THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

JUNE 30, 2001

State of South Carolina

Office of the State Auditor
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COLUMBIA, S.C. 29201

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STATE AUDITOR

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December 3, 2001

The Honorable Jim Hodges, Governor
and
Members of the Board of Trustees
The Medical University of South Carolina
Charleston, South Carolina

This report on the internal control of The Medical University of South Carolina for the fiscal year ended June 30, 2001, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

TLW Wagner

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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 as of and for the year ended June 30, 2001, and have issued our report thereon dated October 19, 2001. Those basic financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

The management of the University is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of basic financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the basic financial statements of the University for the year ended June 30, 2001, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to express an opinion or provide assurance on the internal control. Accordingly, we do not express such an opinion or provide such assurance. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the basic financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected in a timely period by employees in the normal course of performing their assigned duties.

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Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We have classified both of the comments reported as material weaknesses. These conditions were considered in determining the nature, timing, and extent of audit tests to be applied in our audit of the basic financial statements of the University of and for the year ended June 30, 2001, and this report does not affect our report on the basic financial statements dated October 19, 2001.

This report is intended solely for the information and use of the Governor and of the governing body and management of the University and is not intended to be and should not be used by anyone other than these specified parties.

Rogers + Lalan, PA

October 19, 2001

MANAGEMENT LETTER COMMENTS

CONTROLS OVER MAJOR MOVEABLE EQUIPMENT INADEQUATE

The University's policy is to capitalize major moveable equipment with a costs of $5,000 or greater. The University owns approximately 3,400 items that meet this criteria. As part of our audit, we selected 15 major moveable equipment assets to locate and physically observe. 5 of the 15 assets could not be located. Because of the high rate of noncompliance, we selected other assets to physically observe with the assistance of the internal audit and fixed asset departments of the University. We selected an additional 400 assets which included all 73 assets with a recorded value greater than $100,000. Based on the results of the procedures performed approximately $4,500,000 of equipment was written off the books of the University including approximately $2,037,000 pertaining to disposals prior to June 30, 2000. The $2,037,000 included approximately $1,692,000 of equipment that had been disposed of or traded-in in a prior year and approximately $345,000 of equipment that could not be located. Approximately $192,000 of the current year's amounts were disposals and approximately $2,230,000 of the current year's amounts could not be located.

Most of the items were in departments of the University that did not complete and return its annual physical inventory for a number of years. One department that completed an inventory stating that all assets were still on hand this year had a couple of items that had been disposed of in prior years including a mainframe computer with a costs of approximately $1,478,000.

We have been reporting a similar finding in prior year's management letters. This finding will become even more significant in years subsequent to June 30, 2001 because of the change in the reporting model that will require all assets to be accounted for in one fund and for the University to record depreciation and gains and losses in its operating statement.

We recommend that qualified University personnel perform fixed asset audits in all of the departments. The University has policies in place that are not being followed regarding the taking of a fixed asset inventory annually and the required reporting regarding the relocation and disposal of equipment. The University should also complete its project of bar coding all equipment which would make it easier to inventory and track fixed assets.

MANAGEMENT'S RESPONSE:

Management concurs with this recommendation. Management believes that some progress was made during fiscal year 2001. Bar coding of equipment was completed in several areas including the Basic Sciences and Administration buildings, asset policies were strengthened with sanctions approved for noncompliance and annual inventories were completed by 79% of departments compared with an average 36% compliance in prior years. Management will continue their efforts for improvement, particularly in reporting of asset disposals and in accelerating the bar coding of equipment. A task force has been formed to review the asset inventory system and submit recommendations to the President's Council by January.

LACK OF SUFFICIENT QUALIFIED ACCOUNTING STAFF IN FIXED ASSET DEPARTMENT

The area of the University that is responsible for the financial information relating to fixed assets and debt does not have enough qualified accounting staff to prepare all financial information timely and accurately. Numerous schedules supporting basic financial statements amounts or footnotes had to be reworked which caused a delay in completing the audit. This area has taken on additional responsibility in the last year by handling the fixed asset activity of the Medical University Hospital Authority also without any increase in staffing.

We recommend that the University review the various work that this Department is responsible for and determine whether any functions should be reassigned or whether additional qualified staff should be added. Consideration should also be given to consolidating some areas under the oversight of this Department that would make the accounting for property and equipment and projects easier.

MANAGEMENT'S RESPONSE:
Management agrees with this recommendation. Although the addition of staff to this department was delayed by the University-wide hiring freeze, an experienced accountant is now in place. Management is finalizing plans to consolidate all property areas under this department, which will allow for better oversight of assets and will make available additional staff for inventory control.

STATUS OF PRIOR AUDIT FINDINGS

We performed an audit similar in scope for the year ended June 30, 2000. A management letter dated November 4, 2000 was issued which contained the following findings:

A. Violations of State Law
   - Interest income not remitted to State General Fund

B. Material Reportable Conditions
   - Errors in accounting for equipment additions
   - Errors in accounts payable schedule
   - Deficiencies in bank account reconciliations
   - Payroll liabilities not reconciled to support

C. Other Weaknesses
   - Improvements needed in controlling fixed assets
   - Old outstanding checks not being timely voided
   - Deficits in agency fund balances

Adequate corrective actions was taken on the following:

A. Violations of State Law
   - Interest income not remitted to State General Fund

B. Material Reportable Conditions
   - Errors in accounting for equipment additions
   - Errors in accounts payable schedule
   - Deficiencies in bank account reconciliations
   - Payroll liabilities not reconciled to support

C. Other Weaknesses
   - Old outstanding checks not being timely voided
   - Deficits in agency fund balances

The finding relating to improvements needed in controlling fixed assets is repeated in this year's management letter.