

# A Review of the Medical University of South Carolina and University Medical Associates

As requested by members of the General Assembly, we conducted an audit of the Medical University of South Carolina (MUSC) and University Medical Associates (UMA) — the practice plan for faculty in the College of Medicine. Our focus was the relationship between MUSC and UMA, UMA's organization, and financial issues relating to MUSC and UMA.

Our findings raise questions about the degree of independence of UMA and address issues relating to MUSC's accountability for the expenditure of public funds.

## MUSC'S RELATIONSHIP WITH UMA

UMA is a nonprofit corporation whose members are the faculty physicians of the MUSC College of Medicine. UMA is governed by a board primarily composed of MUSC College of Medicine faculty and administrators. In addition to operating the practices of MUSC's physicians, UMA has established three for-profit corporations. These corporations were set up to expand MUSC's network of physicians so that MUSC might effectively compete for business. These corporations have operated at a loss.

We reviewed the relationship between MUSC and UMA and

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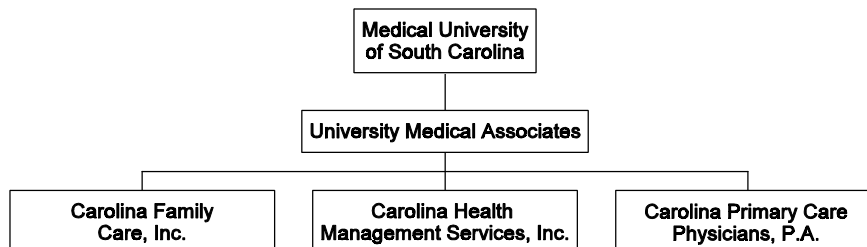
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found that it is not clear whether UMA could legally be considered as acting separately from MUSC. One important factor in defining the relationship between the two organizations is the level of control MUSC exercises over UMA.

We noted that the MUSC board of trustees must approve all changes to UMA's bylaws, and UMA's assets would revert to MUSC upon UMA's dissolution. The two organizations have a blended relationship in which UMA's employees and funds are often not separated from those of MUSC. For example, MUSC employees are sometimes supervised by UMA employees and vice versa, and UMA often expends funds at the request of MUSC employees. The blended relationship allows MUSC to use UMA to advance its mission. However, it also allows MUSC to avoid accountability for the use of public funds. If UMA acts for the state, it would be subject to some state restrictions on spending and limitations on its corporate structure:

- The Freedom of Information Act would apply to its records.
- UMA's expenditures would have to serve a public purpose.
- UMA could not make political contributions.
- UMA could not act through for-profit subsidiaries.

As an alternative, UMA's for-profit corporations could be restructured into nonprofit organizations, or UMA could establish contractual relationships with outside providers.



## FINANCIAL ISSUES

### *D*iscretionary Fund Expenditures

MUSC's expenditures of discretionary funds for meals, entertainment, and contributions raised questions about the prudent use of resources. Even though a 1997 MUSC internal audit questioned whether many MUSC discretionary fund expenditures were appropriate, we found no evidence that MUSC changed its spending practices in response to this review.

In our sample of over \$262,000 in expenditures from January to June 1998 there were many expenditures that may be in violation of state law. For example, MUSC regularly buys meals and funds social events for small groups of employees, students, and alumni. Many of these expenditures may not be perceived by taxpayers as a prudent use of resources and are an inappropriate use of public funds. Also, many transactions lacked adequate documentation to identify the purpose of the events or who attended them.

#### Excessive and/or Unnecessary Discretionary Fund Expenditures January – June 1998

Description of Expenditure	Amount
Banquet dinner for MUSC's board of visitors and board of trustees at the Embassy Suites Hotel (includes over \$1,250 for 56 bottles of wine and \$519 in liquor)	\$9,389.46
Reimbursement that primarily included drinks, flowers, candles, etc., for donor receptions, as well as candy for the spouses of the board of trustees	\$355.89
Dinner for MUSC's board of trustees and guests (doesn't include \$945 gratuity)	\$4,760.01
Dinner for MUSC's board of visitors (includes \$1,091 for alcoholic beverages)	\$4,633.32
Caribbean cruise (8 days/7 nights) for a resident to learn about Attention Deficit and Hyperactivity Disorder	\$1,500.00
Dinner at the Middleton Place Landmark for MUSC's board of trustees (includes \$646 in liquor and \$525 gratuity)	\$4,094.02
Luncheon and dinner banquets for "Golden Grads" and trustees on May 14, 1998	\$12,748.30
Catering and lodging for diversity workshop for residents at the Wild Dunes Resort, April 3-4, 1998	\$6,877.92
Two banquets at the Harbour Club — \$10,150 for commencement dinner (includes over \$2,900 for alcoholic beverages) and \$550 for breakfast fund-raiser	\$10,699.37
Breakfast for Doctor's Day	\$4,710.68

### *C*ontributions

Our review of MUSC's and UMA's contributions to outside organizations revealed that both organizations regularly made contributions. In FY 97-98, most of MUSC's contributions were made through UMA.

Some of the contributions were not appropriate expenditures of public funds, because they were made to organizations that are religious or sectarian in nature, or to civic organizations whose benefits extend only to members. Also, some contributions did not appear to relate directly to MUSC's mission.

#### Contributions Made By MUSC and UMA

Contributing Organization	FY 96-97	FY 97-98
MUSC	\$133,592	\$6,103
UMA	\$378,401	\$809,750
UMA's Subsidiaries	\$9,100	\$35,925
<b>TOTAL</b>	<b>\$521,093</b>	<b>\$851,778</b>

#### Contributions Made By UMA's Subsidiaries

Type of Contribution	FY 96-97	FY 97-98	TOTAL
Political Campaigns	\$7,100	\$35,550	\$42,650
Non-political	\$2,000	\$375	\$2,375
<b>TOTAL</b>	<b>\$9,100</b>	<b>\$35,925</b>	<b>\$45,025</b>

We also found that MUSC and UMA officials requested political contributions to be made through one of UMA's subsidiary corporations. These political contributions, which amounted to \$42,000, presented the appearance of impropriety, as South Carolina Code §8-13-1346 states that no public resources are to be used to influence the outcome of elections.

## UMA's Expenditures and Revenues

The majority of UMA's expenditures are for salaries. We also reviewed UMA's expenditures for meetings, conferences, dinners, travel, recruitment, and gifts. According to a UMA official, MUSC increasingly channels its expenditures through UMA in these categories. UMA frequently makes expenditures for meals, parties, and gifts for individuals or small groups of MUSC/UMA employees. If UMA were found to be acting for the state, many of these expenditures would be an inappropriate use of public funds.

We reviewed UMA's revenues and found that its major source of revenue (85%) is from services provided to patients. Over the past five fiscal years, UMA's total revenues have been generally increasing.

### UMA's College of Medicine Expenditures in Four Accounts

Category of Expense	FY 96-97	FY 97-98	2-Year TOTAL
Meetings, Conferences, and Dinners	\$1,228,545	\$1,223,758	\$2,452,303
Travel	\$433,393	\$449,859	\$883,252
Recruitment	\$229,605	\$295,445	\$525,050
Gifts	\$35,756	\$16,215	\$51,971
<b>TOTAL</b>	<b>\$1,927,299</b>	<b>\$1,985,277</b>	<b>\$3,912,576</b>

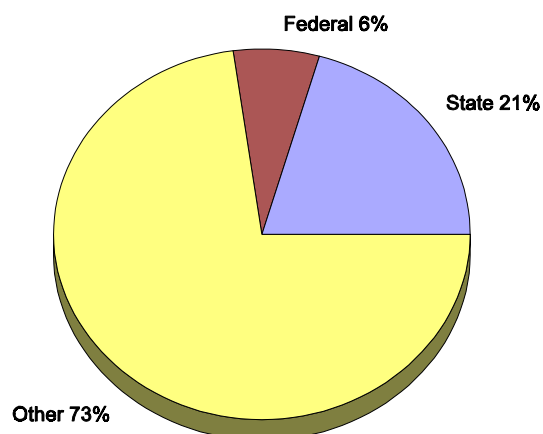
### Descriptions of UMA Expenditures — FY 97-98

Description of Expenditure	Amount
Catering fee for residents' graduation dinner	\$4,004.00
Catering fee for residents' year-end gathering	\$1,767.80
Alcohol (and bartending fee) for alumni cultivation reception	\$1,324.79
Retirement ceremony at the Harbour Club for two doctors	\$3,158.79
Retirement reception for one doctor	\$7,419.11
Chief residents' banquet at the Country Club of Charleston	\$4,939.50
Catering fee for one department's holiday party	\$7,281.00
Department Christmas party at the Harbour Club	\$14,825.69
Farewell dinner for hospital CEO (costing over \$93 per person)	\$7,282.13
Dean's reception for 1998 graduating class and their parents	\$6,095.00
Hospital CEO's trip to Washington, D.C., for sitting for a painted portrait	\$1,214.40
Payment for babysitting service for new faculty member	\$100.00
Two bracelets — gifts for chief residents' wives	\$328.60
Christmas gifts for one department's staff	\$853.87
Christmas bonus for 42 employees of one department	\$1,050.00
Special-ordered MUSC trays for the MUSC board of trustees	\$1,532.00
Reimbursement for 1997 Christmas gifts for residents	\$308.91
Payment for 30 fruit boxes to be given to referring physicians	\$660.00

## MUSC's Funding

MUSC's annual budget is more than \$600 million, with the primary source of revenue coming from patient fees at the medical center. State and federal sources of income comprised 27% of MUSC's revenues for FY 97-98. In contrast, ten years ago about 45% of MUSC's revenues were from state and federal sources.

The state portion of MUSC's revenues (21%) is, however, greater than the average at other medical schools. The 74 U.S. public medical schools reported in a published survey that they received an average of 16% of their revenues from state and local government appropriations in FY 96-97.



'Other' is primarily revenue from patient services, but also includes medicaid disproportionate share, private grants and contracts, and student tuition and fees.

# ADMINISTRATIVE ISSUES AT MUSC

## Compensation

The compensation of most MUSC faculty is composed of a state salary and an incentive amount from UMA from patient care revenues. In addition to state benefits, eligible faculty receive separate retirement and insurance benefits from UMA on their compensation from the practice plan. We also identified 19 MUSC administrators who received salary supplements from UMA for FY 96-97 and/or FY 97-98.

MUSC uses national norms to set salaries for faculty. It is MUSC's policy that salaries should generally fall between the 20th and 80th percentiles of salaries reported to the Association of American Medical Colleges (AAMC). We found MUSC was generally in compliance with state requirements and its own policies. However, only half of MUSC employees reported their salary supplements to the Budget and Control Board as required by law.

## Airplane Operations

MUSC owns one aircraft (MedAir) that is used to provide transportation for staff to outreach clinics and for administrative travel. We did not find evidence of improper use of MedAir. However, MedAir is expensive to operate, and the university should consider less costly transportation alternatives.

of these costs, but for FY 97-98 we estimate that MUSC did not recoup more than \$214,000 of its overall costs of \$361,359.

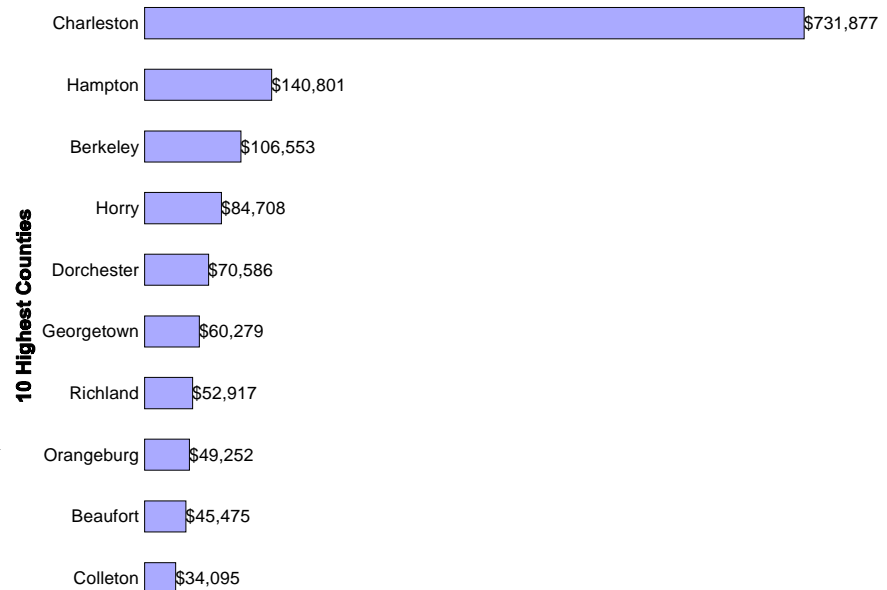
The total cost of operating MedAir is more than \$300,000 per year. MUSC internally bills passengers' departments for some

Individual flights, such as one flight from Florence to Charleston for \$680, can be very costly compared to alternative transportation. If it continues to operate MedAir, MUSC could evaluate alternative staffing options. MedAir has two full-time pilots, although just one pilot usually flies the plane, which was used for 209 days in FY 97-98.

## Employee Discounts

As required by appropriations act provisos, MUSC has offered discounts on hospital services to all state employees. MUSC and UMA also provide discounts to other groups of employees and students. For FY 96-97 and FY 97-98, these discounts totaled more than \$3 million. We found that the discounts that MUSC offers to all state employees are used primarily by employees residing in the Charleston area. Also, MUSC needs to improve controls to ensure that members of the General Assembly do not receive discounts that are prohibited by law.

State Employee Discounts by Employee's County of Residence  
2-Year Benefit Amount



## Employment of Relatives

We did not find evidence of a significant nepotism problem at MUSC. However, the blended nature of MUSC and UMA can result in situations that violate the intent of state nepotism guidelines. We observed one example in which an MUSC personnel manager directly participated in the hiring of her own sister to work as a UMA accounting technician in the same department where she worked.

This document summarizes our full report, *A Review of the Medical University of South Carolina and University Medical Associates*. Copies of the full report and all LAC audits are available free of charge. Audit reports and agency information are also published on the Internet at [www.state.sc.us/sclac](http://www.state.sc.us/sclac). If you have questions, contact George L. Schroeder, Director.