THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

OMB Circular A-133 Reports

Year ended June 30, 2006

(With Independent Auditors' Reports Thereon)

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State of South Carolina

Office of the State Auditor

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February 6, 2007

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, 2006, 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, 2006, issued by KPMG, LLP, Certified Public Accountants, dated September 22, 2006.

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

Respectfully submitted,

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Research and Development – Cluster:		
U.S. Department of Agriculture:		
Direct programs:		
Coop State Research, Education & Ext Services	10.RD	$ 260,050
Total U.S. Department of Agriculture		260,050
U.S. Department of Commerce:		
Direct programs:		
Department of Commerce – Other Federal	11.RD	348,005
National Oceanic Atmospheric Administration	11.RD	531
		348,536
Passed-through programs:		
SC Department of Natural Resources	11.RD	5,200
South Carolina Sea Grant Consortium	11.RD	8,464
South Carolina Department of Natural Resources	11.RD	105,365
South Carolina Department of Natural Resources	11.RD	46,625
South Carolina Department of Natural Resources	11.RD	1,794
Mystic Acquarium	11.RD	21,807
Jardon and Howard Technologies, Inc.	11.RD	27,694
		216,949
Total U.S. Department of Commerce		565,485
U.S. Department of Defense:		
Direct programs:		
Office of Naval Research	12.RD	373,910
United States Navy	12.RD	(1,419)
Office Naval Research	12.RD	25,554
Dept of Army, Army Research & Material Command	12.RD	2,766,218
Army Research Office	12.RD	230,235
Office of the Secretary of Defense	12.RD	225,028
Department of Defense-Other Federal	12.RD	30,785
		3,650,311
Passed-through programs:		
GEO Centers	12.RD	2,052,190
Science Applications International Corporation	12.RD	1,452,866
General Electric	12.RD	532,081
University of Virginia	12.RD	52,594
		4,089,731
Total U.S. Department of Defense		7,740,042
U.S. Department of the Interior:		
Direct program:		
U.S. Department of the Interior	15.RD	6,471
U.S. Department of Justice:		
Direct programs:		
Department of Justice-Other Federal	16.RD	387,199
Bureau of Justice	16.RD	16,336
		403,535
Passed-through programs:		

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
LowCountry Children's Center	16.RD	$ 3,802
Dee Norton Lowcountry Children's Center	16.RD	3,184
		6,986
Total U.S. Department of Justice		410,521
National Aeronautics and Space Administration		
Direct program:		
National Aeronautics and Space Administration	43.RD	317,821
Passed-through programs:		
College of Charleston	43.RD	339,798
Clemson University	43.RD	4,570
		344,368
Total National Aeronautics and Space Administration		662,189
National Science Foundation:		
Direct programs:		
National Science Foundation	47.RD	458
National Science Foundation	47.RD	313,278
National Science Foundation	47.RD	20,747
		334,483
Passed-through programs:	47.RD	
Massachusetts Eye and Ear Infirmary	47.RD	17,681
University of Missouri-Columbia	47.RD	138,304
South Carolina Research Authority	47.RD	868,718
		1,024,703
Total National Science Foundation		1,359,186
U.S. Department of Veteran Affairs:		
Direct program:		
Veterans Administration Medical Center	64.RD	147,261
Total U.S. Department of Veteran Affairs		147,261
Environmental Protection Agency:		
Direct programs:		
Environmental Protection Agency-Other Federal	66.RD	16,672
Office of Research and Development	66.RD	4,385
Environmental Protection Agency-Other Federal	66.RD	39,649
Environmental Protection Agency-Other Federal	66.RD	59,780
Total Environmental Protection Agency		120,486
U.S. Department of Energy:		
Direct programs:		
Department of Energy	81.RD	275,999
Office of Science	81.RD	1,544,075
Office of the Environment	81.RD	188,159
		2,008,233

(Continued)

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Passed-through programs:		
South Carolina Universities Research and Education Foundation	81.RD	$ 2,151,356
SC Universities Research and Education Foundation	81.RD	(8,958)
		2,142,398
Total U.S. Department of Energy		4,150,631
U.S. Department of Education:		
Direct programs:		
Office of the Assistant Secretary for Special Education	84.RD	312,951
Office of Special Education and Rehabilitative	84.RD	141,282
		454,233
Passed-through program:		
South Carolina Department of Education	84.RD	54,140
Total U.S. Department of Education		508,373
U.S. Department of Health and Human Services:		
Direct programs:		
Food and Drug Administration	93.RD	290,688
National Institutes of Health	93.RD	841,803
National Institutes of Health	93.RD	2,168,476
Health Resources and Services Administration	93.RD	168,970
Center for Disease Control	93.RD	428,938
National Institutes of Health	93.RD	2,842,805
National Institutes of Health	93.RD	172,723
Agency for Healthcare Research and Quality	93.RD	193,209
Agency for Healthcare Research and Quality	93.RD	1,207,755
National Institutes of Health	93.RD	3,738,987
Substance Abuse and Mental Health Services Admin	93.RD	135,877
National Institutes of Health	93.RD	150,129
National Institutes of Health	93.RD	231,214
National Institutes of Health	93.RD	3,488,600
National Institutes of Health	93.RD	9,483,842
National Institutes of Health	93.RD	436,341
National Institutes of Health	93.RD	210,287
Centers for Disease Control	93.RD	2,044,335
National Institutes of Health	93.RD	727,553
Health Resources and Services Administration	93.RD	172,060
National Institutes of Health	93.RD	29,500
National Institutes of Health	93.RD	7,963,878
National Institutes of Health	93.RD	736,066
National Institutes of Health	93.RD	18,437
National Cancer Institute	93.RD	271,150
National Surgical Adjunct Breast and Bowel	93.RD	208
National Institutes of Health	93.RD	4,239,558
National Institutes of Health	93.RD	2,676,307
National Institutes of Health	93.RD	341,426
National Institutes of Health	93.RD	901,349
National Surgical Adjunct	93.RD	5,602
Administration for Children and Families	93.RD	42,409
Administration for Children and Families	93.RD	54,314
National Institutes of Health	93.RD	10,035,884
National Institutes of Health	93.RD	$ 707,699

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
National Institutes of Health	93.RD	1,188,575
National Institutes of Health	93.RD	2,629,769
National Institutes of Health	93.RD	1,343,593
National Institutes of Health	93.RD	760,328
National Institutes of Health	93.RD	1,724,011
National Institutes of Health	93.RD	3,413,787
National Institutes of Health	93.RD	654,492
National Institutes of Health	93.RD	842,706
National Institutes of Health	93.RD	2,740,203
National Institutes of Health	93.RD	2,992,102
National Institutes of Health	93.RD	2,819,729
National Institute on Aging	93.RD	939,796
National Institutes of Health	93.RD	2,151,641
Health Resources and Services Administration	93.RD	451,116
National Institutes of Health	93.RD	1,696,392
National Institutes of Health	93.RD	123,739
Centers for Disease Control and Prevention	93.RD	949,119
Health Resources and Services Administration	93.RD	37,237
National Institutes of Health	93.RD	9,000
Office of the Secretary	93.RD	410,749
National Institutes of Health	93.RD	2,543,613
		87,580,076
Passed-through programs:		
University of South Carolina	93.RD	4
Johns Hopkins University	93.RD	13,892
Duke University	93.RD	(2,169)
LifePoint	93.RD	106
South Carolina Department of Health and Environmental Control	93.RD	29,390
Audiology, Inc.	93.RD	47,423
Advanced Cochlear Systems	93.RD	25,020
South Carolina Department of Health and Environmental Control	93.RD	5,169
University of Maryland	93.RD	(130)
University of Washington at Seattle	93.RD	67,805
Virginia Commonwealth University	93.RD	19,058
New Jersey Medical School	93.RD	61,216
Mayo Clinic of Rochester	93.RD	187,673
University of Tennessee	93.RD	148,143
Emory University	93.RD	211,263
Argolyn Bioscience, Inc.	93.RD	116,695
University of Maryland	93.RD	(986)
University of Texas Southwestern Medical Center	93.RD	(312)
University of Texas	93.RD	14,630
Albert Einstein College of Medicine Yeshiva University	93.RD	21,753
University of Illinois at Chicago	93.RD	28,405
University of British Columbia	93.RD	31,131
University of Colorado	93.RD	3,183
Yale University	93.RD	133,454
Research Triangle Institute	93.RD	63,789
University of Southern California	93.RD	8,257
University of Kentucky	93.RD	37,936
University of Pennsylvania	93.RD	$ 38,117
American Academy of Child and Adolescent Psychiatry	93.RD	139,175
University of Texas	93.RD	4,177

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
American Psychiatric Institute for Research & Education	93.RD	60,883
American Assocation of Medical Colleges	93.RD	651,686
Greenwood Genetic Center	93.RD	121,986
University of South Carolina	93.RD	73,077
South Carolina Sea Grant Consortium	93.RD	13,121
University of Georgia	93.RD	55,319
University of South Carolina	93.RD	10,911
Texas Southern University	93.RD	47,155
Case Western Reserve University	93.RD	9,057
University of South Carolina	93.RD	53,379
SC EPSCOR – SC Experimental Prgm to Stimulate Competitive Rsrch	93.RD	97,349
South Carolina Research Authority	93.RD	342,495
Cell Tissue Systems, Inc.	93.RD	3,161
Children's Hospital Medical Center	93.RD	34,375
University of Arizona	93.RD	226
Mayo Clinic of Jacksonville	93.RD	177,581
American College of Radiology Imaging Network	93.RD	386,382
University of Pittsburgh	93.RD	26,738
South West Oncology Group	93.RD	38,887
National Childhood Cancer Foundation	93.RD	89,103
Virginia Commonwealth University	93.RD	16,703
Gynecologic Oncology Group	93.RD	31,343
American College of Radiology	93.RD	12,719
University of South Carolina	93.RD	13,114
Henry Ford Health System	93.RD	10,100
University of Massachusetts	93.RD	58,073
Yale University	93.RD	42,117
University of South Carolina	93.RD	191,105
University of Rochester	93.RD	445
University of Louisville	93.RD	18,352
Cell Tissue Systems, Inc.	93.RD	3,086
University of Florida	93.RD	20,242
Organ Recovery Systems	93.RD	30,564
Indiana University	93.RD	31,567
Seattle Institute for Cardiac Research	93.RD	6,592
Duke University	93.RD	37,075
University of Oklahoma	93.RD	8,665
University of Florida	93.RD	87,506
University of Colorado	93.RD	925
University of Alabama at Birmingham	93.RD	1,314
St. Jude Medical, Inc.	93.RD	62,469
Medical College of Georgia	93.RD	871
Virginia Commonwealth University	93.RD	14,962
University of Alabama at Birmingham	93.RD	55,767
University of Colorado	93.RD	50,795
University of Pittsburgh	93.RD	121,758
Organ Recovery Systems	93.RD	92
Benaroya Research Institute at Virginia Mason	93.RD	64,801
Massachusettes General Hospital	93.RD	2,232
Taligen, Inc.	93.RD	35,142
Children's Hospital of Pennsylvania	93.RD	$ 10,728
University of North Carolina	93.RD	259,215
University of Arizona	93.RD	24,820
University of Texas Southwestern Medical Center	93.RD	4,966

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
University of Pittsburgh	93.RD	8,762
University of Michigan	93.RD	6,359
National Institute Neurological Disorders & Stroke	93.RD	1,245,205
New Jersey Medical School	93.RD	59,715
Mount Sinai Medical Center	93.RD	65,053
Johns Hopkins University	93.RD	505
Case Western Reserve University	93.RD	23,070
University of Cincinnati	93.RD	4,136
University of Miami	93.RD	5,708
Brigham and Women's Hospital	93.RD	5,038
University of North Carolina	93.RD	65,297
Texas A and M Research Foundation	93.RD	21,786
University of Texas	93.RD	3,729
South Carolina State University	93.RD	62,216
Children's Hospital Research Foundation	93.RD	129,616
Organ Recovery Systems	93.RD	307
Milton S. Hershey Medical Center, Pennsylvania State University	93.RD	2,010
University of Connecticut	93.RD	13,705
University of South Florida	93.RD	162,486
University of California at San Diego	93.RD	231,264
Research Foundation for Mental Hygiene, Inc.	93.RD	161,457
University of South Alabama	93.RD	(575)
Columbia University	93.RD	475
Georgetown University	93.RD	5,755
University of Texas	93.RD	(10,092)
Taligen, Inc.	93.RD	1,486
Duke University	93.RD	22,386
Emory University	93.RD	12,674
South Carolina Department of Health and Environmental Control	93.RD	26,773
Case Western Reserve University	93.RD	149,141
Duke Clinical Research Institute	93.RD	(1,481)
University of Tennessee	93.RD	48
University of Pittsburgh	93.RD	200
Memorial Sloan-Kettering Cancer Center	93.RD	643
University of North Carolina at Chapel Hill	93.RD	2,260
Duke University	93.RD	15,095
Kunitz and Associates, Inc.	93.RD	31,091
University of California at San Diego	93.RD	12,342
University of Maryland	93.RD	12,479
		7,634,487
Total US Department of Health and Human Services		95,214,563
Total Research and Development		111,145,258

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Student Financial Aid – Cluster:		
U.S. Department of Education:		
Direct programs:		
Federal Supplemental Educational Opportunity Grants	84.007	$ 20,949
Federal Family Education Loans	84.032	42,954,919
Federal Work-Study Program	84.033	412,272
Federal Perkins Loan Program	84.038	1,601,728
Federal Pell Grant Program	84.063	57,228
Total U.S. Department of Education		45,047,096
US Department of Health and Human Services		
Health Professions Student Loans	93.342	900,455
Loans for Disadvantaged Students	93.342	61,802
Nurse Faculty Loan Program	93.264	153,796
Total US Department of Health and Human Services		1,116,053
Total Student Financial Aid		46,163,149
Other Programs:		
U.S. Department of Agriculture:		
Direct program:		
US Department Of Agriculture-Other Federal (USDA)	10.206	2,305
Total U.S. Department of Agriculture		2,305
U.S. Department of Commerce:		
Direct program:		
U.S. Department of Commerce	11.617	5,621,122
Total U.S. Department of Commerce		5,621,122
U.S. Department of Defense:		
Direct program:		
U.S. Department of Defense	12.400	110,517
Passed-through program:		
American Nuclear Society	12.999	528
Total U.S. Department of Defense		111,045
U.S. Department of Justice:		
Passed-through programs:		
South Carolina State Office of Victims Assistance	16.582	2,608
South Carolina Department of Public Safety	16.588	170,525
Church of the Holy Cross	16.999	1,553
		174,686
Total U.S. Department of Justice		174,686
U.S. Department of Transportation:		
Passed-through program:		
Think First Foundation	20.999	17,909
Total U.S. Department of Transportation		17,909
Office of Personnel Management:		
Direct program:		
Michael E. Debakey VA Medical Center	27.011	31,449
Total Office of Personnel Management		31,449

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
National Aeronautics and Space Administration:		
Passed-through program:		
College of Charleston	43.001	$ 769
Total National Aeronautics and Space Administration		769
National Science Foundation:		
Direct programs:		
National Science Foundation	47.074	3,920
National Science Foundation	47.076	56,586
		60,506
Total National Science Foundation		60,506
U.S. Department of Veteran Affairs:		
Direct program:		
Veteran's Administration Medical Center	64.999	128,700
Total U.S. Department of Veteran Affairs		128,700
Environmental Protection Agency:		
Passed-through program:		
National Environmental Education and Training Foundation, Inc.	66.609	1,666
Total Environmental Protection Agency		1,666
U.S. Department of Energy:		
Direct program:		
U.S. Department of Energy	81.049	(219,890)
Passed-through programs:		
South Carolina Universities Research and Education Foundation	81.114	133,054
Tennessee State University	81.999	58,389
		191,443
Total U.S. Department of Energy		(28,447)
U.S. Department of Education:		
Direct program:		
Office of the Assistant for Postsecondary Education	84.200	175,929
Passed-through programs:		
South Carolina Department of Health and Environmental Control	84.181	44,438
Family Resource Center	84.328	(107)
		44,331
Total U.S. Department of Education		220,260
U.S. Department of Health and Human Services:		
Direct programs:		
Health Resources and Services Administration	93.004	644,642
Health Resources and Services Administration	93.107	352,139
Health Resources and Services Administration	93.110	15,753
Health Resources and Services Administration	93.124	17,105
Health Resources and Services Administration	93.162	78,568
Health Resources and Services Administration	93.165	21,250
Health Resources and Services Administration	93.191	322,112
Agency for Healthcare Research and Quality	93.226	175,183
National Institutes of Health	93.242	336,195

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Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Federal grantor/pass-through grantor/program title	Federal CFDA number	Federal expenditures
Substance Abuse & Mental Health Services Administration	93.243	$ 701,756
Health Resources and Services Administration	93.247	203,738
Health Resources and Services Administration	93.265	48,336
National Institutes of Health	93.279	251,875
National Institutes of Health	93.282	18,559
Health Resources and Services Administration	93.358	84,762
Health Resources and Services Administration	93.359	292,292
National Institutes of Health	93.389	3,620,969
National Institutes of Health	93.837	230,506
National Institutes of Health	93.849	339,522
National Institutes of Health	93.853	36,155
National Institutes of Health	93.859	82,739
National Institutes of Health	93.879	323,892
Health Resources and Services Administration	93.884	949,648
Health Resources and Services Administration	93.887	4,103,112
Health Resources and Services Administration	93.969	290,263
Health Resources and Services Administration	93.996	1,201,556
		14,742,627
Passed-through programs:		
South Carolina Department of Health and Environmental Control	93.153	140,516
American Medical Student Association Foundation	93.156	8,713
Association of Teachers of Preventive Medicine	93.185	235,977
Physician Micro Systems, Inc.	93.226	284,470
Palmetto Project	93.252	41,407
SC EPSCOR – SC Experimental Prgm to Stimulate Competitive Rsrch	93.389	6,396
University of South Carolina	93.389	7,350
Boston University	93.398	20,600
South Carolina Developmental Disabilities Council	93.630	(14,241)
Wayne State University	93.847	47,170
South Carolina Department of Health and Environmental Control	93.917	1,117,436
South Carolina Department of Health and Environmental Control	93.994	25,498
AME Health Ministry	93.999	3,064
University of Maryland	93.999	22,051
New York Academy of Medicine Library	93.999	35,217
Ambulatory Pediatric Association	93.999	77,990
		2,059,614
Total U.S. Department of Health and Human Services		16,802,241
U.S. Department of Homeland Security:		
Pass-through program:		
South Carolina Emergency Preparedness Division	97.039	452,292
Total U.S. Department of Homeland Security		452,292
Total federal expenditures		$ 180,904,910

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Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

(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 $5,695,927, $6,397,438, $325,520 and $350,580, respectively as of June 30, 2006.

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, 2006.

(4) Matching

Under the Federal Work Study (FWS) program, the University matched $97,424 in total compensation for the year ended June 30, 2006 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 $5,209 in funds awarded to students for the year ended June 30, 2006 in addition to the federal share of expenditures in the accompanying schedule of expenditures of federal awards.

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(5) Subrecipients

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

Federal Granting Agency	Federal CFDA Number	Amount Provided to Subrecipients
U.S. Department of Commerce		
Department of Commerce	11.RD	$ 101,135
Total U.S. Department of Commerce		101,135
U.S. Department of Defense		
Department of Defense	12.RD	788,556
Total U.S. Department of Defense		788,556
U.S. Department of Justice		
U.S. Department of Justice	16.RD	289,586
Total U.S. Department of Justice		289,586
National Aeronautics and Space Administration		
National Aeronautics and Space Administration	43.RD	72,758
Pass-through programs from:		
Clemson University	43.RD	5,161
South Carolina Research Authority	43.RD	33,780
University of South Carolina	43.RD	12,500
Total National Aeronautics and Space Administration		124,200
National Science Foundation		
National Science Foundation	47.RD	40,708
Total National Science Foundation		40,708
U.S. Department of Energy		
Office of Science	81.RD	155,971
Office of the Nuclear Energy	81.RD	87,767
Pass-through programs from:		
Clemson University	81.RD	55,000
University of Texas at Austin	81.RD	95,000
Washington State University	81.RD	75,000
Total U.S. Department of Energy		468,738

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

Office of the Assistant Secretary for Special Education	84.RD		26,453
Total U.S. Department of Education			26,453
U.S. Department of Health and Human Services			
Administration for Children and Families	93.RD	$	4,035
National Institute of Health	93.RD		3,835,713
Agency for Healthcare Research and Quality	93.RD		86,206
Office of the Secretary	93.RD		35,494
Centers for Disease Control and Prevention	93.RD		783,988
Health Resources and Services Administration	93.107		285,780
Health Resources and Services Administration	93.191		4,783
National Institute of Health	93.242		170,111
Substance Abuse and Metal Health Services Administration	93.243		73,772
Health Resources and Services Administration	93.969		17,616
Health Resources and Services Administration	93.996		560,376
Pass-through programs from:			
Epilepsy Foundation of South Carolina	93.RD		12,636
Practice of Eppileptolgy and Neurology	93.RD		6,450
South Carolina Budget and Control Board	93.RD		3,615
University of South Florida	93.RD		119,989
Lowcountry Aids Service	93.RD		84,896
University of South Carolina	93.RD		4,536
American Acedemy of Pediatrics	93.185		91,392
National Medical Association Inc.	93.185		30,735
University of Washington	93.185		14,855
Total U.S. Department of Health and Human Services			6,226,975
		$	8,117,716

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

Mr. Richard H. Gilbert, Jr., CPA
Interim 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, 2006, which collectively comprise the University's basic financial statements, and have issued our report thereon dated September 22, 2006, 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 the Health Sciences Foundation and the MUSC Foundation for Research Development, discretely presented component units, 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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 the 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 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

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results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management of the University in a separate letter dated September 22, 2006.

This report is intended solely for the information and use of the State Auditor, board of trustees, management, and the 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 22, 2006

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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. Richard H. Gilbert, Jr., CPA
Interim 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, 2006. The University's major federal programs are identified in the summary of auditor's 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.

The University's basic financial statements include the operations of the Medical University Hospital Authority (the Authority), which received $422,408,199 in federal awards which is not included in the Schedule of Expenditures of Federal Awards during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Authority because the Authority's federal awards are separately audited in accordance with OMB Circular A-133.

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 considered 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 programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 06-01 and 06-02.

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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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 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 the 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, 2006, and have issued our report thereon dated September 22, 2006, 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, board of trustees, management, and the 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

December 15, 2006

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THE MEDICAL UNIVERSITY OF SOUTH CAROLINA

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(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, see findings below**

(g) Major Federal programs: **Research and Development cluster (various CFDA numbers), Congressionally-identified Projects (CFDA 11.617) and National Center for Research Resources (CFDA 93.389)**

(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: **Yes**

(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. 06-01: 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 2006, there was a financial report which was not submitted in a timely manner. Out of the 30 grants selected for testwork, we noted one grant for which reports were not submitted in a timely manner. The federal cash transaction report was due January 15, 2006; however, due to administrative oversight, the federal cash transaction report was not submitted until May 22, 2006 which was 127 days after its due date.

Cause:
Administrative oversight.

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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 Response:
We concur with the condition as stated. Also as stated, the cause for the late report was an administrative oversight. We do maintain and distribute to management and the grants administrators on a monthly basis a listing of reports and the due dates of these reports. Therefore, we believe that our current system is adequate for monitoring our due dates. However, we will re-emphasize to the managers, as well as the grants administrators, to more closely monitor these reports in order to prevent future oversights.

Finding No. 06-02: Allowable Costs – Research and Development

Federal Program

Research and Development Cluster

Criteria:
Federal regulations require that recipients review costs to ensure that they conform to the cost provisions of A-21 or the program agreement limitations.

Condition:
We reviewed a sample of 57 expenditures incurred during FY 2006. We noted that the total research and development expenditures tested were $660,259 out of a total of $111,145,264 expenditures. Of the 57 expenditures tested, we noted that total allowable costs were incorrect on one of the 57 expenditures tested. The unallowed expenditure was included in an invoice totaling $180 which consisted of $137 for wave toothbrushes and $43 for Scott C-fold towels. Upon review of the grant agreement, we noted that the towels were an allowable expenditure; however, the toothbrushes were not which resulted in an overaward of $137 in research and development expenditures.

Cause:
Administrative oversight.

Questioned Costs:
$137

Recommendation:
We recommend that the University implement a formal review process to ensure that all grant administrators are aware of the cost provisions of A-21 or the program agreement limitations to ensure that research and development expenditures meet allowable cost provisions.

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Management Response:
We concur with the condition as stated and have transferred the charges from the sponsored award to an unrestricted University account.

KPMG recommended that the University implement a formal review process. We already have in place a formal review process that the grants administrators perform to ensure that expenditures meet the allowable cost provisions of the award and OMB Circular A-21. For this particular award, the A-133 audit occurred prior to our scheduled review of the expenditures on this award. We are confident that our review process would have disclosed the unallowable charge. Because of the volume of transactions processed on research and development awards, it is not feasible for the grants administrators in the central office to review and approve each transaction. Therefore, we provide continuous training relating to allowability at the departmental level where the charges are originally initiated. We will continue to reinforce during our training the importance of ensuring that only those costs which are allowable be charged to research and development awards.

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