

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 24-17 Financial Audit

Department of State's Afghan Students
Scholarship Program: Audit of Costs Incurred
by the American University of Central Asia



APRIL
2024

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On August 9, 2017, the U.S. Department of State (State) awarded a \$2,000,008 cooperative agreement to the American University of Central Asia (AUCA) to support the Afghan Students Scholarship program. The program's purpose was to provide scholarships for a cohort of 26 Afghan students as part of U.S. government-funded exchange programs. AUCA was responsible for educating the students to obtain undergraduate degrees to prepare them to assume roles in professional, societal, and civic settings. State modified the agreement twice, extending the period of performance from August 31, 2022, through October 31, 2022, and did not change the total funding.

SIGAR's financial audit, performed by KPMG LLP (KPMG), reviewed \$1,965,930 in costs charged to the agreement from August 9, 2017, through October 31, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in AUCA's internal controls related to the award; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether AUCA has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of AUCA's Special Purpose Financial Statement (SPFS). See KPMG's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein KPMG did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

April 2024

Department of State's Afghan Students Scholarship Program: Audit of Costs Incurred by the American University of Central Asia

SIGAR 24-17-FA

WHAT SIGAR FOUND

KPMG identified one significant deficiency in AUCA's internal controls and did not identify any instances of noncompliance with the terms of the agreement. KPMG tested 53 stipend disbursements to determine whether the incurred costs were reasonable and allowable. The auditors found that AUCA paid a student the housing and living stipend twice, totaling the amount of \$7,084. The auditors did not find any questioned costs related to this disbursement because AUCA did not bill the costs to the State. SIGAR notified AUCA of the deficiency issue prior to publication of this report.

KPMG identified three prior audit reports that were relevant to AUCA's agreement. The reports did not contain any findings that could have a material effect on the SPFS or other financial data significant to the audit objectives.

KPMG issued an unmodified opinion on AUCA's SPFS, noting it presents fairly, in all material respects, revenues received, and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible agreement officer at the State:

1. **Advise AUCA to address the report's one internal control finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 3, 2024

The Honorable Antony J. Blinken
Secretary of State

We contracted with KPMG LLP (KPMG) to audit the costs incurred by the American University of Central Asia (AUCA) under a Department of State (State) cooperative agreement to support the Afghan Students Scholarship program.¹ The program's purpose was to provide scholarships for a cohort of 26 Afghan students as part of U.S. government funded exchange programs. AUCA was responsible for educating the students through one preparatory and up to four academic years to obtain undergraduate degrees to prepare them to assume roles in professional, societal, and civic settings. KPMG reviewed \$1,965,930 in costs charged to the agreement from August 9, 2017, through October 31, 2022. Our contract with KPMG required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the agreement officer at the State:

1. Advise AUCA to address the report's one internal control finding.

KPMG discusses the results of the audit in detail in the attached report. We reviewed KPMG's report and related documentation. We also inquired about KPMG's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on AUCA's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. KPMG is responsible for the attached auditor's report, dated February 29, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-270)

¹ The agreement no. is S-AF-200-17CA002.



AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program

For the period August 9, 2017 to October 31, 2022

AMERICAN UNIVERSITY OF CENTRAL ASIA

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Results	4
Summary of American University of Central Asia's Response to Audit Finding	5
Independent Auditors' Report	6
Special Purpose Financial Statement	8
Notes to the Special Purpose Financial Statement	9
Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of a Special Purpose Financial Statement Performed in Accordance with Government Auditing Standards	13
Independent Auditors' Report on Compliance and Other Matters Based on an Audit of a Special Purpose Financial Statement Performed in Accordance with Government Auditing Standards	15
Schedule of Findings and Questioned Costs	16
Status of Prior Audit Findings	18
Appendices:	
Appendix A: American University of Central Asia's Response to Audit Finding	19
Appendix B: Auditors' Rebuttal to American University of Central Asia's Response to Audit Finding	20



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Transmittal Letter

February 29, 2024

To American University of Central Asia (AUCA)
7/6 Aaly Tokombaev Street
Bishkek, Kyrgyz Republic 720060

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, Virginia 22202

KPMG LLP (we or our) hereby provides to you our final financial audit report, which reflects results from the procedures we completed during our audit of AUCA's Special Purpose Financial Statement and the related notes to the Statement (the Statement) for costs incurred under Cooperative Agreement No. S-AF-200-17CA002 (Agreement) awarded by the Department of State to support the Afghan Students Scholarship Program for the period from August 9, 2017 to October 31, 2022.

On November 3, 2023, we provided SIGAR with a draft report reflecting our audit procedures and results. AUCA received a copy of the report on January 17, 2024 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and AUCA. AUCA's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit.

Sincerely,

KPMG LLP

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
For the period August 9, 2017 to October 31, 2022

Background

On August 9, 2017, the U.S. Department of State (State) awarded Cooperative Agreement No. S-AF-200-17CA002 (Agreement), totaling \$2,000,008, to the American University of Central Asia (AUCA) to support the Afghan Students Scholarship Program (Program). The period of performance for the Agreement was from August 9, 2017 to August 31, 2022. State modified the Agreement twice to extend the period of performance from August 31, 2022 to October 31, 2022, with no effect on the total award amount.

The purpose of the Program was to support full scholarships for a cohort of 26 Afghan students, including 20 Afghan women and up to 6 female and/or male alumni of U.S. government-funded exchange programs, such as the Youth Exchange Study (YES) and Leadership and English Advancement Program (LEAP). AUCA was responsible for educating the students for one preparatory year and up to four academic years to obtain undergraduate degrees, and prepare them to assume roles in professional, societal, and civic settings. In doing so, the program aimed not only to develop civil society by providing Afghan women with the opportunity to earn undergraduate degrees, but also to build interpersonal ties and regional integration by providing students with opportunities to study at an international, western-style, co-educational institute of higher education. The second Agreement modification expanded the use of funds to Afghanistan students outside of the initial scholarship cohort and reallocated funds to support audit expenses, standardized housing and living stipends, implemented mental health programming, covered relocation expenses for the 2021-2022 academic year, and other fund expenses.

AUCA was initially founded in 1993 as the Kyrgyz American School (KAS) and was part of the Kyrgyz State National University. KAS became an independent educational institution governed by an international Board of Trustees in 1997 under the name American University of Kyrgyzstan. By 2002, the Board changed its name to the American University of Central Asia. AUCA is an international, multi-disciplinary higher education institution that offers U.S. accredited degrees through its partnership with Bard College.

Work Performed

KPMG LLP (KPMG) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct an audit of AUCA's Special Purpose Financial Statement (SPFS) for the Agreement for the period August 9, 2017 to October 31, 2022. This represents a closeout audit. The total costs incurred reported by AUCA were \$1,965,930.

Objectives, Scope, and Methodology

Audit Objectives Defined by SIGAR

The following objectives were defined by SIGAR within the Statement of Work for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of AUCA's internal controls related to the award, assess control risk, and identify and report on significant deficiencies and material internal control weaknesses.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
For the period August 9, 2017 to October 31, 2022

- *Special Purpose Financial Statement* – Express an opinion on whether AUCA’s SPFS for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Compliance* – Perform tests to determine whether AUCA complied, in all material respects, with the award requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether AUCA has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit includes all funds received and costs incurred under Agreement No. S-AF-200-17CA002 during the period of August 9, 2017 to October 31, 2022, with a total incurred cost of 1,965,930. This is a closeout audit as the end of the period of performance occurred during the audit period.

Methodology

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Entrance Conference

We held an entrance conference on April 25, 2023, with representatives of AUCA, KPMG, SIGAR, and State participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed and to establish key contacts, responsibilities, and communication protocols. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of AUCA’s organizational structure and entity-level controls;
- Obtained an understanding of AUCA’s internal controls related to the award within relevant business processes;
- Reviewed the Agreement and subsequent modifications, including approved tuition, stipend, and other rates presented in the Agreement budget;
- Performed inquiries of those charged with governance, management, and others regarding risks of material misstatement;

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
For the period August 9, 2017 to October 31, 2022

- Reviewed State and other regulations that were applicable to the Agreement;
- Reviewed previous AUCA audit and other relevant reports; and
- Reconciled the detailed accounting records to the trial balance and financial statement schedules. We performed data analysis of transaction populations to understand trends, identify outliers from such trends or unusual transactions, and prepared data for sampling. Based on our approved Audit Plan, we used the reconciled detailed accounting records and based upon the risk assessment and materiality included as part of the approved Audit Plan, we selected statistically valid samples using our firm's sampling tools.

Internal Controls Related to the Agreement

We obtained an understanding of AUCA's system of internal control related to the Agreement to understand the entity and its environment, identify and assess the risks of material misstatement of the SPFS, and assist in designing the nature, timing, and extent of further audit procedures. Our procedures included inquiries with management and control performers, inspection of policies and procedures defining the controls, and inspection of evidence of control performance in accordance with defined policies and procedures.

Special Purpose Financial Statement

We reconciled the funds received and costs incurred on the SPFS to the Agreement and/or underlying accounting information. We selected transactions from the transactional detail and performed procedures to determine whether the transactions were accurately recorded, were consistent with Agreement requirements, were allocable to the Agreement, and were incurred during the period of performance covered by the Agreement. We evaluated the accuracy of disclosures within the SPFS and whether the SPFS included all informative disclosures necessary for the fair presentation of the SPFS.

Compliance with the Agreement's Requirements and Applicable Laws and Regulations

We obtained an understanding of relevant provisions of the Agreement, laws, and regulations, noncompliance with which could have a direct and material effect on the SPFS. We performed tests to identify instances of noncompliance with these relevant provisions of the Agreement, laws, and regulations that may have a material effect on the SPFS. These tests included procedures to determine whether costs were reasonable, allocable, and allowable under the terms of the Agreement.

Corrective Action on Prior Findings and Recommendations

We considered whether prior AUCA reports contained findings that could have a significant effect on the SPFS or other financial data significant to the audit objectives. The prior reports did not contain any findings or recommendations.

Exit Conference

We held an exit conference on October 25, 2023, via conference call. Participants included representatives from KPMG, AUCA, SIGAR, and State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
For the period August 9, 2017 to October 31, 2022

Summary of Results

We summarized our results below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit results in their entirety.

Auditors' Opinion on the SPFS

We issued an unmodified opinion on the SPFS.

We did not identify any ineligible or unsupported questioned costs in association with this Agreement. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Agreement provisions or applicable laws and regulations, or are not related to the Agreement. Unsupported costs are not supported with adequate documentation or do not have required prior approvals or authorizations.

Findings and Questioned Costs

The finding listed below is classified as a significant deficiency in internal control based on the severity of the deficiency identified. In performing our testing, we considered whether the information obtained during our testing resulted in either identified or suspected material fraud, waste, or abuse. We did not identify evidence of material fraud, waste, or abuse as a result of our testing.

Finding Number	Finding Name	Classification	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Ineffective Controls over Disbursements	Significant Deficiency in Internal Control	\$0	\$0	\$0
Total Questioned Costs			\$0	\$0	\$0

Internal Control Findings

We reported on AUCA's internal control over financial reporting relevant to the SPFS. We identified one significant deficiency in AUCA's internal control over financial reporting. See Independent Auditors' Report on Internal Control over Financial Reporting on page 13.

Compliance Findings

We reported on AUCA's compliance with laws, regulations, contracts, and grant agreements relevant to the SPFS. We did not identify any instances of noncompliance subject to reporting under *Government Auditing Standards* in the Independent Auditors' Report on Compliance and Other Matters on page 15.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
For the period August 9, 2017 to October 31, 2022

Review of Prior Findings and Recommendations

We inquired of AUCA, SIGAR, and State personnel regarding whether there were reports related to previous engagements that directly relate to the audit objectives and noted three prior audit reports. The reports did not contain any findings or recommendations that could have significant effect on the SPFS or other financial data significant to the audit objectives. See Status of Prior Audit Findings on page 18 for details.

Summary of AUCA's Response to Audit Finding

AUCA disagreed with our assessment of the internal control finding as a significant deficiency in internal control, primarily because AUCA detected the deficiency and it did not result in ineligible costs billed to State.

Reference to Appendices

Appendix A contains AUCA's response to the audit finding and Appendix B contains the auditors' response to AUCA's comments.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

To American University of Central Asia
7/6 Aaly Tokombaev Street
Bishkek, Kyrgyz Republic 720060

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Report on the Audit of the Special Purpose Financial Statement

Opinion

We have audited the Special Purpose Financial Statement – contractual basis of American University of Central Asia for the period from August 9, 2017 to October 31, 2022, and the related notes to the Statement (the Statement) with respect to Cooperative Agreement No. S-AF-200-17CA002 (Agreement).

In our opinion, the accompanying Statement referred to above presents fairly, in all material respects, the funds received, costs incurred, and outstanding fund balance of American University of Central Asia for the Agreement for the period from August 9, 2017 to October 31, 2022, in accordance with the relevant provisions of the Agreement.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of American University of Central Asia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 of the Statement, which describes the basis of accounting. The Statement is prepared by American University of Central Asia on the basis of the relevant provisions of the Agreement referred to above, which is a basis of accounting other than accounting principles generally accepted in the United States of America to comply with the relevant provisions of the Agreement referred to above. This basis of accounting incorporates the statement presentation requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR) as allowed by SIGAR's authority. As a result, the Statement may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of this Statement in accordance with the relevant provisions of the Agreement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.



Auditors' Responsibility for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Statement.

In performing our audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the American University of Central Asia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Statement.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Restriction on Use

Our report is intended solely for the information and use of American University of Central Asia, the U.S. Department of State, and SIGAR and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 29, 2024 on our consideration of American University of Central Asia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of American University of Central Asia's internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American University of Central Asia's internal control over financial reporting and compliance.

KPMG LLP

Washington DC
February 29, 2024

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
 Cooperative Agreement No. S-AF-200-17CA002
 Awarded by the U.S. Department of State
 to Support the Afghan Students Scholarship Program
 Special Purpose Financial Statement¹

For the Period August 9, 2017 to October 31, 2022

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Funds Received:					
Funds Received S-AF-200-17CA002	\$ 2,000,008	2,000,008	—	—	3
Total Funds Received	<u>\$ 2,000,008</u>	<u>2,000,008</u>	<u>—</u>	<u>—</u>	
Costs Incurred:					4
Travel	\$ 147,000	144,505	—	—	
Supplies	640	3,992	—	—	
Other Direct Costs	<u>1,852,368</u>	<u>1,817,433</u>	<u>—</u>	<u>—</u>	5
Total Costs Incurred	2,000,008	1,965,930			
Outstanding Fund Balance	<u>—</u>	<u>34,078</u>			2, 6
Total Costs Incurred and Outstanding Fund Balance	<u>\$ 2,000,008</u>	<u>2,000,008</u>	<u>—</u>	<u>—</u>	

The accompanying notes are an integral part of the Special Purpose Financial Statement.

¹ The Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes and as such are not part of the audited Special Purpose Financial Statement.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Notes to the Special Purpose Financial Statement²
For the Period August 9, 2017 to October 31, 2022

(1) General Information

On August 9, 2017, the U.S. Department of State awarded American University of Central Asia Cooperative Agreement No. S-AF200-17CA002 (Agreement) to support a cohort of up to 26 Afghan students to study and obtain undergraduate degrees at American University of Central Asia and to prepare them to assume roles in professional, societal, and civic settings. The period of performance of the Agreement was from August 9, 2017 to August 31, 2022. On July 29, 2022, the Department of State extended the period of performance to October 31, 2022 and reallocated funds to support audit expenses, standardization of housing and living stipends, implement mental health programming, cover relocation expenses for the 2021–2022 academic year, and other fund expenses. The total amount of the Agreement was \$2,000,008.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Special Purpose Financial Statement (the Statement) has been prepared to recognize funds when received and costs when incurred that are allowable in accordance with the cost principles of Title 2, Subtitle A, Chapter II, Part 200 of the Code of Federal Regulations and the terms of the Agreement. This contractual basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America.

Basis of Presentation

The information in the Statement is presented in accordance with the requirements of the aforementioned Agreement specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR). Because the Statement presents only a selected portion of the operations of American University of Central Asia, it is not intended to, and does not, present the financial position, changes in net assets, profit or loss, or cash flows of American University of Central Asia.

Currency

All amounts presented in the Statement are in U.S. dollars.

Foreign Currency

Cash receipts and payments in Kyrgyz Som are translated into U.S. dollars using the exchange rate established by the National Bank of the Kyrgyz Republic on the date of cash receipt or payment.

² These Notes to the Special Purpose Financial Statement are the responsibility of American University of Central Asia.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Notes to the Special Purpose Financial Statement
For the Period August 9, 2017 to October 31, 2022

Budgeted versus Actual Funds Received and Costs Incurred

Budgeted funds received and budgeted costs incurred are based on the final funded amounts per the July 29, 2022 Agreement modification. Actual funds received and costs incurred represent funds received and costs incurred as described in the Basis of Accounting above.

Outstanding Fund Balance

Outstanding Fund Balance represents the difference between funds received and costs incurred. The Outstanding Fund Balance of \$34,078 presented in the Statement reflects the amount due to the Department of State.

(3) Funds Received

American University of Central Asia reported funds received of \$2,000,008 associated with the Agreement for the period August 9, 2017 to October 31, 2022.

(4) Cost Categories

The cost categories reflect budget line items for which allowable costs are eligible for reimbursement as defined by the Agreement and subsequent modifications applicable for the period August 9, 2017 to October 31, 2022.

- Travel represents travel costs associated with the travel of Afghan students to/from their residence in Afghanistan to/from American University of Central Asia and other incidental travel expenses associated with the Agreement.
- Supplies represent expenditures on office supplies related to the implementation of the Agreement.
- Other Direct Costs relate to tuition, stipends, medical expenses, mental health programming, audit fees, and other administrative expenses:
 - Tuition represents costs associated with cohort student tuition that American University of Central Asia is eligible for advance and reimbursement. The tuition rates are specified in the Agreement budget proposal.
 - Monthly Housing Stipend costs represent monthly payments to cohort students to cover housing costs. The stipend rates are specified in the Agreement budget proposal.
 - Monthly Living Stipend costs represent monthly payments to cohort students to cover living expenses. The stipend rates are specified in the Agreement budget proposal.
 - Costs for Non-Public Affairs Section students represent tuition, stipend, and other costs associated with non-cohort students as specified in the modified Agreement budget proposal.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Notes to the Special Purpose Financial Statement
For the Period August 9, 2017 to October 31, 2022

- Mental Health Programming costs represent costs associated with training, conferences, and other costs associated with mental health activities as specified within the Agreement budget proposal.
- Administration Expenses represent administrative costs associated with carrying out the purpose of the Agreement.
- Housing and Living Stipend Standardization costs represent payments to non-cohort students to bring their stipends into alignment with cohort students as agreed upon in the modified Agreement budget proposal.
- Audit Fees represent costs associated with financial statement audits of the Agreement.
- Internship costs represent costs associated with cohort student internships.
- Medical Expense Reimbursement costs represent reimbursements to cohort students for medical expenses incurred.
- Other costs represent exam fees and other miscellaneous costs associated with the Agreement.

See Note 5 for a breakout of Other Direct Costs during the period.

(5) Other Direct Costs

Other Direct Costs for the period from August 9, 2017 to October 31, 2022 comprised the following:

Tuition	\$	563,100
Monthly Housing Stipend		404,228
Monthly Living Stipend		371,148
Costs for Non-Public Affairs Section Students		202,685
Mental Health Programming		93,598
Administration Expenses		61,989
Housing and Living Stipend Standardization		61,904
Audit Fees		40,000
Internships		10,428
Medical Expense Reimbursement		7,043
Other		<u>1,310</u>
Total Other Direct Costs	\$	<u><u>1,817,433</u></u>

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Notes to the Special Purpose Financial Statement
For the Period August 9, 2017 to October 31, 2022

(6) Subsequent Events

American University of Central Asia has evaluated subsequent events from the Statement date through February 29, 2024, the date at which the Statement was available to be issued. On May 11, 2023, American University of Central Asia returned the outstanding fund balance of \$34,078 to the Department of State. This does not have an effect on the amounts in the Statement or disclosures. American University of Central Asia did not identify any other subsequent events that would have required adjustment or disclosure in the financial statements.



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report on Internal Control over Financial Reporting Based on an Audit of a Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*

To American University of Central Asia
7/6 Aaly Tokombaev Street
Bishkek, Kyrgyz Republic 720060

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the 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 Special Purpose Financial Statement – contractual basis of American University of Central Asia for the period from August 9, 2017 to October 31, 2022 and the related notes to the Statement (the Statement), with respect to Cooperative Agreement No. S-AF-200-17CA002 (Agreement). We have issued our report thereon dated February 29, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Statement, we considered American University of Central Asia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of American University of Central Asia's internal control. Accordingly, we do not express an opinion on the effectiveness of American University of Central Asia's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-01 that we consider to be a significant deficiency.

American University of Central Asia's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on American University of Central Asia's response to the finding identified in our audit and described in the accompanying schedule of



findings and questioned costs. American University of Central Asia's response was not subjected to the other auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of American University of Central Asia's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American University of Central Asia's internal control. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 29, 2024



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

**Independent Auditors' Report on Compliance and Other Matters
Based on an Audit of a Special Purpose Financial Statement Performed in
Accordance with *Government Auditing Standards***

To American University of Central Asia
7/6 Aaly Tokombaev Street
Bishkek, Kyrgyz Republic 720060

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the 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 Special Purpose Financial Statement – contractual basis of American University of Central Asia for the period from August 9, 2017 to October 31, 2022 and the related notes to the Statement (the Statement), with respect to Cooperative Agreement No. S-AF-200-17CA002 (Agreement). We have issued our report thereon dated February 29, 2024.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether American University of Central Asia's Statement is free from 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 Statement. 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on American University of Central Asia's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering American University of Central Asia's compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 29, 2024

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Schedule of Findings and Questioned Costs
For the Period August 9, 2017 to October 31, 2022

Finding 2024-01: Ineffective Controls over Disbursements

Classification: Significant Deficiency in Internal Control

Condition: American University of Central Asia’s control over disbursement of funds received under the Agreement did not operate effectively. As a result, during our testing of 53 stipend disbursements to determine whether the incurred costs related to the disbursements were reasonable, allowable, and allocable, we identified one instance in which American University of Central Asia paid a housing and living stipend twice to a selected student in the amount of \$7,084.

Criteria:

Cooperative Agreement No. S-AF-200-17CA002, Clause 6, Authorized Budget Summary, states: “All expenditures paid with funds provided by this Agreement must be incurred for authorized activities that take place during the period specified...”

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Section 200.303, Internal Controls, states in part:

“The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)...”

Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control Integrated Framework 2013, states that “the organization obtains or generates and uses relevant, quality information to support the functioning of internal control.”

Cause: American University of Central Asia did not provide quality information to disbursement approvers to identify and prevent duplicate disbursements during their review. The approver was not aware that the housing and living stipend had already been paid to the student based on the information provided to the approver.

Effect: Ineffective controls over the approval of stipends and other disbursements may result in improper stewardship of Agreement funds.

Questioned Costs: We did not identify questioned costs associated with this finding as the additional housing and living stipend was identified by American University of Central Asia and not billed to the Department of State under the Agreement.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program
Schedule of Findings and Questioned Costs
For the Period August 9, 2017 to October 31, 2022

Recommendation: We recommend that American University of Central Asia modify policies and procedures over disbursement approvals to provide all relevant information to reviewers to address risks associated with duplicative disbursement requests.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program

Status of Prior Findings

For the Period August 9, 2017 to October 31, 2022

We inquired from AUCA, the SIGAR, and State personnel regarding reports related to previous engagements that directly related to the objectives of the audit. Based on the results of these inquiries, we noted three prior audit reports that could have a significant effect on the Special Purpose Financial Statement and other financial data significant to the audit objectives. These reports did not contain any findings or recommendations.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program

Appendix A – American University of Central Asia’s Response to Audit Finding
For the Period August 9, 2017 to October 31, 2022

American University of Central Asia provided the following response to KPMG on February 12, 2024, regarding the findings contained in the draft report. The response has been included verbatim herein.

The American University of Central Asia appeals for review of the report on internal control over financial reporting for the following reasons:

- 1) AUCA identified and corrected the error before the start of the audit procedures;
- 2) The student returned the overpaid funds;
- 3) The reports submitted to the U.S. Department of State are correct without any deficiencies;
- 4) AUCA did not double charge the U.S. Department of State, and the funds were disbursed according to the award budget;
- 5) All the expenses for all five years were checked and audited by the E&Y audit firm and shared with KPMG;
- 6) All the necessary financial supporting documents for this student were provided to KPMG.

Therefore, AUCA requests to change the classification of audit finding from significant deficiency in internal control to minor one or to remove this finding for the abovementioned reasons.

AMERICAN UNIVERSITY OF CENTRAL ASIA

Financial Audit of Costs Incurred Under
Cooperative Agreement No. S-AF-200-17CA002
Awarded by the U.S. Department of State
to Support the Afghan Students Scholarship Program

Appendix B – Auditors' Rebuttal to American University of Central Asia's Response to Audit Finding
For the Period August 9, 2017 to October 31, 2022

We reviewed AUCA's response to the audit finding presented in our draft report and noted that AUCA disagreed with our assessment of the severity of the internal control finding as a significant deficiency in internal control. When management's response to our findings is inconsistent with the findings, conclusions, or recommendations in the draft report and we disagree with the response, we explain the reasons for our disagreement. We acknowledge that AUCA identified and corrected the error prior to the commencement of audit procedures and did not improperly bill State for these costs. As such, we did not identify any questioned costs or misstatements to the SPFS associated with this deficiency. However, a deficiency existed related to funding received from State that resulted in the erroneous disbursement of funds to a student. While AUCA's detective control eventually identified the erroneous disbursement and prevented a misstatement to the SPFS, controls to prevent the erroneous disbursement were not effective. Ineffective controls over disbursements of State funding could result in AUCA incurring costs ineligible for reimbursement under the terms of the cooperative agreement. Based on the nature of this deficiency in controls over the disbursement of State funding, we assessed this as a significant deficiency.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publicly released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

SIGAR's Mission

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202