

State of South Carolina



Office of the State Auditor

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STATE AUDITOR

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February 14, 2006

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 on internal control over financial reporting, and the 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 of the Medical University of South Carolina for the fiscal year ended June 30, 2005, 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, 2005, issued by KPMG, LLP, Certified Public Accountants, dated September 23, 2005.

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

Respectfully submitted,

A handwritten signature in black ink that reads "Tom Wagner".

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Federal award expenditures:		
Research and Development – Cluster:		
Department of Health and Human Services:		
Administration for Children and Families	93.RD	\$ 364,646
Agency for Healthcare Research and Quality	93.RD	2,633,047
Centers for Disease Control and Prevention	93.RD	2,916,418
Health Resources and Services Administration	93.RD	14,220
Office of the Secretary	93.RD	429,466
Substance Abuse and Mental Health Services Administration	93.RD	631,213
Food and Drug Administration	93.RD	277,898
National Institute of Health	93.RD	85,747,600
Pass-through programs from:		
Advanced Cochlear Systems	93.RD	8,634
Advanced Technology Institute	93.RD	(1,010)
American Academy of Child & Adolescent Psychiatry	93.RD	(5,210)
American College of Radiology	93.RD	3,230
American College of Radiology Imaging Network	93.RD	493,625
Association of American Medical Colleges	93.RD	601,961
Audiology, Inc.	93.RD	940
Benaroya Research Institute at Virginia Mason	93.RD	72,039
Case Western Reserve University	93.RD	157,673
Children's Hospital of Pennsylvania	93.RD	15,256
Children's Hospital Research Foundation	93.RD	102,689
CODA, Incorporated	93.RD	3,260
Columbia University	93.RD	(57,547)
Cornell University Medical Center	93.RD	3,602
Duke Clinical Research Institute	93.RD	11,023
Duke University	93.RD	329,822
Emory University	93.RD	184,426
Fred Hutchinson Cancer Research Center	93.RD	53,592
George Washington University	93.RD	630
Georgetown University	93.RD	3,540
Greenwood Genetic Center	93.RD	107,846
Gynecologic Oncology Group	93.RD	46,758
Henry Ford Health System	93.RD	(82)
Hope Heart Institute	93.RD	(15,144)
Institute for Cancer Prevention	93.RD	(15,574)
Johns Hopkins University	93.RD	68,958
Kunitz and Associates, Inc.	93.RD	40,500
LifePoint	93.RD	126,411
Massachusetts General Hospital	93.RD	17,768
Mayo Clinic	93.RD	232,813
Mayo Clinic of Rochester	93.RD	37,025
Mayo Foundation for Medical Education	93.RD	314
MCP Hahnemann University	93.RD	62,369
Medical College of Georgia	93.RD	85,695
Mt. Sinai Medical Center	93.RD	3,571
MUSC Foundation for Research Development	93.RD	(5,510)
National Childhood Cancer Foundation	93.RD	27,189
National Surgical Adjuvant Breast and Bowel Project Foundation, Inc.	93.RD	33
New Jersey Medical School	93.RD	264,595
Northshore Long Island Jewish Research Institute	93.RD	20,067
Northwestern University	93.RD	(482)
Organ Recovery Systems	93.RD	198,905
Personal Improvement Computer, Inc	93.RD	(12,587)
Research Foundation for Mental Hygiene, Inc	93.RD	206,111
Research Triangle Institute	93.RD	24,394
Rush-Presbyterian-St. Luke's Medical Center	93.RD	449
Scripps Research Institute	93.RD	43,244
Seattle Institute for Cardiac Research	93.RD	9,280
South Carolina Biomedical Research Infrastructure	93.RD	25,425
South Carolina Department of Health and Environmental Control	93.RD	92,712
South Carolina EPSCOR	93.RD	17,463

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
South Carolina Research Authority	93.RD	\$ 2,446
South Carolina Sea Grant Consortium	93.RD	15,595
South Carolina State University	93.RD	32,481
South West Oncology Group	93.RD	32,681
St. Jude Medical, Inc.	93.RD	(2,529)
St. Luke's – Roosevelt's Hospital Center	93.RD	(4,690)
SUNY Research Foundation	93.RD	493
University of Alabama	93.RD	23,647
University of Alabama at Birmingham	93.RD	53,179
University of Arizona	93.RD	72
University of California at Los Angeles	93.RD	7,817
University of California at San Diego	93.RD	103,946
University of California at San Francisco (Stanford Health Care)	93.RD	1,533
University of Cincinnati	93.RD	27,347
University of Colorado	93.RD	51,905
University of Florida	93.RD	(27,196)
University of Georgia	93.RD	34,469
University of Illinois at Chicago	93.RD	23,702
University of Indiana	93.RD	41,797
University of Maryland	93.RD	37,861
University of Miami	93.RD	97,484
University of North Carolina at Chapel Hill	93.RD	616,678
University of Pennsylvania	93.RD	68,546
University of Pittsburgh	93.RD	150,471
University of Rochester	93.RD	4,845
University of South Alabama	93.RD	66,424
University of South Carolina	93.RD	625,226
University of South Florida	93.RD	155,418
University of Southern California	93.RD	8,071
University of Tennessee	93.RD	146,642
University of Texas	93.RD	12,368
University of Texas Southwestern Medical Center	93.RD	11,314
University of Virginia	93.RD	(472)
University of Washington at Seattle	93.RD	174,010
Vanderbilt University	93.RD	(4,837)
Virginia Commonwealth University	93.RD	83,697
Virtually Better, Inc.	93.RD	(487)
Wake Forest University Health Sciences	93.RD	27,956
Wayne State University	93.RD	15,994
Yale University	93.RD	164,878
Total US Department of Health and Human Services		<u>99,587,981</u>
National Science Foundation:		
National Science Foundation	47.RD	514,593
Pass-through programs from:		
Clemson University	47.RD	(18)
South Carolina EPSCOR	47.RD	6,522
South Carolina Research Authority	47.RD	148,076
Synectiq Corporation	47.RD	(24,244)
Total National Science Foundation		<u>644,929</u>
US Department of Defense:		
Department of Defense	12.RD	52,719
U.S. Army	12.RD	1,010,036
U.S. Navy	12.RD	969,509
Office of the Secretary of Defense	12.RD	132,811
Pass-through programs from:		
GEO Centers	12.RD	2,321,058
General Electric	12.RD	116,293
Wellesley College	12.RD	79,166
University of Iowa	12.RD	(121)
Total US Department of Defense		<u>4,681,471</u>
US Department of Energy:		

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Office of Science	81.RD	\$ 3,521,994
Office of the Environment	81.RD	177,593
Pass-through programs from:		
Batelle Memorial Institute, Pacific NW Division	81.RD	4,829
South Carolina Universities Research and Education Foundation	81.RD	1,521,527
UT Batelle, LLC	81.RD	429
University of Montana	81.RD	1,009
Total US Department of Energy		<u>5,227,381</u>
Environmental Protection Agency:		
Environmental Protection Agency	66.RD	18,852
Office of Research and Development	66.RD	4,912
Total Environmental Protection Agency		<u>23,764</u>
National Aeronautics and Space Administration:		
National Aeronautics and Space Administration	43.RD	407,401
Pass-through programs from:		
Clemson University	43.RD	1,203
College of Charleston	43.RD	218,889
South Carolina Space Grant Consortium	43.RD	(1,068)
Total National Aeronautics and Space Administration		<u>626,425</u>
US Department of Veteran Affairs	64.RD	<u>32,347</u>
US Department of Commerce:		
Department of Commerce	11.RD	504,391
National Oceanic Atmospheric Administration	11.RD	7,159
Pass-through programs from:		
Jardon and Howard Technologies, Inc.	11.RD	131,566
Lumcon	11.RD	1,606
Organ Recovery Systems	11.RD	9,455
South Carolina Sea Grant Consortium	11.RD	59,658
South Carolina Department of Natural Resources	11.RD	105,582
Total US Department of Commerce		<u>819,417</u>
US Department of Agriculture:		
USDA/Coop. State Research, Education & Ext. Serv.	10.RD	<u>135,235</u>
Total US Department of Agriculture		<u>135,235</u>
US Department of Justice:		
Department of Justice	16.RD	143,272
Pass-through programs from:		
Lowcountry Children's Center	16.RD	39,583
South Carolina Department of Public Safety	16.RD	14,036
University of South Carolina	16.RD	(1,617)
Total US Department of Justice		<u>195,274</u>
US Department of the Interior	15.RD	<u>39,246</u>
US Department of Education:		
Office of the Assistant Secretary for Special Education	84.RD	390,519
Pass-through programs from:		
S.C. Department of Education	84.RD	15,287
Total US Department of Education		<u>405,806</u>
Total Research and Development		<u>112,419,276</u>
Student Financial Aid – Cluster:		
US Department of Education:		
Federal Perkins Loan Program	84.038	1,578,520
Federal Pell Grant Program	84.063	159,262
Federal Supplemental Educational Opportunity Grant	84.007	\$ 37,138

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Federal Work Study Program	84.033	390,944
Federal Family Education Loans	84.032	39,402,316
Total US Department of Education		41,568,180
US Department of Health and Human Services		
Health Professions Student Loans	93.342	949,777
Loans for Disadvantaged Students	93.342	128,356
Nurse Faculty Loan Program	93.264	115,822
Total US Department of Health and Human Services		1,193,955
Total Student Financial Aid		42,762,135
Other Programs:		
US Department of Health and Human Services:		
Agency for Healthcare Research and Quality	93.226	242,438
Health Resources and Services Administration	93.107	413,588
Health Resources and Services Administration	93.110	11,663
Health Resources and Services Administration	93.124	18,006
Health Resources and Services Administration	93.162	82,797
Health Resources and Services Administration	93.165	66,338
Health Resources and Services Administration	93.191	298,961
Health Resources and Services Administration	93.247	141,741
Health Resources and Services Administration	93.358	75,906
Health Resources and Services Administration	93.359	328,854
Health Resources and Services Administration	93.884	1,245,387
Health Resources and Services Administration	93.887	3,911,216
Health Resources and Services Administration	93.969	391,956
Health Resources and Services Administration	93.996	1,003,599
National Institute of Health	93.114	774
National Institute of Health	93.242	295,607
National Institute of Health	93.279	202,070
National Institute of Health	93.282	230,650
National Institute of Health	93.389	2,299,009
National Institute of Health	93.837	264,934
National Institute of Health	93.849	212,205
National Institute of Health	93.853	44,152
National Institute of Health	93.859	79,298
National Institute of Health	93.879	270,835
National Institute of Health	93.989	37,115
Office of the Secretary	93.004	291,353
Substance Abuse and Mental Health Services Administration	93.962	569,635
Pass-through programs from:		
Ambulatory Pediatric Association	93.999	52,390
American Medical Student Association Foundation	93.156	40,721
Association of Teachers of Preventative Medicine	93.185	178,000
Boston University	93.398	22,467
Family Resource Center	93.630	1,754
New York Academy of Medicine Library	93.999	47,077
Physician Micro Systems	93.226	229,003
Society of Teachers Family Medicine	93.999	8,475
South Carolina Area Health Education Centers	93.107	5,652
South Carolina Council on Aging	93.999	(99)
South Carolina Department of Health and Environmental Contro	93.003	6,666
South Carolina Department of Health and Environmental Contro	93.917	1,187,939
South Carolina Department of Health and Environmental Contro	93.945	4,322
South Carolina Department of Health and Environmental Contro	93.153	110,805
South Carolina Department of Health and Environmental Contro	93.994	7,613
South Carolina Department of Health and Human Services:	93.999	(25,409)
South Carolina Developmental Disabilities Council	93.630	(25,198)
South Carolina Developmental Disabilities Council	93.999	(16,424)
University of Maryland	93.999	37,331
University of South Carolina	93.398	10,000
Wayne State University	93.847	32,056

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal Grantors/Pass-through Grantors/Agencies or Cluster Title	Federal CFDA Number	Expenditures
Total US Department of Health and Human Services		\$ 14,945,228
US Department of Energy:		
Office of Science	81.049	101,356
Pass-through programs from:		
Tennessee State University	81.999	55,690
South Carolina Energy Office	81.041	20,000
South Carolina Universities Research and Education Foundation	81.114	104,984
Total US Department of Energy		<u>282,030</u>
National Science Foundation:		
National Science Foundation	47.074	7,830
National Science Foundation	47.076	533,370
Total National Science Foundation		<u>541,200</u>
US Department of Commerce:		
Measurement and Engineering Research and Standards	11.609	14,590,821
Total US Department of Commerce		<u>14,590,821</u>
US Department of Justice:		
Crime Victim/Assistance Discretionary Grants	16.582	(8,981)
Pass-through programs from:		
Church of the Holy Cross	16.999	279
South Carolina Department of Public Safety	16.588	56,538
South Carolina Department of Public Safety	16.582	3,245
South Carolina Department of Public Safety	16.523	(1,947)
South Carolina Department of Public Safety	16.575	45,757
South Carolina Office of Victims Assistance	16.582	428
Total US Department of Justice		<u>95,319</u>
US Department of Education:		
Graduate Assistance in Areas of National Need	84.200	187,643
Pass-through programs from:		
South Carolina Department of Health and Environmental Control	84.181	41,032
Family Resource Center	84.328	77,124
Total US Department of Education		<u>305,799</u>
US Department of Transportation:		
Pass-through programs from:		
Think First Foundation	20.999	15,512
Total US Department of Transportation		<u>15,512</u>
US Department of Veteran Affairs	64.999	\$ <u>127,534</u>
US Department of Homeland Security		
Pass-through programs from:		
South Carolina Emergency Preparedness Division	97.039	3,509
Total US Department of Homeland Security		<u>3,509</u>
Total Federal Award Expenditures		\$ <u><u>186,088,363</u></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, 2005

(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 \$5,796,983, \$6,488,660, \$379,223 and \$197,378 as of June 30, 2005.

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, 2005.

(4) Matching

Under the Federal Work Study (FWS) program, the University matched \$95,666 in total compensation for the year ended June 30, 2005 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 \$9,950 in funds awarded to students for the year ended June 30, 2005 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, 2005

(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		
Department of Commerce	11.RD	\$ 54,481
Pass-through programs from:		
South Carolina Sea Grant Consortium	11.RD	<u>15,722</u>
Total US Department of Commerce		<u>70,203</u>
US Department of Defense		
Department of Defense	12.RD	7,732
Pass-through programs from:		
Geo Centers	12.RD	<u>85,493</u>
Total US Department of Defense		<u>93,225</u>
National Aeronautics and Space Administration		
National Aeronautics and Space Administration	43.RD	104,668
Pass-through programs from:		
College of Charleston	43.RD	<u>17,385</u>
Total National Aeronautics and Space Administration		<u>122,053</u>
National Science Foundation		
National Science Foundation	47.RD	222,667
Pass-through programs from:		
South Carolina EPSCOR	47.RD	<u>6,569</u>
Total National Science Foundation		<u>229,236</u>
US Department of Energy		
Office of Science	81.RD	189,205
Office of the Environment	81.RD	<u>19,976</u>
Total US Department of Energy		<u>209,181</u>
US Department of Education		
Office of the Assistant Secretary for Special Education		<u>34,771</u>
Total US Department of Education	84.RD	<u>34,771</u>

THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal Granting Agency</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
US Department of Health and Human Services		
Administration for Children and Families	93.RD	\$ 23,851
Agency for Healthcare Research and Quality	93.226	102,718
Centers for Disease Control and Prevention	93.RD	455,158
Health Resources and Services Administration	93.107	341,152
Health Resources and Services Administration	93.191	3,440
Health Resources and Services Administration	93.969	28,372
Health Resources and Services Administration	93.996	468,830
National Institute of Health	93.RD	5,005,245
Substance Abuse and Mental Health Services Administration	93.RD	133,254
Pass-through programs from:		
Association of American Medical Colleges	93.RD	155,835
Association of Teachers of Preventive Medicine	93.185	111,887
South Carolina Biomedical Research Infrastructure	93.RD	22,925
South Carolina Department of Health and Environmental Control	93.917	107,977
University of California at San Diego	93.RD	39,155
University of South Carolina	93.RD	57,425
Total US Department of Health and Human Services		<u>7,057,224</u>
		\$ <u><u>7,815,893</u></u>



KPMG LLP
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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 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, 2005, which collectively comprise the University's basic financial statements and have issued our report thereon dated September 23, 2005, which included a reference to the reports of the other auditors. 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. The financial statements of University Medical Associates and Pharmaceutical Education and Development Foundation were not audited in accordance with *Government Auditing Standards*.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

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 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 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 grant agreements, 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 September 2, 2005 and September 23, 2005.

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 23, 2005



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 each of its major federal programs for the year ended June 30, 2005. The University's major federal programs are 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 each of its major federal programs 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 each of its major federal program for the year ended June 30, 2005, other than those requirements discussed in the following paragraph.

We did not audit the University's compliance with requirements governing maintaining contact with and billing borrowers and processing deferment and cancellation requests and payments for the Federal Perkins Loan Program, the Health Professions Loan Programs, Loans for Disadvantaged Students and the Nurse Faculty Loan programs. Those requirements govern functions that are performed by Educational Computer Systems, Inc (ECSI). Since we did not apply auditing procedures to satisfy ourselves as to the compliance with those requirements, the scope of our work was not sufficient to enable us to express, and we do not express an opinion, on compliance with those requirements.

ECSI's compliance with the requirements governing the functions that they perform for the University were examined by other accountants whose report has been furnished to us. The report of the other accountants indicates that compliance with those requirements was examined in accordance with the Department of Education's Audit Guide, *Compliance Audits of Federal Student Financial Assistance Programs at Participating Institutions and Institution Servicers*. Based on our review of the service organization's accountants' report, we have determined that all of the compliance requirements included in the Compliance Supplement that are applicable to the Student Financial Aid program in which the University participates are addressed in either our report or the report of the service organization's accountants. Further, based on our review of the service organization's accountants' report, we have determined that it does not contain any finding or noncompliance that would have a direct and material effect on the University's Student Financial Aid program.

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 caused by error or fraud 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 financial statements of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the University, a department of the State of South Carolina, as of and for the year ended June 30, 2005, and have issued our report dated September 23, 2005, which included a reference to the reports of other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. 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

September 23, 2005

