US Department of Defense		<u>17,947</u>
US Department of Energy:		
Tennessee State University	81.999	37,970
Office of Science Financial Assistance Program	81.049	5,631,019
Biomedical Animal Research Facility	81.102	(37,446)
Pass-through programs from:		
South Carolina Universities Research and Education Foundation	81.114	25,128
South Carolina Research Authority	81.092	3,307
Total US Department of Energy		<u>5,659,978</u>
National Science Foundation:		
Biological Sciences	47.074	68,668
Education and Human Resources		193,460
Pass-through programs from:		
University of South Dakota	47.076	4,083
South Carolina Department of Education	47.076	86,763
Total National Science Foundation		<u>352,974</u>
National Oceanic and Atmospheric Administration		
Measurement and Engineering Research and Standards	11.609	1,020,886
National Oceanic and Atmospheric Administration		<u>1,020,886</u>
US Department of Justice:		
Crime Victim/Assistance Discretionary Grants	16.582	7,287
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	205,846
Pass-through programs from:		
South Carolina Department of Public Safety	16.575	405,576
Total US Department of Justice		<u>618,709</u>
Environmental Protection Agency:		
Surveys, Studies, Investigations and Special Purpose Grants	66.606	6,205
Pass-through programs from:		
Concurrent Technologies Corporation	66.811	2,376
City of Charleston	66.City of Charleston	1,812
Total Environmental Protection Agency		<u>\$ 10,393</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
US Department of Education:		
Pass-through programs from:		
South Carolina Department of Health and Environmental Control	84.181	43,214
Advocacy Coalition for People with Disabilities	84.328	49,236
The Family Resource Center	84.328	24,852
Total US Department of Education		<u>117,302</u>
Total Corporation for National and Community Service		<u>117,302</u>
US Department of Transportation:		
Pass-through programs from:		
South Carolina State University	20.920	17,373
Total US Department of Transportation		<u>17,373</u>
US Department of Veteran Affairs:		
VA-IPA – Lidia Maianu – Muscle Metabolism, Low Birth Weight and the Insulin Resistance Syndrome	64.VAMC	28,465
VA-IPA – Sara Shaughnessy – Muscle Metabolism, Low Birth Weight and the Insulin Resistance Syndrome	64.VAMC	30,742
VA-IPA (Penny Wallace)	64.VAMC IPA – Penny Wallace	18,583
IPA for Wayne Fitzgibbon	64.VAMC IPA – Wayne Fitzgerald	8,088
IPA – Ivan Molano	64.VAMC IPA – Ivan Molano	14,136
VA-IPA – Xian-Kui (John) Zhang	64.VAMC	6,868
IPA Agreement Helen Ulmer	64.VAMC	2,947
IPA for Jonathan D. Elhai	64.IIPA – Jonathan D. Elhai	(16,209)
US Department of Veteran Affairs		<u>93,620</u>
Federal Emergency Management Agency		
Hazard Mitigation Grant	83.548	244,679
Total Federal Emergency Management Agency		<u>244,679</u>
Total Federal Award Expenditures		<u>\$ 139,914,516</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, 2003

(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.

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 Perkins Loan Program (CFDA Number 84.038)

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the loan fund of the University's basic financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$5,127,729 as of June 30, 2003.

(4) Matching

Under the Federal Work Study (FWS) program, the University matched \$73,278 in total compensation for the year ended June 30, 2003 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 \$5,958 in funds awarded to students for the year ended June 30, 2003 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, 2003

(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	\$ <u>32,392</u>
Total US Department of Commerce		<u>32,392</u>
US Department of Defense	12.300	219,642
US Department of Defense	12.420	<u>61,415</u>
Total US Department of Defense		<u>281,057</u>
National Aeronautics and Space Administration		
Pass-through programs from:		
Aerospace Education Services Program	43.001	<u>8,844</u>
Total National Aeronautics and Space Administration		<u>8,844</u>
National Science Foundation	47.074	65,137
US Department of Energy	81.092	263,269
US Department of Energy	81.108	<u>267,332</u>
Total US Department of Energy		<u>530,601</u>
US Department of Health and Human Services	93.136	495,707
US Department of Health and Human Services	93.226	250,307
US Department of Health and Human Services	93.230	264,028
US Department of Health and Human Services	93.242	35,115
US Department of Health and Human Services	93.273	13,500
US Department of Health and Human Services	93.279	1,028,465
US Department of Health and Human Services	93.283	49,992
US Department of Health and Human Services	93.371	6,947
US Department of Health and Human Services	93.389	291,157
US Department of Health and Human Services	93.393	4,483
US Department of Health and Human Services	93.394	6,908

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal Granting Agency	Federal CFDA Number	Amount Provided to Subrecipients
US Department of Health and Human Services	93.396	\$ 30,740
US Department of Health and Human Services	93.398	66,427
US Department of Health and Human Services	93.670	72,280
US Department of Health and Human Services	93.822	6,297
US Department of Health and Human Services	93.837	448,990
US Department of Health and Human Services	93.849	82,972
US Department of Health and Human Services	93.853	152,697
US Department of Health and Human Services	93.855	86,869
US Department of Health and Human Services	93.865	488,171
US Department of Health and Human Services	93.866	48,116
US Department of Health and Human Services	93.945	72,395
Total US Department of Health and Human Services		<u>4,002,563</u>
		\$ <u><u>4,920,594</u></u>



KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting 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 basic financial statements 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, 2003. We did not audit the financial statements of the University Medical Associates and the Pharmaceutical Education and Development Foundation. 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 and the Pharmaceutical Education and Development Foundation, is based on the reports of the other auditors. We have issued our report thereon dated October 3, 2003. 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.

Compliance

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*.

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 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. However, we noted other matters involving internal control over financial reporting, which we have reported to management in a separate letter dated October 3, 2003.

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

October 3, 2003



KPMG LLP
Suite 900
55 Beattie Place
Greenville, SC 29601-2106

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 and on the Schedule of Expenditures of Federal Awards

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, 2003. 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, 2003. 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 03 1.



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 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.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements 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, 2003. We did not audit the financial statements of the University Medical Associates and the Pharmaceutical Education and Development Foundation. 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 and the Pharmaceutical Education and Development Foundation, is based on the reports of the other auditors. We have issued our report thereon dated October 3, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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

October 3, 2003

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(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: **none reported** 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)**
- (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. 03-1: Reporting – Research and Development

Federal Program

Research and Development Cluster

Criteria:

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

Condition:

During 2003, there was a report which was not submitted in a timely manner.

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.

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Prior Year Audit Findings

Year ended June 30, 2003

There were no findings or questioned costs for the year ended June 30, 2002.